RHI MAGNESITA

RHI MAGNESITA N.V.

(a public company with limited liability (naamloze vennootschap) incorporated under the laws of the Netherlands, with its corporate seat (statutaire zetel) in Arnhem, the Netherlands)

Admission to listing of 44,819,039 ordinary shares on the premium listing segment of the Official List of the UK Financial Conduct Authority and to trading on the London Stock Exchange's main market for listed securities

This prospectus (the "**Prospectus**") is prepared for the admission of ordinary shares, with a nominal value of EUR 1 each ("**Ordinary Shares**"), in the capital of RHI Magnesita N.V., currently named RHI-MAG N.V. (the "**Issuer**" or "**RHI Magnesita**") to (i) the premium listing segment of the Official List of the UK Financial Conduct Authority (the "**FCA**") ("**Premium Listing**") and (ii) trading on the London Stock Exchange plc's main market for listed securities (together, "**Admission**"). Upon completion of the Merger (as defined below), the Issuer will become the legal successor of RHI AG, a stock corporation (*Aktiengesellschaft*) incorporated under the laws of Austria ("**RHI**"). The Issuer has, and until the completion of the Merger will have, no material operations, assets or liabilities.

Investing in the Ordinary Shares involves certain risks. Prospective investors should carefully read this entire Prospectus and, in particular, the section headed "*Risk Factors*", beginning on page 23 when considering an investment in Ordinary Shares.

On October 5, 2016, RHI entered into a share purchase agreement with a group of shareholders controlling Magnesita Refratários S.A., a corporation incorporated under the laws of Brazil, ("**Magnesita**") pursuant to which RHI agreed to purchase 50% plus one share of the issued and outstanding share capital of Magnesita (the "**Acquisition of Control**") for a consideration consisting of (i) approximately EUR 117.3 million in cash and (ii) 5,000,000 newly issued Ordinary Shares. The Merger and the completion of the Acquisition of Control are expected to occur on October 26, 2017 and Admission of the Ordinary Shares is expected to occur on October 27, 2017. As a result of the Acquisition of Control, the Issuer will be required to make a mandatory offer to Magnesita's remaining shareholders (the "**Mandatory Offer**"). The Issuer intends to acquire all of the issued and outstanding share capital of Magnesita following the Acquisition of Control (the Acquisition of Control, the Mandatory Offer and any subsequent delisting offer with respect to Magnesita, the "**Acquisition**"). For a more detailed description of the Acquisition, see "*Description of the Acquisition and the Restructuring*".

As a preparatory step to the Acquisition of Control, RHI and Magnesita have agreed, *inter alia*, that RHI will merge with and into the Issuer, whereupon RHI will cease to exist, the Issuer will assume all of RHI's contractual relationships, assets and liabilities under universal succession of title, and RHI's shareholders will receive in exchange for each no-par value bearer share in the capital of RHI (each such share in RHI, an "**RHI Share**") one newly issued Ordinary Share (the "**Merger**"). Accordingly, when the Merger becomes effective, the Issuer will become the new holding company of the Group (as defined below) and all shareholders of RHI will become shareholders of the Issuer. Furthermore, when the Merger becomes effective, the Issuer will be renamed from "RHI-MAG N.V." to "RHI Magnesita N.V." On August 4, 2017, the shareholders of RHI and on August 16, 2017, the shareholder of the Issuer approved the Merger. For a more detailed description of the Merger, see *"Description of the Acquisition and the Restructuring"*.

Following effectiveness of the Merger, the Issuer's issued share capital will consist of 39,819,039 Ordinary Shares and following completion of the Acquisition of Control, the Issuer's issued share capital will consist of, and this Prospectus relates to, 44,819,039 Ordinary Shares. All references to Ordinary Shares shall be deemed, where the context so permits, to be or include references to, the dematerialized depositary interests representing entitlements to Ordinary Shares and can be settled electronically through and held in CREST, as issued by Computershare Investor Services PLC (the "**Depositary**"), which will hold (itself or through its custodian) the underlying securities on trust (the "**Depositary Interests**").

Application will be made to the FCA under section 73A of the Financial Services and Markets Act 2000, as amended and to the London Stock Exchange plc (the "**London Stock Exchange**"), respectively, for the Ordinary Shares (i) to be admitted to Premium Listing and (ii) to be admitted to trading on the London Stock Exchange's main market for listed securities. As at the date of this Prospectus the RHI Shares are listed on the official market of the Vienna Stock Exchange. Upon effectiveness of the Merger, RHI will cease to exist as a legal entity and the RHI Shares will no longer be listed on the Vienna Stock Exchange. Any trades in RHI Shares on the Vienna Stock Exchange that are not settled prior to the Merger becoming effective will be transformed and settled via the London Stock Exchange following Admission. It is expected that Admission will become effective and that unconditional dealings in the Ordinary Shares issued as part of the Merger will commence on the London Stock Exchange at 8:00 a.m. (London time), on October 27, 2017. Following Admission, at least 25% of the Ordinary Shares will be held in public hands (within the meaning of paragraph 6.1.19R of the listing rules of the FCA (the "**Listing Rules**")). Furthermore, application will be made for the Ordinary Shares to be included in trading on the Third Market, a multilateral trading facility operated by the Vienna Stock Exchange (the "**Third Market**"); the Third Market is not a regulated market within the meaning of Article 4 (1) of Directive 2004/39/EC.

This Prospectus constitutes a prospectus for the purposes of Article 3 of Directive 2003/71/EC of the European Parliament and the Council of the European Union and the amendments thereto (including those resulting from Directive 2010/73/EU) (the "**Prospectus Directive**") and has been prepared in accordance with Chapter 5.1 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) and the rules promulgated thereunder (the "**Dutch Financial Supervision Act**"). This Prospectus has been approved by the Dutch Authority for the Financial Markets (*Stichting Autoriteit Financiële Markten*) (the "**AFM**"). The Issuer has requested the AFM to notify its approval in accordance with Article 18 of the Prospectus Directive to the competent authority in the United Kingdom (the "**UK**"), the FCA, with a certificate of approval attesting that this Prospectus has been prepared in accordance with the Prospectus Directive.

This Prospectus may not be used for and does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any securities. Distribution of this Prospectus may, in certain jurisdictions, be subject to specific regulations. Persons in possession of this Prospectus are urged to inform themselves of any such restrictions which may apply in their jurisdiction and to observe them. Any failure to comply with these regulations or restrictions may constitute a violation of the securities laws of that jurisdiction. The Issuer disclaims all responsibility for any violation of such regulations or restrictions by any person.

The date of this Prospectus is October 17, 2017.

Sole Sponsor

Citigroup Global Markets Limited

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SUMMARY	
Summaries are made up of disclosure requirements known as "Elements". These Elements are numbered in Sections A – E (A.1 – E.7). *This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.* *Even though an Element may be required to be inserted in the summary because of the type of securities and the Issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of "not applicable".*	
Section A – Introduction and warnings	
A.1 Introduction and warnings	This summary should be read as an introduction to the prospectus (the "**Prospectus**") relating to the admission of ordinary shares, with a nominal value of EUR 1.00 each ("**Ordinary Shares**"), in the share capital of RHI Magnesita N.V., currently named RHI-MAG N.V. (the "**Issuer**") to listing on the premium listing segment of the Official List of the UK Financial Conduct Authority (the "**FCA**") ("**Premium Listing**") and to trading on the main market for listed securities of the London Stock Exchange plc (the "**London Stock Exchange**") (together, "**Admission**"). Any decision by a prospective investor to invest in the Ordinary Shares should be based on a consideration of the Prospectus as a whole. Investors should therefore read the entire Prospectus and not rely solely on this summary. Where a claim relating to the information contained in the Prospectus is brought before a court in a member state of the European Economic Area ("**EEA**"), the plaintiff may, under the national legislation of the EEA Member State in which the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2 Resale or final placement of Shares by financial intermediaries........................	Not applicable. No consent has been given for the use of the Prospectus for subsequent resale or final placement of securities by financial intermediaries.

Section B – Issuer		
B.1	Legal and commercial name	RHI Magnesita N.V. (currently named RHI-MAG N.V.)
B.2	Domicile and legal form	The Issuer was incorporated on June 20, 2017 as a public company with limited liability (*naamloze vennootschap*) under the laws of the Netherlands. The Issuer has its corporate seat in Arnhem, the Netherlands.
B.3	Current operations and principal activities of the Group and the principal markets in which it operates	Pursuant to the terms of a purchase agreement dated October 5, 2016, RHI AG, a stock corporation (*Aktiengesellschaft*) incorporated under the laws of Austria ("**RHI**") agreed to purchase 50% plus one share of the issued and outstanding share capital of Magnesita Refratários S.A., a corporation incorporated under the laws of Brazil, ("**Magnesita**") (the "**Acquisition of Control**"). As a result of the Acquisition of Control, the Issuer will be required to make a mandatory offer to Magnesita's remaining shareholders (the "**Mandatory Offer**") (the Acquisition of Control, the Mandatory Offer and any subsequent delisting offer with respect to Magnesita, the "**Acquisition**"). As a preparatory step to the Acquisition of Control, RHI and Magnesita have, *inter alia*, agreed that RHI will effect a cross-border merger (the "**Merger**") pursuant to which it will, among other things, be merged into the Issuer and cease to exist. The Merger and the completion of the Acquisition of Control are expected to occur on October 26, 2017, Admission is expected to occur on October 27, 2017. Accordingly, references to the "**Group**" which relate to matters occurring prior to the effective date of the Merger and completion of the Acquisition of Control are to RHI and its consolidated subsidiaries and subsidiary undertakings from time to time (also referred to as the "**RHI Group**"), and references to the Group which relate to matters occurring after the effective date of the Merger and completion of the Acquisition of Control are to the Issuer and its consolidated subsidiaries and subsidiary undertakings from time to time including Magnesita. References to the "**Combined Group**" are to the Group after giving effect to the Merger and the Acquisition of Control and which are in particular forward-looking, e.g. in the description of the rationale for the Acquisition of Control or the strategy for the Combined Group. The Combined Group will be a global, vertically integrated group that produces and sells high-grade refractory products and services. Refractory products are indispensable for industrial high-temperature processes exceeding 1,200° Celsius in a wide range of industries, including steel, cement, non-ferrous metals, glass, and energy, environment and chemical. The Combined

Group will be active in nearly all countries of the world and, in addition to the sale of refractory products and services, generates additional revenue from the sale of certain industrial minerals, the mining and production of which are incidental to its production of refractory products.

Prior to the Acquisition of Control, the operations and principal activities of RHI and Magnesita can be summarized as follows:

RHI:

With 30 production sites across Europe, Asia, America and Africa and more than 70 sales offices, RHI serves more than 10,000 customers in the steel, cement, non-ferrous metals, glass, energy, environment and chemical industries in nearly all countries of the world. RHI operates under product brands such as Didier, Radex, Interstop, Deltek and Ankral, which are combined under the umbrella brand RHI. RHI produces more than 1.5 million tons of refractory products per year and supplies customized product and system solutions. In the year ended December 31, 2016, RHI generated revenue of EUR 1,651.2 million, EBIT of EUR 116.1 million and profit after income tax of EUR 75.9 million. In the six months ended June 30, 2017, RHI generated revenue of EUR 855.8 million, EBIT of EUR 49.6 million and profit after income tax of EUR 25.7 million. As of December 31, 2016, the Group had 7,385 employees.

In 2016, 64.9% of RHI's revenues were attributable to sales to customers in the steel industry, while 32.6% were made customers in the cement/lime, glass, non-ferrous metals and the environment, energy and chemicals sectors. The developed economies accounted for 42% of RHI's revenues in 2016, with emerging markets accounting for 58% of RHI's revenues.

RHI covers all steps along the refractory value chain. This enables RHI to offer its customers high-quality refractory products based on R&D, its own raw materials and technical customer process know-how. The core processes along the value chain include mining, crushing, mixing, firing, packaging, transportation, customer application, recycling and disposal according to legal requirements. The Group also enters into service contracts with its customers, under which experienced employees of the RHI Group install the refractory products and partly manage the steelworks at the customers' facilities.

RHI is vertically integrated with its own raw materials production and sources 60% to 80% (depending on product mix of finished products sold and market prices of raw materials) of its magnesite requirements from its own mines and raw material production facilities in Austria, Turkey, Ireland, Norway and China.

The RHI Group attaches great importance to research. RHI management believes that RHI's innovative capabilities, which are based on decades of R&D investment and experience, have made RHI one of the global technology leaders in the refractories industry. RHI invests more than EUR 20 million annually in R&D

and considers it critical to maintaining RHI's leading edge.

RHI has plants in Austria, Germany, Ireland, Norway, China, India, Mexico, Turkey and further, partially smaller plants in Belgium, Spain, Switzerland, the UK, Canada, the United States, Russia and Chile. In 2016, RHI produced 56% of its refractory products volume in Europe (with Austrian plants accounting for 33%), 31% in Asia (with Chinese plants accounting for 23%), 7% in North America and 6% in Turkey.

Magnesita:

Magnesita produces and markets a broad range of refractory materials, including non-molded products, such as cement or monolithic materials, molded products such as refractory bricks and special shaped refractories for steelmaking and general industrial purposes. Magnesita operates 27 industrial facilities in eight countries (Brazil, the United States, Germany, France, China, Belgium, Argentina and Taiwan). Magnesita maintains long-standing relationships with the leading global steel and cement producers and in 2016 its products were sold to approximately 1,000 customers spread throughout 100 countries in the Americas, Europe, Asia, Oceania and Africa.

In 2016, Magnesita generated revenue of BRL 3,393.1 million, an EBIT of BRL 464.5 million and income after taxes and social contribution of BRL 453.9 million. In the six-month period ended June 30, 2017, the Magnesita Group (as defined below) generated revenue of BRL 1,755.1 million, negative EBIT of BRL -1.5 million and a loss after income tax and social contribution of BRL 166.6 million. Refractory products represented 87.6% of Magnesita's consolidated net revenue from sales and services in the year 2016. Magnesita had a total of 7,165 employees as of December 31, 2016.

In 2016, 83.6% of Magnesita's consolidated refractory sales were made to customers in the steel industry and 16.4% to customers in other industrial sectors, mainly cement, non-ferrous metals and glass. In 2016, 38% of Magnesita's revenues were generated in South America, 30% in North America, and the remainder in Europe, MEA-CIS and Asia Pacific.

Magnesita's current product portfolio includes a variety of industrial refractory products, ranging from regular magnesia bricks, shapes and refractory castables to high performance products, such as alumina and carbon containing refractories, precast refractories, nozzles and special mechanisms for continuous steel casting. Magnesita currently produces a wide range of refractories, each with a special purpose and the great majority of which are tailored to a specific customer.

Magnesita owns a large magnesite mine in Brumado, Brazil, and a large dolomite mine in York, Pennsylvania, United States. Magnesita also extracts other minerals from its quarries in Brazil, including chromite, clays and other minerals and holds a 70% interest in Sinterco, a processing plant of sinter doloma in

		Belgium of which the non-controlling shareholder is Carrières et fours à Chaux Dumont-Wautier S.A. (Lhoist Group). Altogether, Magnesita sources approximately 75% on a per ton basis of its raw material needs internally. The remainder of Magnesita's raw materials, specifically graphite, carbide, binders and alumina, are purchased from third-party suppliers at prevailing market prices. Magnesita sells to third parties the excess of minerals that it produces and that is not consumed internally. Magnesita believes that it has sufficient minerals reserves to sustain its operations as currently conducted for the foreseeable future. Magnesita has production sites in Brazil, the United States, Germany, France, Belgium (joint venture), China, Argentina and Taiwan (joint venture).
B.4a	Significant recent trends	The Group's results of operations and financial condition are affected by a number of factors. The Issuer's management believes that the following key factors have affected RHI's and Magnesita's results of operations and financial condition and are likely to continue to have a significant influence on the Combined Group's results of operations and financial condition: • the macroeconomic environment; • the conditions in the steel, cement/lime, non-ferrous metals and environmental, energy and chemical industries; • excess capacity in many of the industries in which the Group's customers are active; • the growing importance of China and an aggressive export strategy by Chinese steel producers; • the use of production method in steel industry and an increased use of electric arc furnaces; • the economic conditions and inflation in the markets in which the Group and its customers operate; • effects of fluctuations in exchange rates, raw materials and fuel prices; and • efficiency measures, restructuring and business alignment.
B.5	Description of the Group and position of the Issuer within the Group	Upon completion of the Merger, which is expected to occur on October 26, 2017, the Issuer will become the legal successor of RHI. The Issuer has, and until the completion of the Merger will have, no material operations, assets or liabilities. As a preparatory step to the Acquisition of Control, RHI and Magnesita have agreed, *inter alia*, that RHI will merge with and into the Issuer, whereupon RHI will cease to exist, the Issuer will assume all of RHI's contractual relationships, assets and liabilities under universal succession of title, and RHI's shareholders will receive in exchange for each no-par value bearer share in the capital of RHI (each such share in RHI, an "**RHI Share**") one

newly issued Ordinary Share. Accordingly, when the Merger becomes effective, the Issuer will become the new holding company of the Group, and thereby the owner of the operating business of RHI, and all shareholders of RHI (except for those who have exercised their withdrawal rights in respect of the Merger) will become shareholders of the Issuer. Furthermore, when the Merger becomes effective, the Issuer's name will change from "RHI-MAG N.V." to "RHI Magnesita N.V.".

Following completion of the Acquisition of Control, Magnesita will be a majority-owned, indirect subsidiary of the Issuer, and from that moment, the results of Magnesita and its consolidated subsidiaries and subsidiary undertakings from time to time will be fully consolidated with the Issuer.

B.6 Relationship with major shareholders .... Insofar as is known to the Issuer on the basis of notifications of shareholdings under Austrian law* and information provided by the Sellers in the Acquisition of Control, the following legal entities are expected to hold, directly or indirectly, 3% or more of the Issuer's capital and voting rights upon the Merger becoming effective and following the issuance of 5,000,000 new Ordinary Shares to the sellers of Magnesita shares as part of the Acquisition of Control:

Shareholder	Number of Ordinary Shares	Percentage
MSP Stiftung [(1)yyy]	11,347,058	25.32
Alumina Holdings LLC [(2)]	3,543,320	7.90
Chestnut Beteiligungsgesellschaft mbH[(3)]	2,088,461	4.66
Silver Beteiligungsgesellschaft mbH[(3)]	2,088,461	4.66

(1) MSP Stiftung is a foundation under Liechtenstein law, whose founder is Mag. Martin Schlaff. Mr. Schlaff has certain supervisory rights and the right to unilaterally amend the foundation documents with respect to MSP Stiftung. Upon completion of the Merger, MSP Stiftung directly and Mr. Schlaff indirectly (via MSP Stiftung) will hold 11,347,058 voting rights in the Issuer.

(2) The Issuer has been informed by GP Investments (as defined below) that Alumina Holdings LLC is a corporation incorporated under the laws of the Delaware, USA, which holds 35.4% of Magnesita's total share capital and is controlled, indirectly, by GP Capital Partners III, L.P. ("**GPCPIII**") and GP Capital Partners IV, L.P. ("**GPCPIV**"), whose purpose is to carry out private equity investments, or related private equity, seeking control or shared control, or an influential minority in the target companies; the ownership in such funds is dispersed and no single quota holder/entity individually exercises control over them. GPCPIII and GPCPIV are respectively managed by GP Investments (Cayman) III, Ltd. and GP Investments IV, Ltd., both of which are wholly-owned subsidiaries of GP Investments, Ltd. ("**GP Investments**"), a company headquartered in Bermuda, which is controlled by Partners Holdings, Inc., a company incorporated under the laws of the British Virgin Islands, is controlled by Antonio Bonchristiano and Fersen Lambranho. GP Investments is a listed company listed on the Luxembourg Stock Exchange and has its shares traded on the Brazilian Stock Exchange by means of certificates of deposit of shares.

(3) Ms. Elisabeth Prinzessin zu Sayn-Wittgenstein holds a controlling interest in Chestnut Beteiligungsgesellschaft mbH ("**Chestnut**"), while Mr. Konstantin Alfred Winterstein exercises control over Silver Beteiligungsgesellschaft mbH ("**Silver**"). Ms. Sayn-Wittgenstein made an agreement with Mr. Winterstein which allows Chestnut to exercise the voting rights of Silver in RHI. Ms. Sayn-Wittgenstein and Mr. Winterstein share a family relationship.

(Information as at October 13, 2017)

* Under Austrian law, the threshold for notification of interests in the capital and voting rights of an issuer is set at 4%. RHI will therefore in principle not be aware

of shareholders holding an interest below 4% of its capital or voting rights.

B.7 Selected historical key financial information............ The tables below contain selected financial information for (i) the RHI Group and (ii) Magnesita and its consolidated subsidiaries and subsidiary undertakings from time to time (also referred to as the "**Magnesita Group**") for the periods indicated.

The Issuer was incorporated by RHI on June 20, 2017, for the purpose of effecting the Merger. The Issuer does not have, and until the effectiveness of the Merger will not have, any material assets, liabilities or operations. Accordingly, the Prospectus does not include any financial statements of the Issuer.

The RHI Group

Financial statements of RHI

RHI has prepared German language audited consolidated financial statements as of and for the years ended December 31, 2016, 2015 and 2014 (English translations thereof, the "**RHI Consolidated Annual Financial Statements**") in accordance with International Financial Reporting Standards, as adopted by the European Union ("**EU-IFRS**") and the additional requirements of § 245a of the Austrian Commercial Code (*Unternehmensgesetzbuch*).

In addition, RHI has prepared German language audited consolidated interim financial statements for the six-month period ended June 30, 2017 (English translations thereof, the "**RHI Consolidated Interim Financial Statements**" and together with the RHI Consolidated Annual Financial Statements, the "**RHI Financial Statements**"). The RHI Consolidated Interim Financial Statements were prepared in accordance with EU-IFRS.

	Six-month period ended June 30,		**Year ended December 31,**		
	2017	**2016**	**2016**	**2015**	**2014**
	(in EUR million, except as otherwise noted)				
	(audited, except as otherwise noted)	**(unaudited)**	**(audited, except as otherwise noted)**		
Consolidated Statement of profit and loss					
Revenues	855.8	830.2	1,651.2	1,752.5	1,721.2
Cost of sales	(657.2)	(649.6)	(1,294.8)	(1,389.1)	(1,350.3)
Gross profit	**198.6**	**180.6**	**356.4**	**363.4**	**370.9**
Selling and marketing expenses	(54.2)	(52.1)	(105.2)	(112.1)	(114.7)
General and administrative expenses	(76.8)	(62.4)	(134.5)	(122.3)	(114.9)
Other income	37.0	56.8	92.3	76.0	50.9
Other expenses	(45.6)	(52.7)	(85.8)	(80.9)	(50.3)
Operating EBIT	**59.0**	**70.2**	**123.2**	**124.1**	**141.9**
Result from derivatives from supply contracts	(1.2)	3.0	10.1	(58.0)	-
Impairment losses	(7.2)	-	(8.6)	(31.2)	(19.8)
Income from restructuring	-	-	0.3	5.9	-
Restructuring costs	(1.0)	(4.6)	(8.9)	(3.3)	(13.6)
Net income from US Chapter 11 proceedings	-	-	-	-	0.8
EBIT	**49.6**	**68.6**	**116.1**	**37.5**	**109.3**

Interest income	1.1	1.4	4.1	5.8	2.6
Interest expenses	(8.7)	(9.0)	(17.5)	(20.5)	(22.2)
Other net financial expenses	(2.5)	(3.5)	(7.8)	(4.6)	(13.1)
Net finance cost	**(10.1)**	**(11.1)**	**(21.2)**	**(19.3)**	**(32.7)**
Share of profit of joint ventures	6.4	5.4	10.9	9.2	8.2
Profit before income tax	**45.9**	**62.9**	**105.8**	**27.4**	**84.8**
Income tax	(20.2)	(24.0)	(29.9)	(9.8)	(32.3)
Profit after income tax	**25.7**	**38.9**	**75.9**	**17.6**	**52.5**
attributable to shareholders of RHI AG	24.5	37.8	74.0	16.0	51.0
attributable to non-controlling interests	1.2	1.1	1.9	1.6	1.5
Earnings per share in EUR	0.62	0.95	1.86	0.40	1.28
Consolidated Cash Flow Data					
Net cash flow from operating activities	39.8	76.7	162.7	175.4	72.4
Net cash flow from investing activities	(4.8)	(17.1)	(52.9)	(47.2)	(61.1)
Net cash flow from financing activities	(59.1)	(54.4)	(80.7)	(124.4)	24.6
Total cash flow	(24.1)	5.2	29.1	3.8	35.9
Cash and cash equivalents at end of period	153.9	156.1	182.9	149.7	151.1
Consolidated Statement of Financial Position Data					
Non-current assets	764.3	-	832.6	851.0	861.9
Current assets	975.4	-	959.6	953.5	998.6
Total assets	1,739.7	-	1,792.2	1,804.5	1,860.5
Equity	502.4	-	524.0	491.4	493.9
Non-current liabilities	707.5	-	736.4	843.1	804.8
Current liabilities	529.8	-	531.8	470.0	561.8
Total equity and liabilities	1,739.7	-	1,792.2	1,804.5	1,860.5
Non-IFRS Measures and Other Financial Data					
EBITDA(1)	89.2	100.6	189.1	140.0	199.4
Operating EBIT margin (in %, unaudited)	6.9%	8.5%	7.5%	7.1%	8.2%
EBIT margin (in %, unaudited)	5.8%	8.3%	7.0%	2.1%	6.4%
Basic and diluted earnings per share (in EUR)	0.62	0.95	1.86	0.40	1.28
Declared/paid dividend per share for the period (in EUR)	-	-	0.75	0.75	0.75
ROACE (in %)(2)	5.5%	7.8%	7.6%	2.3%	6.5%

(1) The following table shows how EBITDA is derived from EBIT:

	Six-month period ended June 30,		Year ended December 31,		
	2017	2016	2016	2015	2014
	(in EUR million)				
	(audited)	(unaudited)	(audited)		
EBIT	49.6	68.6	116.1	37.5	109.3
Depreciation and amortization charges	32.3	32.4	65.1	69.3	67.8
Impairment losses of property, plant and equipment and	7.7	0.0	8.9	34.1	23.0

intangible assets					
Income from the reversal of investment subsidies	(0.4)	(0.4)	(1.0)	(0.9)	(0.7)
EBITDA	**89.2**	**100.6**	**189.1**	**140.0**	**199.4**

(1) ROACE is calculated by dividing EBIT (less income tax) by average capital employed, which is the sum of average property, plant and equipment, goodwill and other intangible assets and net current assets. ROACE for the six-month periods ended June 30, 2016 and 2017 is calculated on an annual basis. The following table shows the calculation of ROACE:

	Six-month period ended June 30,		**Year ended December 31,**		
	2017	**2016**	**2016**	**2015**	**2014**
	(in EUR million, except as otherwise noted) (audited, except numbers for the six-month period ended June 30, 2016 and as otherwise noted)				
EBIT	49.6	68.6	116.1	37.5	109.3
Income tax	(20.2)	(24.0)	(29.9)	(9.8)	(32.3)
Net operating profit after taxes	**29.4**	**44.6**	**86.2**	**27.7**	**77.0**
Capital employed[1] at beginning of the period (unaudited)	1,095.8	1,176.5	1,176.5	1,225.2	1,138.8
Capital employed[1] at end of the period (unaudited)	1,047.0	1,113.7	1,095.8	1,176.5	1,225.2
Average capital employed	**1,071.4**	**1,145.1**	**1,135.2**	**1,200.8**	**1,182.1**
ROACE	**5.5%**	**7.8%**	**7.6%**	**2.3%**	**6.5%**

(1) Capital employed includes property, plant and equipment, goodwill, other intangible assets and working capital.

(Source: RHI Financial Statements and internal data.)

The Magnesita Group

Financial statements of Magnesita

Magnesita has prepared audited consolidated historical financial information for the years ended December 31, 2016, 2015 and 2014 (the "**Magnesita Consolidated Historical Financial Information**") in accordance with EU-IFRS.

In addition, Magnesita has prepared audited special purpose consolidated interim financial information for the six-month period ended June 30, 2017 (the "**Magnesita Special Purpose Consolidated Interim Financial Information**" and together with the Magnesita Consolidated Historical Financial Information, the "**Magnesita Financial Information**") in accordance with EU-IFRS.

The Magnesita Financial Information included in the Prospectus was prepared for the special purpose of the Prospectus in order to conform the financial reporting standards and accounting policies of Magnesita to those of RHI.

	Six-month period ended June 30,		**Year ended December 31,**		
	2017	**2016**	**2016**	**2015**	**2014**

	(in BRL million, except as otherwise noted)				
	(audited)	**(unaudited**	**(audited, except as otherwise noted)**		
Consolidated Statement of profit and loss					
Net revenues from sales and services	1,755.1	1,799.5	3,393.1	3,380.8	2,872.0
Cost of sales	(1,170.8)	(1,186.6)	(2,233.2)	(2,341.3)	(1,989.5)
Gross profit	584.2	612.9	1,159.9	1,039.5	882.5
Operating profit (loss)					
Selling expenses	(239.1)	(252.6)	(487.9)	(456.4)	(408.5)
General and administrative expenses	(130,6)	(141.0)	(288.6)	(274.0)	(229.0)
Stock options	-	(0.7)	(1.6)	(3.3)	(6.1)
Share of profit (loss) of investees	0.9	(0.2)	(0.6)	0.4	1.1
Other operating income (expenses), net	(217.0)	(10.6)	83.3	(547.0)	(102.9)
Operating profit (loss) before financial income (expenses)	(1.5)	207.7	464.5	(240.8)	137.2
Financial (expenses) income					
Financial income	70.0	264.7	245.8	309.5	183.4
Financial expenses	(215.5)	(224.4)	(332.1)	(807.4)	(448.0)
Income (loss) before income tax and social contribution	(147.0)	248.1	378.2	(738.7)	(127.4)
Income tax and social contribution	(19.7)	(86.9)	75.8	(309.1)	37.1
Net income (loss) for the period/year	(166.6)	161.1	453.9	(1,047.8)	(90.4)
Attributable to:					
Controlling shareholders	(166.4)	157.7	449.5	(1,048.6)	(89.2)
Noncontrolling shareholders	(0.2)	3.4	4.4	0.8	(1.2)
Earnings/(loss) per share attributable to Company's shareholders for the period/year (in BRL per share)					
Basic earnings/(loss) per share	(3.3)	3.0	8.6	(19.0)	(1.6)
Diluted earnings/(loss) per share	(3.3)	2.8	8,2	(19.0)	(1.6)
Consolidated Cash Flow Data					
Net cash flow from operating activities	130.7	143.0	436.2	462.5	353.0
Net cash flow used in investing activities	(161.1)	(88.9)	(36.4)	(213.7)	(192.6)
Net cash flow used in financing activities	(238.1)	(45.3)	(150.4)	(583.4)	(240.2)
Increase (decrease) in cash and cash equivalents	(268.5)	8.8	249.4	(334.5)	(79.8)
Effect of exchange rate changes on cash	(22.7)	(62.5)	(85.2)	243.3	18.1
Cash and cash equivalents at end of period	669.1	742.5	960.3	796.2	887.4
Consolidated Statement of Financial Position Data					
Non-current assets	3,647.2		3,702.7	4,011.4	4,033.2
Current assets	2,252.3		2,437.7	2,494.2	2,545.7
Total assets	5,980.6		6,140.5	6,505.6	6,578.8
Equity	1,913.6		1,977.9	1,886.8	2,863.6
Non-current liabilities	2,785.7		2,578.0	3,202.1	2,568.7

Current liabilities	1,276.8		1,584.6	1,416.8	1,146.7
Total liabilities and equity	5,980.6		6,140.5	6,505.6	6,578.8
Non-IFRS Measures and Other Financial Data					
EBITDA (unaudited) [(1)]	77.9	286.5	632.3	(62.4)	283.9
EBITDA margin (%, unaudited)	4.4	15.9	18.6	(1.8)	9.9
Adjusted EBITDA (unaudited) [(1)]	289.6	297.1	528.6	484.6	386.8
Adjusted EBITDA margin (%,unaudited)	16.5	16.5	15.6	14.3	13.5
Declared/paid dividend and interest on equity (net of income tax withheld at source) per share for the period/year (in BRL, unaudited)	-	-	1.65	-	-

(1) The following table shows the calculation of EBIT, EBITDA and Adjusted EBITDA from operating profit/loss before financial income/expenses in accordance with IFRS:

	Six-month period ended June 30,		Year ended December 31,		
	2017	**2016**	**2016**	**2015**	**2014**
	(in BRL million, except as otherwise noted)				
	(audited)	(unaudited)	(audited, except as otherwise noted)		
EBIT (corresponds to operating profit (loss) before financial income (expenses))	**(1.5)**	**207.7**	**464.5**	**(240.8)**	**137.2**
Depreciation and amortization	79.4	78.8	167.8	178.4	146.7
EBITDA (unaudited)	**77.9**	**286.5**	**632.3**	**(62.4)**	**283.9**
Other operating income/expenses, net	211.7[(*)]	10.6	(103.7)[(*)]	547.0	102.9
Adjusted EBITDA (unaudited)	**289.6**	**297.1**	**528.6**	**484.6**	**386.8**

* Other operating income of BRL 83.3 million as reported in the consolidated statement of profit and loss for 2016 and other operating expense of BRL 217.0 million as reported in the consolidated statement of profit and loss for the six months ended June 30, 2017 each include depreciation expenses in respect of the Chizhou plant, where production was suspended in 2015, in the amount of BRL 20.4 million for 2016 and BRL 5.3 million for the six months ended June 30, 2017. In order to calculate Adjusted EBITDA from EBITDA, other operating income excluding such depreciation must be applied, since EBITDA excludes depreciation. Therefore, for purposes of this calculation, other operating income as reported in the consolidated statement of profit and loss in the amount of BRL 83.3 million (for 2016) and BRL 217.0 million (for the six months ended June 30, 2017) must be adjusted by subtracting the depreciation of BRL 20.4 million and BRL 5.3 million, respectively, resulting in other operating income (excluding depreciation) of BRL 103.7 million for 2016 and other operating expense (excluding depreciation) of BRL 211.7 million for the six months ended June 30, 2017.

(Source: Magnesita Financial Information and internal data.)

Significant changes to the Issuer's financial condition and operating results .... As at the date of the Prospectus, there have been no significant changes to the RHI Group's financial condition and operating results subsequent to the period covered by the historical financial

	statements contained in the Prospectus with the exception of the following: • RHI (i) issued a new debenture bond (*Schuldscheindarlehen*) in the amount of EUR 178.0 million to refinance existing debenture bonds in July 2017, • (ii) entered into a EUR 88.0 million equity bridge financing agreement in September 2017 to finance the share component of the Mandatory Offer, and • (iii) entered into a EUR 477.2 million syndicated term and revolving loan agreement in August 2017 to refinance certain existing liabilities, to finance the Acquisition of Control and the Mandatory Offer, to establish a revolving credit facility in the amount of EUR 100.0 million and to cover a potential market risk in relation to the equity bridge financing. As at the date of the Prospectus, there have been no significant changes to the Magnesita Group's financial condition and operating results subsequent to the period covered by the historical financial statements contained in the Prospectus. The Merger and the Acquisition of Control are expected to be completed on October 26, 2017.
B.8 Selected key pro-forma financial information............	The unaudited pro forma statement of net assets set out below has been prepared to illustrate the effect of the acquisition of 100% of the issued share capital of Magnesita Refratários (the "**Magnesita Acquisition**") as if it had taken place on June 30, 2017. The unaudited consolidated pro forma income statements for the year ended December 31, 2016 and for the six months ended June 30, 2017 have been prepared to illustrate the impact of the Acquisition as if it had taken place on January 1, 2016 and January 1, 2017, respectively (together the "**Unaudited Pro Forma Financial Information**"). The Unaudited Pro Forma Financial Information, which has been produced for illustrative purposes only, by its nature addresses a hypothetical situation and, therefore, does not represent the actual financial position or results of RHI or RHI Magnesita. The Unaudited Pro Forma Financial Information has been prepared on the basis set out in the notes below and in accordance with the requirements of item 20.2 of Annex I and items 1 to 6 of Annex II of Commission Regulation (EC) 809/2004. The Unaudited Pro Forma Financial Information of RHI Magnesita has been prepared consistently with the accounting policies of RHI, which will merge with and into RHI Magnesita, as described in the "*Principles of accounting and measurement*" of the consolidated financial statements for the year ended December 31, 2016. The pro forma statement of net assets set out below does not reflect the fair value adjustments to the acquired assets and

liabilities as the purchase price allocation exercise can not be commenced before the Acquisition of Control is completed. As Magnesita is publicly listed in Brazil, before the Acquisition of Control is completed the Issuer does not have sufficient access to commercially sensitive information, such as customer contracts and intellectual property, required to conduct a purchase price allocation.

The Group expects that upon completion of the purchase price allocation exercise, fair value adjustments will be recognized in respect of Magnesita's assets and liabilities, in particular in respect of intangible assets and property, plant and equipment. However, due to the complementary nature of the businesses, potentially all line items (other than cash and cash equivalents) could be affected.

Unaudited Pro Forma Statement of Net Assets

(All figures are in EUR million and before the impact of the purchase price allocation)	RHI Group at June 30, 2017	Magnesita Group at June 30, 2017	Unaudited pro forma at June 30, 2017 after Acquisition of Control	Unaudited pro forma at June 30, 2017 assuming full take up of Integrated Offer
Non-current assets	764.3	967.5	1,519.0(1)	1,519.0
Current assets	975.4	619.0	1,581.7(2), (4),	1,574.5(2), (4), (3)
Total assets	1,739.7	1,586.5	3,100.7(2), (4)	3,093.5(2), (4), (3)
Non-current liabilities	707.5	738.9	1,564.4(4)	1,674.4(5)
Current liabilities	529.8	339.9	891.8(6)	891.8
Net assets/ (liabilities)	502.4	507.7	644.5(1), (2), (6)	527.3(3)

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(1) Adjusted to reflect the result of the Magnesita Acquisition (mainly goodwill calculation). For the purposes of the pro forma statement of net assets, the excess purchase consideration over the carrying amount of the net liabilities acquired has been attributed to the line item goodwill in an amount equal to 212.8 million.

(2) Adjusted to reflect the EUR 117.3 million cash outflow for the Acquisition of Control, which comprises the balance to be paid in cash for the Acquisition of Control, as disclosed in footnote 4 below, plus EUR 13.4 million in transaction costs net of tax impact (EUR 17.9 million, net of a tax impact of EUR 4.5 million using the applicable statutory rates in Austria and Brazil), for a total cash outflow of EUR 130.7 million.

(3) Adjusted to reflect the financing impact of the Integrated Offer (and assuming there is no take-up on the part of the Magnesita free float shareholders of the Mandatory Offer), as follows: In order to refinance existing indebtedness and finance the Magnesita Acquisition, RHI entered into a EUR 477.2 million syndicated term and revolving loan agreement. Of the total facilities, the EUR 100 million revolving credit facility is intended to remain available for general corporate purposes, EUR 149.2 million will be used to refinance existing non-current indebtedness, and EUR 228.0 million will be drawn down to finance the Magnesita Acquisition (of which EUR 118 million will be used to cover the EUR 117.3 million in cash needed for the Acquisition of Control and the remainder of EUR 110 million for the Integrated Offer, as defined in the financing agreements).

(4) Adjusted to reflect the financing of the Acquisition of Control in an amount of EUR 118 million, reflecting the amount of the syndicated term and revolving loan agreement allocated to cover the EUR 117.3 million in cash needed to finance the Acquisition of Control as described in footnotes 2 and 3 above.

(5) Adjusted to reflect the financing of the Integrated Offer in an amount

of EUR 110 million as described in footnote 3 above.

(6) Adjusted to reflect the accrual of additional transaction costs of EUR 22.1 million, including tax impact, which would have been incurred, had the transactions taken place on June 30, 2017.

Unaudited Pro Forma Income Statement for the Year ended December 31, 2016

(All figures are in EUR million and before the impact of the purchase price allocation)	RHI Group year ended December 31, 2016	Magnesita Group year ended December 31, 2016	Unaudited pro forma for the year ended December 31, 2016 after Acquisition of Control(1)	Unaudited pro forma for the year ended December 31, 2016 assuming full take up of Integrated Offer(1)
Gross profit	356.4	245.0	601.4	601.4
Operating EBIT	123.2	159.4	242.6	242.6
EBIT	116.1	155.1	231.2(2)	231.2
Net finance costs	(21.2)	(57.9)	(82.0)	(84.7)
Profit before income tax	105.8	97.0	159.9(2), (3)	157.2(2), (3)
Profit after income tax	75.9	116.4	161.2(2), (4)	185.5(2), (4)

Unaudited Pro Forma Income Statement for the six months ended June 30, 2017

(All figures are in EUR million and before the impact of the purchase price allocation)	RHI Group six months ended June 30, 2017	Magnesita Group six months ended June 30, 2017	Unaudited pro forma for the six months ended June 30, 2017 after Acquisition of Control(1)	Unaudited pro forma for the six months ended June 30, 2017 assuming full take up of Integrated Offer(1)
Gross profit	198.6	143.0	341.6	341.6
Operating EBIT	59.0	56.6	115.6	115.6
EBIT	49.6	(0.9)	48.7	48.7
Net finance costs	(10.1)	(43.3)	(54.9) (3)	(56.3) (3)
Profit before income tax	45.9	(43.1)	1.4(3)	(0.0) (3)
Profit after income tax	25.7	(48.9)	(24.3) (4)	(25.3) (4)

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(1) The unaudited pro forma income statements do not include effects from the purchase price allocation, which will have to occur within twelve months following the Acquisition of Control. Such purchase price allocation would result in non cash adjustments of assets and liabilities and may affect the Pro Forma Income Statements as it may result primarily in higher depreciation and amortization expenses of the Combined Group as a result of a higher fair value of assets, particularly intangible assets, of Magnesita. Such higher depreciation and amortization, if it occurred, would result in an increase in cost of sales and would consequently adversely affect the Combined Group's, gross profit, Operating EBIT, EBIT, profit before income tax and profit after income tax. However, such higher depreciation and amortization would in the Company’s view not materially affect the Combined Group's revenue, EBITDA or cash flow.

(2) Adjusted to reflect transaction costs. For the purposes of the unaudited pro forma income statements, transaction costs expected to be incurred by RHI and Magnesita have been provided for, based on the transaction costs incurred for the period, and remaining transaction costs expected to be incurred to complete the transaction.

The calculation of the transaction costs adjustment is as follows:

	For the year ended December 31, 2016	For the six months ended June 30, 2017
	in EUR million	

Transaction costs recognized in the year ended December 31, 2016	(12.5)	(12.5)
Transaction costs recognized in the six months ended June 30, 2017		(17.9)
Transaction costs expected for the whole transaction	52.4	52.4
Total adjustment on transaction costs	**40.0**	**22.1**
Tax impact of adjustment to transaction costs	**11.1**	**6.7**

Income tax has been adjusted for the transaction costs at a tax rate of 25% and 34% respectively, being the statutory tax rate applied in Austria and Brazil respectively.

(3) Adjusted to reflect interest expense on acquisition financing of EUR 2.9 million, reflecting recognition of additional interest expense of EUR 0.1 million relating to refinanced facilities and EUR 2.8 million reflecting recognition of interest expense on the EUR 118 million in acquisition financing required for the Acquisition of Control, as well as interest expense of EUR 2.7 million, reflecting recognition of EUR 0.1 million relating to refinanced facilities and EUR 2.6 million reflecting recognition of interest expense on the EUR 110 million in financing required for the Integrated Offer, assuming full take-up.

(4) Adjusted to reflect income tax adjustments on transaction costs and interest expense on acquisition financing, as described in footnotes 1 and 2 above.

B.9 Profit forecast or estimate..... Not applicable. No profit forecast or estimate has been made.

B.10 Audit report – qualifications. Not applicable. There are no qualifications in the auditors' reports included in the Prospectus.

B.11 Explanation if insufficient working capital .... Not applicable. The Issuer is of the opinion that the working capital available to the Combined Group is sufficient for its present requirements; that is for at least 12 months following the date of the Prospectus.

Section C – Securities

C.1 Type and class, security identification number of the securities being admitted ...... The Ordinary Shares are ordinary shares with a nominal value of EUR 1.00 each in the capital of the Issuer.

Application will be made to the FCA and to the London Stock Exchange for 44,819,039 Ordinary Shares (i) to be admitted to Premium Listing; and (ii) to be admitted to trading on the London Stock Exchange's main market for listed securities.

When admitted to trading, the Ordinary Shares will be registered with ISIN code NL0012650360 and SEDOL number BYZ2JR8.

C.2 Currency of the Ordinary Shares................................... The Ordinary Shares are denominated in euro and will trade in pounds sterling.

C.3	Ordinary Shares in issue and nominal value................	At the date of the Prospectus, and until the Merger becomes effective, the Issuer's issued and outstanding share capital consists of 45,000 Ordinary Shares (the "**Incorporation Shares**"). All Incorporation Shares have been fully paid up. Upon the Merger becoming effective, the Incorporation Shares will be cancelled and the Issuer will issue 39,819,093 Ordinary Shares to RHI's shareholders on the basis of one newly issued Ordinary Share for each RHI Share. All Ordinary Shares issued as part of the Merger will be fully paid up. At completion of the Acquisition of Control, the Issuer will issue 5,000,000 Ordinary Shares to Alumina Holdings LLC, GPCP4 Fundo de Investmento em Partic., Rearden L. Holdings 3 S.À.R.L., members of the board of directors of Magnesita and other individuals and investment funds which have acceded to the share purchase agreement (together, the "**Sellers**"). All Ordinary Shares issued at completion of the Acquisition of Control will be fully paid up. Following the Merger and the Acquisition of Control which are expected to be completed on October 26, 2017, the Issuer's issued share capital will therefore consist of 44,819,039 Ordinary Shares.
C.4	Rights attaching to the Ordinary Shares	References to the "**Articles of Association**" hereinafter will be to the Issuer's articles of association as they will read as of the date the Merger becomes effective. The Ordinary Shares will rank *pari passu* with each other in all respects and holders thereof will be entitled to all dividends and other distributions declared, made or paid on the ordinary share capital of the Issuer. The Ordinary Shares carry full dividend rights. Each Ordinary Share confers the right to attend and to cast one vote in the general meeting of the Issuer, being the corporate body or, where the context so requires, the physical meeting (the "**General Meeting**"). There are no restrictions on voting rights attaching to the Ordinary Shares. Upon issuance of Ordinary Shares or the grant of rights to subscribe for Ordinary Shares, each holder of Ordinary Shares (each a "**Shareholder**") shall have a pre-emptive right in proportion to the aggregate nominal amount of his or her Ordinary Shares. Shareholders do not have pre-emptive rights in respect of Ordinary Shares issued (i) against contribution in kind, (ii) to the Group's employees or (iii) to persons exercising a previously granted right to subscribe for Ordinary Shares. Pre-emptive rights may be limited or excluded by a resolution of the General Meeting. The Issuer's board of directors (the "**Board**") is authorized to resolve on the limitation or exclusion of pre-emptive rights if and to the extent the Board has been designated by the General Meeting to do so. The designation will

		only be valid for a specific period, in each case not exceeding five years. Unless provided otherwise in the designation, the designation cannot be cancelled. A resolution of the General Meeting to limit or exclude the pre-emptive rights or a resolution to designate the Board to limit or exclude the pre-emptive rights requires a simple majority or, if less than half of the Issuer's issued share capital is represented at a General Meeting, a majority of two-thirds of the votes cast at a General Meeting. Pursuant to a resolution of the General Meeting to be adopted prior to the Merger taking effect, the Board will, subject to the Merger taking effect, be irrevocably authorized to resolve to issue Ordinary Shares, to grant rights to subscribe for Ordinary Shares and/or to limit or exclude pre-emptive rights in connection therewith. This authorization of the Board is limited to (i) 5% of the Issuer's issued share capital immediately following the issue of 5,000,000 Ordinary Shares upon completion of the Acquisition of Control, which authorization may be used for all purposes, and/or (ii) an additional 5% of the Issuer's issued share capital immediately following the issue of 5,000,000 Ordinary Shares upon completion of the Acquisition of Control, which additional authorization may only be used in connection with or on the occasion of mergers, acquisitions and/or strategic alliances. The Board's authorization is valid until the end of the next annual General Meeting or the date which falls fifteen months from the Merger taking effect, whichever is earlier. In addition, prior to the Merger taking effect, the General Meeting will, subject to the Merger taking effect, have irrevocably authorized the Board to resolve to issue up to 10 million new Ordinary Shares to the sellers in the Acquisition of Control and to the remaining Magnesita shareholders in the Mandatory Offer or any Mandatory Offer combined with a delisting offer for the remaining Magnesita shareholders with the Ordinary Shares not taken up in such offer(s) to be placed with investors in one or more private placements and/or public offers, and to exclude all pre-emptive rights in relation thereto. This authorization is valid for a period of five years from the date of the resolutions.
C.5	Restrictions on free transferability of the Ordinary Shares	Not applicable. The Ordinary Shares will be freely transferable under the Articles of Association. However, the transfer of Ordinary Shares to persons who are located or resident in, citizens of, or have a registered address in countries other than the Netherlands or the United Kingdom may be subject to specific regulations or restrictions.

C.6	Listing and admission to trading	No securities will be offered under the Prospectus. Application will be made for the Ordinary Shares to be admitted to Premium Listing and trading on the London Stock Exchange's main market for listed securities under the symbol RHIM. Admission is expected to occur on October 27, 2017.
C.7	Dividend policy	As a holding company, the ability of the Issuer to pay dividends and make distributions primarily depends upon the receipt of dividends and distributions from its subsidiaries. The payment of dividends and distributions by the Issuer's subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves and other possible restrictions on the ability of the subsidiaries to make dividend payments and distributions to the Issuer. The Issuer's aspiration is to pay stable dividends in respect of each of the financial years 2017 and 2018, in line with RHI's previous years' payment levels. In the mid- to long-term, however, the Issuer's aspiration is to increase dividend payments depending on the Issuer's ability to increase its cash flow generation as a result of synergies, organic growth and de-leveraging of the company's capital structure.
	Section D – Risks	
D.1	Key risks that are specific to the Group or its industry	**Risks relating to the Group's markets and industry** • Adverse changes in global economic, business and industry conditions may adversely affect the Group's business. • The Group faces risks related to its operations and interests in emerging markets, including in Brazil, where the Group has substantial operations. • The Group is subject to numerous industry, market and regional cycles, including in the steel and cement industries. • The Group's global competitive position may be adversely affected if Chinese steel producers are successful in competing with the Group's customers. • Significant increases in the global proportion of steel produced using basic oxygen furnaces could impair the Group's profitability. • The imposition or lifting of trade barriers could adversely affect the Group's activities. • The Group's refractory products may not be able to compete in commoditized refractories markets. • The Group operates in a competitive environment and may not be able to compete successfully if its businesses do not adequately adapt to market developments.

Risks relating to the Group's business, production and operations

- The Group may experience a business interruption, production curtailment or loss of assets.
- The Group depends on a limited number of third party suppliers, especially for certain essential raw materials that are not available within the Group, and it may not obtain these raw materials in the required quantities or qualities or at economically feasible prices.
- Increased energy costs or disruptions in energy supply could have a material adverse impact on the Group's results of operations.
- The Group's mining operations are exposed to significant risks, not all of which are insured against.
- Increased transportation costs could have an adverse material impact on the Group's results of operations.
- The Group depends on sales to a small number of large customers, and the loss of one or more major customers could have a significant negative impact on the Group's performance and financial condition.
- The Group's business could be adversely affected by its investments in joint ventures and other entities which are not fully owned by the Group or in which the Group does not have full control.
- A significant default by a financial counterparty, a major customer or a risk insurer could adversely affect the Group's performance and financial condition.
- The Group may be subject to labor disputes from time to time that may adversely affect it.
- The failure to attract, develop or retain skilled or qualified employees could negatively impact the Group's business.
- Future acquisitions may be difficult to integrate, result in higher than expected costs or divert management resources.

Legal, regulatory and financial risks relating to the Group

- The Group's international operations are subject to complex and evolving laws and regulations, and compliance with these regulatory requirements involves significant costs.
- The Group may be exposed to significant risks in relation to compliance with anti-corruption and anti-money-laundering laws and regulations and economic sanctions programs.
- The Group is exposed to litigation risk.
- Warranty issues and the assertion of product liability claims by customers due to defects in products may harm the Group's reputation and adversely affect its performance and financial condition.

- The Group is subject to stringent environmental and other laws, regulations and standards which result in costs related to compliance and remediation efforts that may adversely affect the Group's performance and financial condition.
- Costs to comply with carbon dioxide emissions limitation regimes could place the Group at a competitive disadvantage.
- The Group could be held responsible for significant investigation and cleanup costs under applicable waste management and environmental remediation laws.
- The Group could incur significant costs for the renewal or obtaining additional permits, sanctions for non-compliance with permit requirements and compliance costs for other regulations affecting mining operations.
- The Group's operations are subject to health and safety risks.
- The Group's failure to defend its intellectual property could adversely affect the Group's business.
- The Group may infringe on the intellectual property rights of third parties.
- The Group relies on the proper functioning and integrity of its computer and data processing systems.
- The Group's financing agreements include covenants, including financial maintenance covenants and covenants restricting the incurrence of financial indebtedness, the providing of security over assets, and asset sales.
- The Group is exposed to changes in exchange rates and interest rate fluctuations and negative price developments of derivative financial instruments.
- Certain tax matters may have an adverse effect on the Group's cash flow, financial condition and results of operations.
- The Group is subject to risks related to the funding requirements of its pension and other post-employment benefit plans.

Risks relating to the Acquisition

- The Group may be unable to realize the targeted synergies and other anticipated benefits of the Acquisition, which could adversely affect the value of the Ordinary Shares.
- The Group may be unable to successfully integrate the operations of Magnesita.
- The Group's business relationships may be subject to disruption due to uncertainty associated with the Acquisition.
- The Group may have difficulty attracting, motivating and retaining executives and other key employees due to uncertainty associated with the Acquisition.
- The Group may, in connection with the Acquisition, discover contingent or other liabilities within Magnesita or other facts

		of which the Group is not presently aware that could expose it to losses.
D.3	Key risks that are specific to the securities	**Risks relating to the Ordinary Shares and Admission** • The market price of the Ordinary Shares may fluctuate and may decline below the admission price, and trading in the Ordinary Shares may be very limited which might lead to holders not being able to sell their Ordinary Shares at a reasonable price or at all. • Future offerings of equity or equity-linked securities by the Issuer or any of the Issuer's shareholders may adversely affect the market price of the Ordinary Shares and may dilute investors' shareholdings. • The Group cannot make any assurance that it will pay cash dividends or make other distributions in the future. • Holders of Ordinary Shares outside the Netherlands may suffer dilution if they are unable to exercise pre-emptive rights in future offerings. • The rights and responsibilities of Shareholders are governed by Dutch law and the Articles of Association, which differ in some respects from the rights and responsibilities of shareholders under Austrian law and the current constitutional documents of RHI. • Investors with a reference currency other than the euro will become subject to foreign exchange rate risk when investing in the Ordinary Shares.
		Section E – Offer
E.1	Total net proceeds and estimate of total expenses	Not applicable. No securities will be publicly offered or sold under the Prospectus. The Issuer estimates that its total costs in connection with the Admission will amount to approximately EUR 6 million.
E.2a	Reasons for the offer and use of proceeds......................	Not applicable. No securities will be publicly offered or sold under the Prospectus.
E.3	Terms and conditions of the offer.......................................	Not applicable. No securities will be publicly offered or sold under the Prospectus.
E.4	Material interests to the issue/offer including conflicting interests...............	Citigroup Global Markets Limited, which is acting as sole sponsor in relation to Admission, and/or its affiliates have in the past engaged and may in the future, from time to time, engage in commercial banking, investment banking and financial advisory and ancillary activities in the ordinary course of their business

		with RHI, Magnesita and/or the Issuer or its shareholders or any parties related to any of them, in respect of which they may have received and may in the future receive customary fees and commissions. In connection with the EUR 88 million equity bridge financing made available in connection with the Acquisition, Citigroup Global Markets Limited is one of the three mandated lead arrangers and original lenders.
E.5	Lock-ups	In connection with the Acquisition of Control, the Sellers have agreed that for a period of 12 months (with respect to Ordinary Shares received as consideration in the Acquisition of Control) and 15 months (with respect to Ordinary Shares received following the Mandatory Offer), in both cases following completion of such acquisition, they will not dispose of, nor agree or announce any intention to agree or dispose of, any of the Ordinary Shares so acquired, and the Sellers have agreed to procure, to the extent applicable and insofar as it is reasonably able to do so, that their affiliates adhere to the same restrictions. The Issuer may, in its sole discretion and at any time without prior public notice, waive these restrictions.
E.6	Dilution	Pursuant to the issuance of 5,000,000 Ordinary Shares as part of the Acquisition of Control, the Issuer's shareholders immediately following the Merger taking effect will experience a 11.2% dilution.
E.7	Estimated expenses charged to investors............................	Investors will not be charged expenses by the Issuer or Citigroup Global Markets Limited, the sole sponsor.

RISK FACTORS

Before investing in the Ordinary Shares, prospective investors should consider carefully the risks and uncertainties described below, together with the other information contained or incorporated by reference in this Prospectus. The occurrence of any of the events or circumstances described in these risk factors, individually or together with other circumstances, may have a significant negative impact on the Group's business, results of operations, financial condition and prospects. The price of the Ordinary Shares could decline and investors might lose part or all of their investments upon the occurrence of any such event.

All of these risk factors and events are contingencies which may or may not occur. The Issuer may face a number of the risks described below simultaneously and one or more of the risks described below may be interdependent. The order in which these risks are presented is not necessarily an indication of the likelihood of such risks actually materializing, of the potential significance of the risks or of the scope of any potential negative impact on the Group's business, results of operations, financial condition or prospects.

The risk factors are based on assumptions that could turn out to be incorrect. Furthermore, although the Issuer believes that the risks and uncertainties described below are the material risks and uncertainties concerning the Group's business and industry, and the Ordinary Shares, they are not the only risks and uncertainties relating to the Group and the Ordinary Shares. Other risks, events, facts or circumstances not presently known to the Issuer, or that the Issuer currently deems to be immaterial, could, individually or together, prove to be important and could therefore have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Before making any investment decision with respect to Ordinary Shares, each prospective investor should carefully read and review this Prospectus in its entirety, consult its own stockbroker, bank manager, lawyer, auditor or other financial, legal and/or tax advisers, carefully review the risks associated with an investment in the Ordinary Shares and consider any investment decision in light of the investor's own individual circumstances.

Risks relating to the Group's markets and industry

Adverse changes in global economic, business and industry conditions may adversely affect the Group's business.

Worldwide economic conditions impact the industries in which the Group's customers operate, including the steel, cement, lime, glass, non-ferrous metals, environmental, energy and chemicals industries. A weak economic climate in the relevant customer industries may result in lower sales volumes and price decreases for refractory and other products and services supplied by the Group, which in turn may adversely affect the Group's results of operations. Therefore, the Group's business and results of operations will be sensitive to global and regional economic downturns, credit market tightness, declining business confidence, fluctuating commodity prices, volatile exchange rates, changes in interest rates, sovereign debt defaults, disruptive political changes and other contingencies.

The Group has significant operations in, and derives a significant portion of its revenues from, Europe, South America, North America, Asia and the Middle East and its business, financial position and operating results are therefore affected by economic developments in these regions.

While the U.S. economy has been growing steadily in recent years, there can be no assurance that this will continue to be the case. In particular, there can be no assurance that U.S. central banking actions or government policies, including those of the new presidential administration, will not have an adverse impact on the U.S. economy. In Europe, while the effects of the sovereign debt crisis in the Eurozone have abated to a certain extent, there can be no assurance that concerns surrounding Greece and other countries in the Eurozone will not re-emerge. Additionally, the UK's 2016 referendum to leave the EU (so-called Brexit) has created significant uncertainty regarding the UK's future economic and political relationship with the EU and the potential economic impact that Brexit could have. The Group operates a plant in Scotland, from which it serves markets beyond UK borders, and exports from Scotland could be subject to tariffs once the UK has left the EU. More generally, a rise in nationalist, populist and protectionist sentiment has been noted in the United States, the UK and a number of other developed economies around the world, raising concerns about economic growth and the future of free trade.

In addition, in recent years, various emerging market economies where the Group operates or sells its products have experienced severe economic and financial disruptions, including significant devaluations of their currencies and low or negative economic growth rates. In particular, Magnesita has significant operations in Brazil and derives a substantial portion of its revenues from Brazilian customers. In 2015 and 2016, Brazil faced a severe recession, in which GDP declined by 3.8% in 2015 and 3.6% in 2016 and the Brazilian economy experienced significantly lower rates of industrial production, investment, and private consumption and significantly higher rates of unemployment, inflation and budget deficits. In addition, the Brazilian real declined sharply in value against the euro and the U.S. dollar in 2015. In response to these and similar trends, Brazil's sovereign credit rating was downgraded to below investment grade by Standard & Poor's and Moody's in 2015, and by Fitch in 2016. Political instability, including in connection with President Dilma Rousseff's impeachment and removal from office in 2016 and the ongoing *Lava Jato* corruption investigation, continues to affect the performance of the Brazilian economy. See also "—*The Group faces risks related to its operations and interests in emerging markets*."

If economic conditions in the markets in which the Group sells its products deteriorate, its customers' businesses may suffer, leading to reduced demand for the Group's products and less favorable payment terms on purchased products. In addition, the Group's access to financing could deteriorate in a strong recessionary environment. Under such circumstances, the Group might be unable to obtain additional financing on favorable terms or at all. The materialization of either or both of the foregoing risks could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group faces risks related to its operations and interests in emerging markets, including in Brazil, where the Group has substantial operations.

The Group operates in numerous countries around the world, with a significant proportion of its production capacity located in emerging markets. Its presence in emerging markets exposes the Group to risks that are not present to the same extent in more mature economies, including significant economic and political instability and risks associated with less established or efficient, or potentially corrupt, legal systems. The emerging markets where the Group is or plans to become active are at different stages of development, and the speed and extent of reform and institutional change can vary across markets. In such emerging markets the Group's activities are subject to unpredictable changes in laws and regulations, burdensome governmental controls, tariffs, slow or negative GDP growth, high inflation and interest rates, exchange rate volatility, commodity price instability, energy shortages, less developed political, economic, banking, tax, legal, corporate governance and compliance structures, and in some cases war, civil unrest, terrorism, crime and governmental corruption. Significant volatility in currency exchange rates may also result in the disruption of certain countries' foreign exchange markets, which can limit the Group's ability to transfer or convert such currencies into U.S. dollars, euro or other currencies.

The Group is also exposed, especially in developing countries, to the risk that new or tighter export or trade controls could make market access more difficult or expensive, which could materially adversely impact the Group's results of operations and financial position.

Magnesita has significant operations in Brazil and is therefore materially impacted by developments in that country. In the recent past, political crises have had a significant negative impact on the Brazilian economy. In 2016, Brazilian president Dilma Rousseff was impeached for violations of federal budgetary laws and removed from office, resulting in a further loss of confidence in and setback for the Brazilian economy. More recently, the *Lava Jato* ("car wash") investigation uncovered widespread corruption, including kickbacks on government contracts, in which members of the Brazilian government and senior officers of large state-owned and private companies were implicated, some of whom were arrested or forced to resign. The outcome of these investigations is uncertain, and while neither RHI nor Magnesita is involved in these investigations further allegations could lead to further political and economic instability.

Uncertainties regarding the new Brazilian government's ability to implement fiscal and other spending cuts reforms (such as retirement regulation reform) have raised further concerns with respect to the country's economy and have adversely affected investor confidence in Brazil. It cannot be predicted which reforms, if any, will be adopted by the government or how these reforms will affect the Brazilian economy or the Group. Continuing political instability in Brazil may have a negative impact on the Group's performance and financial condition.

Finally, inflation has had and may in the future have significant effects on the Brazilian economy and the Group's business. The consumer price index in Brazil as measured by the Amplified Consumer Price Index (IPCA), which is considered to be the official inflation index of Brazil, was 6.29%, 10.67% and 6.41% in 2016, 2015 and 2014, respectively, and is forecast to be 4.3% in 2017 and 4.5% in 2018. A return to high and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and erosion of consumer and investor confidence. In addition, certain of the Group's costs are sensitive to rises in inflation in Brazil. Due to competitive pressures, the Group may be unable to raise the prices of its products and services sufficiently to cover such costs and to maintain or increase its profit margins, which could have a material adverse effect on the Group's performance and financial condition.

The Group is subject to numerous industry, market and regional cycles, including in the steel and cement industries.

The Group's business is subject to cycles in its regional markets and the industries in which its customers operate. The steel and cement industries are the largest and second-largest customer groups, respectively, for the Group's refractory products, and demand for the Group's products is largely dependent on the volume of steel and cement production in the Group's core markets of Europe, the United States, South America, and Asia. The demand for steel and cement products is, in turn, highly cyclical and affected by macroeconomic developments in the global markets and in regional and local markets in which the Group's customers are located. Demand for steel, for example, is responsive to trends in the automotive, construction, home appliances, packaging and distribution industries, while demand for cement is particularly responsive to trends in construction activity in local markets.

Furthermore, low metals, oil and gas prices have resulted in reduced or delayed investments in the non-ferrous metals, oil and gas industries and created a demanding market environment that has negatively affected demand for the Group's refractory products in recent years. Another key determinant of the Group's business performance is world construction activity, which is influenced by a number of factors beyond the Group's control, including the economic performance and the monetary and other government policies of the countries in which the Group's customers sell their products; it is also subject to significant seasonal fluctuations (rotary kilns used in the cement industry are normally installed or repaired in winter, when construction activity is low).

Sustained downturns in one or more of the industries to which the Group sells its products or a slowdown or recession in markets from which the Group derives a substantial portion of its revenues would result in reduced demand for the Group's products and have a material adverse impact on the Group's performance and financial condition.

The Group's global competitive position may be adversely affected if Chinese steel producers are successful in competing with the Group's customers.

To respond to excess capacity and cost pressure in the domestic market, the Chinese government has recently undertaken to consolidate its steel sector. For example, the two local state controlled producers Baosteel and Wuhan Iron and Steel were merged in 2016 to build the second largest steel producer worldwide in order to improve their global competitiveness, and the Chinese government plans to further consolidate the steel sector by the year 2025 so that the ten largest producers will account for roughly 60% of the local steel production – up from roughly 34% in 2016. If the consolidation in the industry is not accompanied by the elimination of overcapacity or the consolidated Chinese producers are otherwise able to further increase low-cost steel exports from already high levels by developing sales know-how and effective distribution channels outside China and thereby take market share from the Group's non-Chinese steel customers, this could adversely affect the sales and results of the Group which presently has limited sales and market share with respect to Chinese steel and could have a negative impact on the Group's performance and financial condition.

***Significant increases in the global proportion of steel produced using basic oxygen furnaces could impair the Group's profitability*.**

Although steel exports from China almost doubled to 110 million tons in 2016 from 60 million tons in 2015 according to Worldsteel, only 5% of the exported Chinese steel was produced in electric arc furnaces ("**EAF**") in 2016. The EAF process entails significantly higher refractory consumption than processes using basic oxygen furnaces ("**BOF**"). If the market share of steelmakers that produce steel using the BOF technology increases globally, as a result of growth in the market share of Chinese steel producers or for any other reason, the relative consumption of refractories per ton of steel would likely decrease, resulting in decreased demand for refractory products globally which may have a negative impact on the Group's performance and financial condition.

The imposition or lifting of trade barriers could adversely affect the Group's activities.

The Group has been and may continue to be adversely affected by trade barriers, including tariffs, quotas, anti-dumping measures, and countervailing duties imposed on raw materials or finished products in jurisdictions in which the Group seeks to sell its products. For example, U.S. President Trump has raised the possibility of greater restrictions on international trade and significant increases in tariffs on goods imported into the U.S. The Group serves the U.S. market primarily through exports and may therefore be adversely affected should additional protectionist measures be adopted by the Trump administration. On the other hand, the Group benefits from trade barriers in markets where it sells domestically produced products. It also indirectly benefits from trade barriers imposed by the U.S. and the EU against certain low-cost steel imports from China by protecting the market share of its primarily non-Chinese customers. See also "*—The Group's global competitive position may be adversely affected if Chinese steel producers are successful in competing with the Group's customers*." If such trade barriers were to be lifted, this could negatively affect the Group's business in those markets. Existing barriers to trade, newly implemented protectionist measures or a lifting of existing trade barriers from which the Group benefits may have a negative impact on the Group's performance and financial condition.

The Group's refractory products may not be able to compete in commoditized refractories markets.

The Group seeks to differentiate itself from its competitors by offering high quality, technologically advanced products and customized solutions and, accordingly, invests significant amounts in R&D. In a global refractories market marked by increasingly cost-conscious customers, the Group competes with suppliers of refractory products whose competitive strategy is based on commoditization and who sell their products in large quantities, at relatively low price levels, resulting in low margins. Similarly, the consolidation of the Chinese refractory industry undertaken by the Chinese government has resulted in increased exports of low cost Chinese refractory products. If the Group is unable to compete with lower cost suppliers on price or to develop or implement appropriate competitive strategies (e.g. as a niche supplier in certain segments), the Group could become unable to grow or sustain its margins, which could have a material adverse impact on the Group's performance and financial condition.

The Group operates in a competitive environment and may not be able to compete successfully if its businesses do not adequately adapt to market developments.

The Group competes with a large number of global and local market players in the refractory industry. The Group's continued success depends upon its ability to continue to supply products and solutions tailored to the customers' production process and refractory requirements, as well as provide services on a cost-effective and timely basis in accordance with customer demands. In addition, the markets for the Group's products are competitive in terms of pricing, product and service quality, product development and introduction time, customer service, financing terms and other similar factors. The Group's competitors could develop new products or technologies that are more effective or less expensive than those the Group offers. If the Group fails to adapt adequately to market developments related to new products and technology, or if the Group's competitors are able to provide better customer-specific design and refractory solutions, react more quickly to the changing needs of customers, differentiate themselves more effectively, or improve the functionality or performance of their products more quickly than the Group or in a more cost-effective manner, the Group may face price and margin declines and lose customers to other suppliers. These outcomes may have a negative impact on the Group's performance and financial condition.

Risks relating to the Group's business, production and operations

The Group may experience a business interruption, production curtailment or loss of assets.

Interruptions in production at one of the Group's facilities may cause the productivity and results of operations to decline significantly during the affected period and may also adversely impact customer relationships. The Group is dependent on critical equipment such as kilns, molds, automated machinery and others. Such equipment may on occasion be out of service, damaged or destroyed as a result of strikes, unanticipated failures, accidents or force majeure events. Similarly, accidents such as fires, explosions, mechanical failures, power outages, uncontrolled spills or releases of hazardous substances and other accidents associated with the manufacture of refractory materials may disrupt the Group's operations. If the Group becomes temporarily unable to supply certain products should any of the above events materialize this may have a material adverse impact on the Group's customer relationships, reputation, performance and financial condition.

The Group depends on a limited number of third party suppliers, especially for certain essential raw materials that are not available within the Group, and it may not obtain these raw materials in the required quantities or qualities or at economically feasible prices.

The Group's production processes are dependent on the availability of various raw materials, including magnesite, dolomite, bauxite, and aluminas. Although the Group obtains a significant portion of its raw material requirements from its own mines, it also sources a significant amount of raw materials from third party suppliers due to price, location and other considerations. With respect to non-basic raw materials such as bauxite and aluminas, the Group is fully dependent on third-party supply.

The Group depends on a limited number of suppliers, primarily in Brazil, China, Germany and South Africa, to provide these non-basic raw materials in required volumes and at appropriate quality and reliability levels. Under the Group's raw material supply agreements, any party may terminate the arrangement upon prior notice of as little as 30 to 60 days. If the Group's material supply agreements are terminated, delayed or interrupted for any reason, the Group could become unable to produce certain types of refractories in a timely fashion, in sufficient quantities or on terms acceptable to its customers. The Group generally does not have long-term supply agreements for such materials and is therefore subject to supply risks, as there is no assurance that the arrangements with its suppliers can be maintained, renewed or extended on economically feasible terms. Additionally, raw material prices may increase due to a wide range of factors, including inflation, foreign exchange fluctuations, scarcity, or increases in import taxes or other regulatory costs. The prices of magnesite, dolomite, alumina, and certain other raw materials used in the refractories industry are highly volatile and may be affected by, among other factors, the oligopolistic nature of the mining industry, a tendency to nationalization in China (which could lead to more limited supply in the future), the fragmented nature of the refractories industry, demand trends in the refractories industry or other industries, changes in laws or regulations (including export restrictions), preferential allocations to other purchasers, disruptions in production or delivery by suppliers, wars, natural disasters, political disruptions, exchange rate fluctuations, and the availability of transportation at economical cost. For example, in recent months, measures by the Chinese government to reduce air pollution have led to some suppliers of raw materials in China to cease or reduce production and have, in particular, limited new production of certain raw materials from Chinese mines. Since China is an important source for fused magnesia and other raw materials used by the Company in its production processes, if adverse supply conditions in China continue or worsen, the Company could need to source these materials through other supply channels, which could result in higher production costs or delays. Hedging the future prices of most of the raw materials the Group sources from third parties typically is not possible due to the lack of functioning futures markets in those commodities.

A failure by the Group to obtain necessary raw materials at acceptable cost for any reason, including but not limited to the materialization of any of the risks set out above, could materially impair production in the affected region(s) or products area(s) and could have a material adverse effect on the Group's business, results of operations and financial condition.

Dependence on raw materials purchased from third party suppliers also exposes the Group to quality risks. The quality of such materials may not be immediately verifiable, and fluctuating or poor quality may adversely affect the Group's end products and result in product failure, a deterioration of customer relationships, loss of customers, breach-of-warranty, contract or product-liability claims or litigation, any of which may have a material adverse effect on the Group's performance and financial condition.

Increased energy costs or disruptions in energy supply could have a material adverse impact on the Group's results of operations.

Energy accounts for a substantial proportion of the Group's operating costs. Consequently, the Group is exposed to energy price variations, in particular with regard to natural gas, which accounted for approximately two thirds of the RHI Group's energy consumption in terms of gigawatt hours in 2016. Any significant increase in market prices for energy, either locally or globally, may negatively affect the Group's performance and financial condition, as the Group may not be in a position to pass on increased costs to customers, and could make the operation of certain of the Group's production facilities untenable.

Furthermore, energy supplies are subject to disruptions, including in connection with blackouts and other occurrences. An interruption in oil or gas supply may result in production shortfalls. Any increases in energy costs which cannot be passed on to customers, or any energy supply disruptions may have a negative impact on the Group's performance and financial condition.

The Group's mining operations are exposed to significant risks, not all of which are insured against.

The Group's raw material operations include underground and surface mining operations. Such operations are associated with the risks of mining projects due to their size, complexity and high costs, the risk of environmental hazards, industrial accidents, metallurgical and other processing problems, periodic interruptions due to weather conditions and other risks, which could result in production shortfalls, damage to, or destruction of, mineral properties, plant and equipment, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability. Some of these risks may be uninsurable, may not be insured because premium costs are too high or because such insurance is commercially impracticable to obtain, or may not be covered by existing insurance policies for other reasons. Therefore, the occurrence of any of these events may have a negative impact on the Group's performance and financial condition.

Increased transportation costs could have an adverse material impact on the Group's results of operations.

The production of refractory products involves the transportation of raw materials from mines and suppliers to processing plants, the transfer of materials from one plant to another, and the shipping of finished products to customers. Therefore, and in light of the heavy and bulky nature of raw materials and refractory products, transportation costs represent a significant portion of the Group's cost base. As a portion of the Group's transportation costs is also passed on to the customers, they are therefore also a critical factor in its customers' purchasing decisions. Increases in transportation costs may cause refractories produced by the Group and raw materials sold to third parties to be less competitive than those sold by competitors whose mines and processing plants are geographically closer to customers. Similarly, unavailability of appropriate means of transportation (e.g. containers), or any disturbance of transport routes could lead to increased logistics costs. Any increases in the Group's cost of transportation, and any transportation disruptions that adversely affect the Group's dealings with its suppliers or customers, may have a material adverse effect on the Group's performance and financial condition.

The Group depends on sales to a small number of large customers, and the loss of one or more major customers could have a significant negative impact on the Group's performance and financial condition.

The Group is dependent on a small number of customers for a significant percentage of its sales. RHI's ten largest customers accounted for approximately 26% of its revenues for the year ended December 31, 2016, while RHI's largest single customer accounted for approximately 11% of its revenues in the same period. Magnesita's ten largest customers accounted for approximately 49% of its revenues for the year ended December 31, 2016, while its largest customer accounted for approximately 11% of its revenues in the same period. A deterioration of the major current customer relationships of RHI or Magnesita or any other development that results in a decrease of orders from, or in the loss of, customers that before the Acquisition of Control accounted for a significant proportion RHI's or Magnesita's revenues could have a material adverse effect on the Group's performance and financial condition.

The Group's business could be adversely affected by its investments in joint ventures and other entities which are not fully owned by the Group or in which the Group does not have full control.

The Group has investments in joint ventures and other entities which it does not fully own or control. RHI has a 50% interest in the MAGNIFIN Magnesiaprodukte GmbH & Co. KG joint venture which contributed EUR 10.9 million to RHI Group's profit in 2016 (EUR 6.4 million in the first half year 2017). Magnesita holds a 70% participation in Sinterco SA ("**Sinterco**"), a 50% participation in Magnesita-Envoy Asia Ltd. joint venture ("**Envoy**"), and a 40% participation in the Krosaki Magnesita Refractories joint venture ("**KMR**"); this joint venture is intended to be liquidated. Joint ventures with majority positions contributed BRL 4.4 million to Magnesita's profit in 2016 (BRL (0.2) million in the first half year 2017), those without majority positions contributed BRL (0.6) million to Magnesita's profit in 2016 (BRL 0.9 million in the first half year 2017). Such investments involve risks, including the possibility that partners or co-investors might become bankrupt, fail to fund their required capital contributions, perform their obligations poorly or not at all, or that make the Group liable to its co-investors' creditors in respect of its partner's share of joint venture liabilities. Co-investors may have objectives that are inconsistent or in conflict with the Group's business interests or goals and may be in a position to block action with respect to the Group's investments or take actions contrary to the Group's policies, objectives or interests; in some joint ventures the Group is further bound by shareholders' and other agreements which further limit control over the respective joint venture vehicle. Disputes between the Group and its co-investors may result in litigation or arbitration that would increase the Group's expenses and prevent its officers and directors from focusing their time and effort on the Group's business and result in the loss of business opportunities and growth. Furthermore, actions by the Group's co-investors, of which the Group may be unaware, or unable to control, such as political affiliations, illegal or corrupt practices and other activities, may cause reputational damage for the Group or result in adverse consequences to its investments, including incurring costs, damages, fines or penalties, construction delays, reputational losses or the loss of key customer relationships. The above risks could have a material adverse effect on the Group's performance and financial condition.

A significant default by a financial counterparty, a major customer or a risk insurer could adversely affect the Group's performance and financial condition.

Credit risks and the related risks of default by financial counterparties of the Group arise primarily in the normal course of business in connection with trade receivables due from the Group's customers. The continuing economic and financial uncertainty has led to an increase in credit risk due to the deterioration of creditworthiness of a number of financial institutions and customers. A significant default by the Group's financial counterparties or major customers could have a material adverse effect on the Group's performance and financial condition. Furthermore, in managing the risks inherent to its operations, the Group transfers risks to insurers where cost effective and, accordingly, the financial failure of one or more insurers used by the Group may result in a financial loss to it. Any of these events, if significant, may have a material adverse effect on the Group's performance and financial condition.

The Group may be subject to labor disputes from time to time that may adversely affect it.

Most of the Group's employees are represented by unions or similar organizations and are covered by collective bargaining or similar agreements which are subject to periodic renegotiation. The employees and/or these organizations may commence, in some circumstances, strikes or similar actions which may lead to the disruption of the production process and consequent increase of costs and delay in delivery of the Group's products. In particular, the Group may not successfully conclude its labor negotiations on satisfactory terms, which may result in a significant increase in the cost of labor, work stoppages or labor disputes that disrupt operations. The Group is currently involved in numerous labor-related disputes with employees and unions in certain jurisdictions, particularly in Brazil, where Magnesita is subject to several hundred individual labor lawsuits relating to, among other things, salary parity, indemnity for occupational disease, work injuries, as well as health exposure, hazardous duty and overtime pay, which, although individually of low importance, could, as a whole, have a material effect on the Group if adversely determined. Any deterioration in the Group's labor relations and disputes with its workforce may have a material adverse effect on the Group's performance and financial condition.

The failure to attract, develop or retain skilled or qualified employees could negatively impact the Group's business.

The Group depends on the capabilities and performance of its executive officers and employees. Competition for skilled employees in the industries in which the Group operates is intense, and the Group cannot be certain that it will be successful in managing, attracting and retaining the personnel required to successfully conduct its operations. The failure to manage, attract or retain qualified employees could have a material adverse effect on the Group's business, financial condition or results of operations.

Future acquisitions may be difficult to integrate, result in higher than expected costs or divert management resources.

The Group has made in the past, and may make in the future, significant acquisitions which involve risks. The Group may face difficulties in integrating acquired business operations, technologies or products, incur substantial unanticipated integration costs, face hidden deficiencies of assets or contingent liabilities (including undiscovered legal issues or unknown soil and groundwater contaminations), have difficulties retaining or developing the Group's or acquired businesses' customers and suppliers, lose key employees (particularly those of the acquired operations), or fail to realize the potential cost savings, synergies or other financial benefits or the strategic benefits of such acquisitions. Integration may also divert significant management attention and financial resources from other operations and could disrupt the Group's ongoing business. Furthermore, existing management information, reporting, control and IT systems may not be sufficient for integrating acquired businesses, and the Group may therefore incur costs for upgrades. Any of these aspects could limit the Group's ability to pursue its strategy, may require it to incur unforeseen debt, amortization expenses or write-offs, and may have a material adverse effect on the Group's performance and financial condition. See also "—*Risks Relating to the Acquisition*".

Legal, regulatory and financial risks relating to the Group

The Group's international operations are subject to complex and evolving laws and regulations, and compliance with these regulatory requirements involves significant costs.

Due to the Group's international presence in a large number of jurisdictions with different legal regimes, the Group's operations including exploration, mining and production are subject to international, federal, state, provincial and local laws and regulations. Compliance with these laws and regulations imposes financial and administrative burdens, and can cause delays in obtaining, or failure to obtain, government permits and approvals which may adversely impact the Group's performance and financial condition. The Group may expand its business into new countries and complexity in connection with compliance with the various national regulatory regimes will further increase. The costs of complying with the laws and regulations are significant and will continue to be so for the foreseeable future. Furthermore, evolving regulatory standards and expectations can result in increased costs (including but not limited to compliance and litigation costs) and can have a material and adverse effect on earnings and cash flows. The Group's results and operations and financial condition may be adversely affected if the Group cannot successfully adapt to country-specific legal or regulatory requirements in connection with its international operations. See also "—*Risks relating to the Group's markets and industry*—*The Group faces risks related to its operations and interests in emerging markets*".

The Group may be exposed to significant risks in relation to compliance with anti-corruption and anti-money-laundering laws and regulations and economic sanctions programs.

The Group is required to comply with the laws and regulations of the various jurisdictions in which it conducts business, including in the United States. In particular, the Group's operations are subject to anti-corruption laws and regulations, including but not limited to the U.S. Foreign Corrupt Practices Act of 1977, the United Kingdom Bribery Act of 2010, the Brazilian Anti-Corruption Law (Law 12.846/2013), and economic sanctions programs, including those administered by the United Nations, the EU and the Office of Foreign Assets Control of the U.S. Department of the Treasury ("**OFAC**"), and regulations set forth under the Comprehensive Iran Accountability Divestment Act.

While the Group does not currently operate in jurisdictions that are subject to territorial sanctions imposed by OFAC or other relevant sanctions authorities, it does export some of its products to such jurisdictions, including in particular Iran (mostly by directly delivering refractory products which are not subject to sanctions). Economic sanctions programs do and will continue to restrict the Group's ability to engage or confirm business dealings with certain sanctioned countries or impose administrative burdens on the Group in connection with dealings with those countries which may make exports to these countries uneconomical.

The Group is also required to comply with applicable anti-money laundering laws and financial recordkeeping and reporting requirements, rules, regulations, and guidelines.

Violations of anti-corruption, anti-money-laundering and financial record-keeping, and sanctions laws and regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts (and termination of existing contracts) and revocations or restrictions of licenses, as well as criminal fines and imprisonment. In addition, any major violations could have a significant impact on the Group's reputation and consequently on its ability to win future business.

In certain countries in which the Group operates, particularly in those with developing economies, certain business practices may exist that are prohibited by laws and regulations applicable to the Group, including anti-corruption laws. The Group continuously reviews existing policies and procedures to ensure compliance and seeks to continuously improve systems of internal controls and remedy any weaknesses identified. While the Group has not been subject to investigations or proceedings in relation to violations of anti-corruption, anti-money laundering and sanctions regulations, there can be no assurance that these policies and procedures will be followed at all times or that the Group's internal controls will effectively detect and prevent violations of the applicable laws by the Group's employees, consultants, agents or partners. As a result of any such violation, the Group could be subject to penalties which may have a material adverse effect on the Group's performance and financial condition.

The Group is exposed to litigation risk.

The Group has been and the Combined Group continues to be subject to the risk of legal disputes arising in the course of its business, including general civil, tax, labor and criminal litigation, as well as environmental and other administrative proceedings. For example, Magnesita is currently subject to ongoing tax audits in Brazil in which Brazilian tax authorities are challenging tax deductions that Magnesita had taken in prior years, in large part relating to goodwill amortization, in an aggregate amount of approximately BRL 680 million, of which BRL 642 million are classified as possible likelihood of loss, for which no provision was made (as of December 31, 2016). See also "*—Certain tax matters may have an adverse effect on the Group's cash flow, financial condition and results of operations*". Furthermore, following a judgment obtained against the Brazilian utility company Centrais Elétricas Brasileiras S.A. ("**Eletrobrás**") in 2001 in relation to compensation for interest accrued over certain amounts, Magnesita recovered around BRL 62 million in 2011. Eletrobrás is currently challenging the judgment. If Eletrobrás prevails in the appeal, Magnesita could be obliged to repay some or all of the funds recovered. See also *"—Business of Magnesita—Litigation and Regulatory Proceedings*".

In addition, Magnesita is currently involved in a number of labor disputes with employees and unions in Brazil, relating to, among other things, salary parity, indemnity for occupational disease, work injuries, as well as health exposure, hazardous duty and overtime pay. Such labor disputes are common in some jurisdictions in which the Group operates, particularly in Brazil, and the Group expects that it will continue to be exposed to such labor disputes in the future. See also "*—The Group may be subject to labor disputes from time to time that may adversely affect it*".

The Group's potential future liability cannot be reasonably estimated at this time and there can be no assurance that the Group's current provisions will cover all potential liability. An unfavorable outcome in any litigation, administrative proceeding, or labor dispute could materially adversely affect the Group's performance and financial condition. See also "*—Business of Magnesita—Litigation and Regulatory Proceedings*."

Warranty issues and the assertion of product liability claims by customers due to defects in products may harm the Group's reputation and adversely affect its performance and financial condition.

Defects in the Group's refractory products may have significant adverse consequences for their users, including business interruptions and production downtimes causing financial losses, property damage, personal injuries and even death. The cost of defending product warranty and other product liability claims can be substantial and the Group could be responsible for paying some or all of the damages if it was found liable under statutory damages and product liability provisions or contractual guarantees granted to customers. The publicity surrounding product liability claims is also likely to damage the Group's reputation, regardless of whether they are successful. Any of the above consequences resulting from defects in the Group's products may have a material adverse effect on the Group's performance and financial condition.

The Group is subject to stringent environmental and other laws, regulations and standards which result in costs related to compliance and remediation efforts that may adversely affect the Group's performance and financial condition.

The Group is subject to a broad and increasingly stringent range of environmental, health and safety laws, regulations and standards in the jurisdictions in which it operates. The laws, regulations and standards relate to, among other things, noise emissions, carbon dioxide and other exhaust emissions, waste and waste water disposal, soil and groundwater contamination, recultivation obligations, the use and handling of hazardous materials, waste disposal practices and standards relating to refractory materials, hygiene, ventilation and fire and electrical safety. Compliance with such laws and regulations impose substantial financial and administrative burdens on the Group. Environmental claims or the failure to comply with any present or future regulations could result in the assessment of damages or imposition of fines against the Group, suspension of production, cessation of operations, criminal sanctions or other liabilities. New regulations could require the Group to acquire costly equipment, refit existing plants or redesign products or to incur other significant expenses and expose it to additional liability risks.

Costs to comply with carbon dioxide emissions limitation regimes could place the Group at a competitive disadvantage.

Due to substantial process-driven emissions of carbon dioxide in refractory production, the Group is particularly affected by regulations taxing or limiting carbon dioxide emissions. Such regulations have been enacted in most countries in which the Group operates. In the European Union, the Group is subject to a cap and trade scheme on carbon dioxide emissions pursuant to the Industrial Emissions Directive on integrated pollution prevention and control of industrial emissions and the EU Emissions Trading Scheme ("**ETS**"). Since 2013, manufacturing companies, including the Group, have generally been required to purchase a steadily increasing amount of emission rights. Both the cap on total annual emissions in the EU and the amount of emission rights allocated at no cost are gradually reduced by 2020. In the event that the Group does not receive sufficient carbon leakage protection, or is not otherwise allocated a sufficient amount of emission rights in the future, including free emission rights, its costs will significantly increase. Such costs are also dependent on the price of emission allowances, which is currently expected to increase. ETS and similar regulations that are implemented in the future, or amendments to such regimes, including those adopted to implement the 2015 Paris Agreement as defined below, could place the Group at a competitive disadvantage against companies that are not or are to a lesser degree subject to such regulations, or against companies that are subject to the same degree to such regulations but which do not comply or comply fully with the regulatory requirements or as to which the relevant regulatory authority fails to enforce such requirements. Therefore, regulations on carbon dioxide could have a material adverse effect on the Group's performance and financial condition. See also *"—Refractory Industry & Regulatory Overview—Regulatory overview*."

The Group could be held responsible for significant investigation and cleanup costs under applicable waste management and environmental remediation laws.

The discovery of previously unknown contamination at the Group's facilities, or at third-party sites to which it sent waste for disposal, could require the Group to incur significant investigation and cleanup costs. Some environmental laws, notably the U.S. Comprehensive Environmental Response, Compensation and Liability Act (also known as "Superfund"), as well as German and Brazilian environmental legislation, can impose liability on present and former owners or operators of contaminated properties, as well as on parties who disposed of or arranged for the disposal of hazardous wastes at those sites, without regard to knowledge or fault. In the past, the Group has been held responsible for certain environmental incidents in its mining and refractories production operations, including asbestos and silica-related damage claims, which originated prior to the acquisitions of the operations, against certain of RHI's U.S. subsidiaries in 2001 which resulted in their bankruptcy in 2002 and were settled in 2013. Magnesita is conducting, and has in the past conducted, remediation activities at some of its facilities to address soil and groundwater contamination. Additional contamination may exist at these or at other Group facilities, which could result in investigation or remediation obligations being imposed on the Group in the future. The Group may also have liabilities for environmental contamination or damages relating to its former sites or operations. The Group's provisions may not be sufficient to cover all potential environmental issues. Therefore, future remediation liabilities and other developments such as changes in law or stricter enforcement of environmental issues could result in increased costs and liabilities for the Group and have a material adverse effect on the Group's performance and financial condition.

The Group could incur significant costs for the renewal or obtaining additional permits, sanctions for non-compliance with permit requirements and compliance costs for other regulations affecting mining operations.

In addition to environmental regulations, the Group's mining operations are subject to governmental regulations, such as permit and administrative licensing requirements as well as reclamation and restoration of mining properties after mining is completed. Non-compliance with permitting and licensing requirements may result in administrative sanctions such as fines and the suspension of operations and, in certain jurisdictions, in criminal sanctions. The Group expects that, in the ordinary course, it will need additional permits and renewals of permits for its mining operations.

Additional legal requirements, however, could be adopted in the future that would render compliance still more burdensome. Furthermore, obtaining or renewing required permits and licenses is sometimes delayed or prevented due to community opposition and other factors beyond the Group's control. The Group could be adversely affected if current provisions for reclamation and closure costs were determined to be insufficient at a later stage, or if future costs associated with reclamation were to be significantly greater than current estimates. Non-compliance with national laws and guidelines may also lead to non-renewal or revocation of licenses and permits. It is possible that current or future mining regulation, and the cost of compliance with such regulation, could prove to be more expensive than the Group anticipates, requiring a greater expenditure of funds than expected.

The Group's operations are subject to health and safety risks.

The Group's mining and refractory production operations involve a number of health and safety risks. For example, the Group's production facilities require individuals to work with chemicals, equipment and other hazardous materials, including silica dust, that have in the past caused harm, injury and fatalities in the Group's operations. Notwithstanding preventive safety and health measures that the Group has already taken or may take in the future, there can be no assurance that such measures will be effective in reducing the number of incidents and any such incidents may result in disruption to the Group's operations, legal and regulatory consequences and reputational damage, any or all of which may have a material adverse effect on the Group's performance and financial condition.

The Group's failure to defend its intellectual property could adversely affect the Group's business.

The Group's ability to compete is partially based upon proprietary knowledge and it relies on a combination of trade secrets, patents, confidentiality procedures and agreements, copyright and trade marks to protect its proprietary rights. If the Group fails to or is unable to protect, maintain and enforce its existing intellectual property, this may result in the loss of the Group's exclusive right to use technologies and processes which are included or used in its businesses. In addition, the laws of certain countries in which the Group operates may not provide protection of proprietary rights that the Group deems appropriate. The Group has applied for patents in a number of jurisdictions, including European countries and the United States. These applications are in the application process at various stages and patents may not be issued, or may be issued in a form narrower than that sought by the Group. If some of the patents or patent applications are not granted, expire or are successfully challenged, the Group may be unable to exclude competitors from using the technology covered by them. The Group has also acquired patents and patent applications from other parties. The Group's involvement in intellectual property litigation could result in significant expenses, the diversion of management attention, the invalidation of its patents or a finding that they are unenforceable, and may materially adversely affect the development of sales of the challenged product or intellectual property and may have a material adverse effect on the Group's performance and financial condition.

The Group may infringe on the intellectual property rights of third parties.

Third parties may from time to time allege that the Group has infringed on their intellectual property rights. Successful claims by third parties of infringement, misuse or misappropriation by the Group could require the Group to cease making or using products that are alleged to infringe or misappropriate the intellectual property rights, to expend additional development resources to attempt to redesign the Group's products or otherwise to develop alternative technology, or to enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies or intellectual property rights. In addition, the Group could be exposed to liability for damages. Even claims of infringement, misuse or misappropriation that ultimately are unsuccessful could cause reputational harm, result in expenditure of funds in litigation and divert management's time and other resources, any of which could materially adversely affect the Group's business, financial condition and results of operations.

The Group relies on the proper functioning and integrity of its computer and data processing systems.

The Group's ability to keep its businesses operating depends on the functional and efficient operation of its computer and data processing and telecommunications systems around the world. Computer and data processing systems are susceptible to malfunctions and interruptions (including due to equipment damage, power outages, fire, natural disasters, breakdowns, malicious attacks, computer viruses, and a range of other hardware, software and network problems), and the Group may be unable to prevent malfunctions or interruptions. A significant or large-scale malfunction or interruption of its computer or data processing systems could disrupt the Group's operations, for example by causing delays or the cancellation of customer orders, impeding the manufacture or shipment of products, the processing of transactions and the reporting of financial results, or could damage the Group's reputation.

In addition, the Group faces the risk of potential unauthorized access to, and the loss of, critical and sensitive information, for example as a result of hacking attacks. A leak of confidential information or the loss of critical and sensitive information could reveal trade secrets or know-how of the Group or its customers to competitors and harm the Group's business, competitive position and reputation. Large-scale cybersecurity attacks have occurred with increasing frequency in recent years. For example, in May 2017 ransomware known as "WannaCry" attacked over 230,000 computers worldwide, affecting a wide range of organizations. There can be no assurance that the Group's information technology security measures will adequately protect it against cybersecurity incidents or that such incidents will not have a material adverse impact on the Group's performance and financial condition.

The Group's financing agreements include covenants, including financial maintenance covenants and covenants restricting the incurrence of financial indebtedness, the providing of security over assets, and asset sales.

Several of the Group's financing agreements require the Group to comply with specific affirmative and negative covenants that limit its ability to take certain actions. Among other things, covenants may restrict the Group's ability to:

- pay dividends;
- incur additional financial indebtedness;
- provide security over its assets; or
- sell assets (unless, for example, in the ordinary course of business).

RHI (i) issued a new debenture bond (*Schuldscheindarlehen*) in the principal amount of EUR 178.0 million in July 2017 (the "**New Debenture Bond**") to refinance existing debenture bonds with a corresponding principal amount, (ii) entered into a EUR 88.0 million equity bridge financing agreement in September 2017 (the "**Equity Bridge**") to finance the share component of the Mandatory Offer and (iii) entered into a EUR 477.2 million syndicated term and revolving loan agreement in August 2017 (the "**Syndicated Loan**" and together with the New Debenture Bond and the Equity Bridge, the "**Refinancing**") among other things to refinance certain existing liabilities and to finance the Acquisition.

Following the Refinancing and the drawing of the Equity Bridge and the Syndicated Loan to finance the Acquisition, the Group's financial liabilities will increase substantially and the related risks relating to the Group's financial liabilities and leverage will also increase. The increased level of debt, which will further increase in connection with the financing of the Mandatory Offer, could, for example:

- limit the Group's ability to obtain additional financing for working capital, capital expenditures, research and development, debt service requirements, acquisitions and general corporate or other purposes;

- restrict the Group from making strategic acquisitions or cause the Group to make non-strategic divestitures;

- limit the Group's ability to adjust to changing market conditions and place the Group at a competitive disadvantage compared to its competitors who are not as highly leveraged; increase the Group's vulnerability to general economic and industry conditions; and

- require a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on the Group's indebtedness, thereby reducing its ability to use the Group's cash flow to fund its operations, capital expenditures and future business opportunities.

Additionally, if amounts are declared due and payable before their scheduled maturity, any such acceleration may have a material adverse effect on the Group's ability to meet its financial obligations and its financial position.

The Syndicated Loan requires compliance with a defined minimum equity ratio and certain maximum leverage ratios, which are calculated on the level of the RHI Group and following the Acquisition of Control, will be calculated on the level of the Combined Group. Additionally, the debenture bonds (*Schuldscheindarlehen*) issued by RHI contemplate interest rate increases if the Group's net financial indebtedness to EBITDA ratio exceeds certain levels. See "*Operating and Financial Review of RHI—Liquidity and Capital Resources—Debt—Description of the Group's main financing contracts as of June 30, 2017*" for a more detailed description of RHI's applicable covenants and compliance therewith.

Some of the Magnesita's financing agreements, which will remain in place following the Acquisition of Control, include requirements for Magnesita to maintain a maximum net consolidated debt to EBITDA ratio. See "*Operating and Financial Review of Magnesita—Debt—Description of Magnesita's main financing contracts*" and "*Operating and Financial Review of Magnesita—Liquidity and Capital Resources*" for a more detailed description of Magnesita's applicable covenants and compliance therewith.

A default on the terms of the financing agreements that is not cured under the terms of the relevant agreements may result in a decision by the relevant creditors to accelerate the outstanding balance of the relevant debt. This may also accelerate the maturity of debts under other financing agreements due to cross-default provisions.

The Group is exposed to changes in exchange rates and interest rate fluctuations and negative price developments of derivative financial instruments.

The Group's financial position, results of operations and cash flows may be adversely affected by fluctuations in exchange rates or interest rates. The Group has no control over changes in currency exchange rates, or interest rates.

While the Group reports its results in euro, a significant portion of the Group's revenues and expenses from subsidiaries are denominated in currencies other than the euro, in particular the U.S. dollar and the Brazilian real. As a result, changes in exchange rates for such foreign currencies into euro affect the Group's results of operations and financial position as reported in euro. Any significant depreciation of the U.S. dollar or the Brazilian real against the euro, or of any currency in which revenue is calculated against the currency in which costs are incurred, may materially adversely affect the Group's business, financial condition and results of operations.

The Group is also exposed to interest rate risk. Interest rate risk in the Group is primarily related to borrowing carrying variable interest rates. As of the date of this Prospectus and giving pro forma effect to the Refinancing, approximately three quarters of RHI's total liabilities (representing a significant increase over recent historical levels of approximately two fifths of total liabilities for periods preceding the Refinancing) and two fifths of Magnesita's total liabilities were subject to variable interest rates (and not hedged). Therefore, following the Acquisition, approximately three quarters of the Group's outstanding liabilities will be subject to variable interest rates that will not be hedged. Increases in interest rates can have a material adverse impact on the Group's interest expense, and on the Group's performance and financial condition.

Certain tax matters may have an adverse effect on the Group's cash flow, financial condition and results of operations.

Due to the global nature of the Group's business, the Group is subject to income taxes in multiple jurisdictions. Significant judgment and estimation is required in determining the Group's worldwide provision for income taxes. In the ordinary course of the Group's business, there are various transactions and calculations, including intercompany transactions and cross-jurisdictional transfer pricing, for which the ultimate tax determination is uncertain or otherwise subject to interpretation. The Group is regularly audited by tax authorities. These authorities may become more aggressive in their interpretation of applicable laws, rules and regulations over time, whether as a result of economic pressures or otherwise. Tax authorities may disagree with the Group's intercompany charges, cross-jurisdictional transfer pricing or other matters and assess additional taxes. Although the Group believes that its tax estimates are reasonable, the final determination of tax audits could be materially different from the Group's historical income tax provisions and accruals. Any additional tax liabilities resulting from a final determination could have a material adverse effect on the Group's financial position, results of operations, or cash flows in the period or periods for which that determination is made.

For example, Magnesita is currently subject to ongoing tax audits in Brazil in which Brazilian tax authorities are challenging tax deductions that Magnesita had taken in prior years, in large part relating to goodwill amortization in terms of value, in an aggregate amount of approximately BRL 680 million, of which BRL 642 million are classified as possible likelihood of loss, for which no provision was made (as of December 31, 2016). The Group is subject to various other tax proceedings that are individually of low importance, but that could become material in the aggregate. See also "*—Business of Magnesita—Litigation and Regulatory Proceedings*."

Repatriation of funds held by subsidiaries in foreign jurisdictions may result in a higher effective tax rate and incremental cash tax payments. In addition, future changes in tax legislation could have a significant adverse effect on the Group's tax rate, the carrying value of deferred tax assets or deferred tax liabilities. Any of these changes could affect the Group's profitability. The Group's effective tax rate in the future could also be adversely affected by changes to its operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities and the discovery of new information in the course of the Group's tax return preparation processes.

The Group is subject to risks related to the funding requirements of its pension and other post-employment benefit plans.

RHI and Magnesita each have obligations under defined benefit pension plans, mainly in their subsidiaries in Austria, Germany, the United States and Brazil. As of June 30, 2017, the underfunded amount of RHI's and Magnesita's pension plans was EUR 231.2 million and BRL 340.2 million, respectively. The Group's funding obligations depend upon future asset performance, the level of interest rates used to measure future liabilities, actuarial assumptions and experience, benefit plan changes and government regulations. Since these variables are difficult to predict, future cash funding requirements for the Group's pension plans and other post-employment benefit plans could be significantly higher than the amounts estimated as at June 30, 2017, and such additional funding requirements, if they materialize, could have a material adverse effect on the Group's performance and financial condition.

Risks relating to the Acquisition

The Group may be unable to realize the targeted synergies and other anticipated benefits of the Acquisition, which could adversely affect the value of the Ordinary Shares.

The success of the Acquisition will depend, in part, on the Group's ability to realize the anticipated benefits from combining the businesses of the Group and Magnesita, including, among others, expected capital expenditure synergies and working capital savings, as well as the expected strategic and other financial advantages of the Acquisition. The Group's targeted annual net run rate synergies from the Acquisition are based on numerous estimates and assumptions that are inherently uncertain and therefore subject to change, resulting from a large number of factors, such as the general macroeconomic, industry, legal, regulatory and tax environment, as well as changes to the Group's business strategy, development and investment plans, all of which are difficult to predict and many of which are beyond the Group's control. In particular, the targeted synergies are predicated upon the Group's ability to delist Magnesita from the Brazilian Stock Exchange, which requires at least two-thirds of the share capital held by Magnesita's free-float shareholders (the "**Free-Float Shareholders**", and the Magnesita shares held by them, the "**Free-Float Shares**") to approve a delisting offer following the Acquisition of Control. If a delisting cannot be achieved, the synergies will be significantly lower. As a result of the above factors, there can be no assurance that such synergies will be realized in the anticipated timeframe or at all.

Any failure to realize the synergies and benefits expected in connection with the Acquisition could have a material adverse effect on the Group's business, results of operations, financial condition and prospects, as well as the value of the Issuer's share price.

The Group may be unable to successfully integrate the operations of Magnesita.

The combination of two independent companies is a complex, costly and time-consuming process, and the Group will be required to devote significant management attention and resources to integrating the business practices and operations of RHI and Magnesita. The integration process may disrupt the business of the Group and, if implemented ineffectively, could preclude or delay realization of the benefits that management currently expects to result from the Acquisition. In addition, the overall integration of the companies may result in material unanticipated problems, expenses, liabilities, competitive responses, loss of customer relationships, and diversion of management's attention, and may cause RHI Magnesita's stock price to decline.

The challenges inherent in integrating the operations of RHI and Magnesita after the Acquisition of Control are likely to include, among other things:

- managing a significantly larger company;
- coordinating geographically separate organizations;
- the potential diversion of management focus and resources from other strategic opportunities;
- retaining existing customers and attracting new customers;
- maintaining employee morale and retaining key management and other key employees;
- integrating two presently distinct business cultures;
- consolidating corporate and administrative infrastructures and eliminating duplicative operations;
- integrating internal controls and compliance procedures;
- integrating information technology, communications and other systems;
- not achieving the expected synergies in time, if the Mandatory Offer and/or the Delisting Offer as defined below cannot be completed at the time when it is envisaged;
- reacting to unexpected results of measures intended to integrate the two companies and revising assumptions currently held by management that prove in the course of the integration to be incorrect; and
- managing cost overruns or delays that could occur in the course of the integration.

Many of these factors are outside of the Group's control and could result in increased costs, decreased revenues and diversion of management's time and energy, which could materially impact the Group's performance and financial condition. In addition, even if the operations of RHI and Magnesita are integrated successfully, the Group may not realize the full benefits of the Acquisition, including the synergies, cost savings or sales or growth opportunities that the parties expect. These benefits may not be achieved within the anticipated time frame, or at all. Any of these factors, if they realize, may have a material adverse effect on the Group's performance and financial condition.

The Group's business relationships may be subject to disruption due to uncertainty associated with the Acquisition.

RHI's and Magnesita's existing business relationships may be subject to disruption as a result of the Acquisition, as customers, distributors, suppliers, vendors and others may attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than the Group (as the successor to RHI and Magnesita). These disruptions could have an adverse effect on the businesses, financial condition, results of operations or prospects of the Group, including an adverse effect on the Group's ability to realize the anticipated benefits of the Acquisition.

The Group may have difficulty attracting, motivating and retaining executives and other key employees due to uncertainty associated with the Acquisition.

The Group's success after the Acquisition of Control will depend in part upon its ability to retain people who are currently key employees of RHI and Magnesita. Employee retention may be particularly challenging during the pendency of the Acquisition and the following integration of the Group, as employees may experience uncertainty about their future roles. If there is a departure of key employees during the pendency, or as a result, of the Acquisition, the integration of the companies could prove more difficult than anticipated, and the Group's business could be adversely affected. Furthermore, the Group may have to incur significant costs in identifying, hiring and retaining replacements for departing employees and may lose significant expertise and talent relating to the business, and the Group's ability to realize the anticipated benefits of the Acquisition may be adversely affected. In addition, there could be disruptions to or distractions for the workforce and management associated with activities of labor unions or works councils or the integration of employees into the Combined Group. Accordingly, no assurance can be given that any of the parties will be able to attract or retain its employees to the same extent that the Group will be able to retain employees, including key employees, or to attract new employees as successfully as it has in the past, or that the Group will have the benefit of the on-going employment of current employees of RHI and Magnesita following the Acquisition.

The Group may, in connection with the Acquisition, discover contingent or other liabilities within Magnesita or other facts of which the Group is not presently aware that could expose it to losses.

The success of the Acquisition depends in part on the Group's ability to perform adequate due diligence in relation to Magnesita. When conducting due diligence, the Group has relied on the resources available to it, including information provided by Magnesita and, in some circumstances, third-party investigations and analyses. While the Group has committed significant resources to conduct due diligence on Magnesita, it may not have identified all risks and liabilities associated with the Acquisition. This could lead to adverse accounting and financial consequences, such as the need to record significant provisions in respect of the acquired assets or to write down acquired assets. Any unexpected liabilities or other problems could have a material adverse impact on the Group's business, results of operations and financial condition.

Risks relating to the Ordinary Shares and Admission

The market price of the Ordinary Shares may fluctuate and may decline below the admission price, and trading in the Ordinary Shares may be very limited which might lead to holders not being able to sell their Ordinary Shares at a reasonable price or at all.

No assurances can be given that an active trading market for the Ordinary Shares will develop or, if developed, can be sustained or will be liquid following the Admission. Furthermore, the price of the Ordinary Shares at the commencement of trading on the London Stock Exchange's main market for listed securities is not necessarily indicative of the prices at which the Ordinary Shares will subsequently trade on the stock exchange. If an active trading market is not developed or maintained, the liquidity and trading price of the Ordinary Shares could be adversely affected.

Publicly traded securities, such as the Ordinary Shares from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them due to a number of factors, many of which are beyond the Group's control, including new government regulation, variations in operating results in the Group's reporting periods, changes in financial estimates by securities analysts, changes in market valuation of similar companies, announcements by the Group or its competitors of significant contracts, acquisitions, strategic alliances, joint ventures, capital commitments or new services, loss of major customers, additions or departures of key personnel, any shortfall in revenue or net income or any increase in losses from levels expected by securities analysts, future issues or sales of ordinary shares and stock market price and volume fluctuations. Any of these events could result in a material decline in the price of the Ordinary Shares.

Future offerings of equity or equity-linked securities by the Issuer or any of the Issuer's shareholders may adversely affect the market price of the Ordinary Shares and may dilute investors' shareholdings.

The Issuer's board of directors (the "**Board**") is, within certain limits, authorized to issue Ordinary Shares, grant rights to subscribe for Ordinary Shares and/or limit or exclude statutory pre-emptive rights in relation thereto. In addition, prior to the Merger taking effect, the Issuer's general meeting (being the corporate body, or where the context so requires, the physical meeting, the "**General Meeting**") will, subject to the Merger taking effect, have irrevocably authorized the Board to resolve to issue up to 10 million new Ordinary Shares to the sellers in the Acquisition of Control and to the remaining Magnesita shareholders in the Mandatory Offer or any Mandatory Offer combined with a delisting offer for the remaining Magnesita shareholders with the Ordinary Shares not taken up in such offer(s) to be placed with investors in one or more private placements and/or public offers, and to exclude all pre-emptive rights in relation thereto. This authorization is valid for a period of five years from the date of the resolutions. For further details on the issue of Ordinary Shares in the context of the Acquisition and additional authorizations of the Board to issue, or grant rights to subscribe for, Ordinary Shares, see "*Description of the share capital and the Articles of Association-Issuance of Ordinary Shares*". The equity interests of holders of the Ordinary Shares ("**Shareholders**") will be diluted to the extent that Ordinary Shares are issued pursuant to these authorizations and any additional rights allocated under the Group's share incentive scheme or a similar arrangement.

The Issuer may in the future seek to raise capital through public or private debt or equity financings by issuing additional Ordinary Shares, debt or equity securities convertible into Ordinary Shares, and exclude the pre-emptive rights pertaining to the then outstanding Ordinary Shares. In addition, the Issuer may in the future seek to issue additional Ordinary Shares as consideration for or otherwise in connection with the acquisition of new businesses. The issuance of any additional Shares may dilute an investor's shareholding interest in the Issuer. Furthermore, any additional debt or equity financing the Issuer may need may not be available on terms favorable to the Issuer or at all, which could adversely affect the Issuer's future plans and the market price of the Ordinary Shares. Any future offering or issuance of Ordinary Shares, or the perception that an offering or issuance might occur, could also have a negative impact on the market price of the Ordinary Shares and could increase the volatility in the market price of the Ordinary Shares.

The market price of the Ordinary Shares could further decline if substantial numbers of Ordinary Shares are sold by any of the Shareholders in the public market or if there is a perception that such sales could occur. Although certain of Magnesita's major shareholders have agreed not to sell any of their Ordinary Shares for a period of 12 months following the completion of the Acquisition of Control, such "lock-up" relates only to approximately 11% of the Ordinary Shares immediately following the Acquisition of Control.

The Group cannot make any assurance that it will pay cash dividends or make other distributions in the future

Since the Issuer does not itself conduct any operating business, its ability to pay cash dividends or make other distributions depends on its operating subsidiaries and associated companies making profits or having sufficient cash available for distribution or transfer to the Issuer and the Issuer having sufficient distributable reserves. Any decision as to whether to pay cash dividends or make other distributions (such as a return of capital or share premium distributions to shareholders) will depend upon a variety of factors, including the Group's cash flow, capital expenditure plans and other cash requirements existing at the time, covenants in the Group's financing arrangements and other considerations. Pursuant to the Issuer's articles of association as they will read at Admission (the "**Articles of Association**"), distributions may only be paid out of profits (including retained earnings) and distributable reserves (see "*Profit and Distributions*"). No assurance can be given that cash dividends or other distributions will be paid in the future.

Holders of Ordinary Shares outside the Netherlands may suffer dilution if they are unable to exercise pre-emptive rights in future offerings

In the event of an increase in the Issuer's share capital, Shareholders are generally entitled to full pre-emptive rights, unless these rights are limited or excluded either by a resolution of the General Meeting or by a resolution of the Board if the Board has been granted such authority by the General Meeting. Pursuant to a resolution of the General Meeting to be adopted prior to the Merger taking effect, the Board will, subject to the Merger taking effect, be irrevocably authorized to resolve to limit or exclude pre-emptive rights in connection with the issuance of Ordinary Shares or the granting of rights to subscribe for Ordinary Shares until the end of the next annual General Meeting or the date which falls 15 months from the Merger taking effect, whichever is earlier. However, certain Shareholders outside the Netherlands may not be able to exercise pre-emptive rights, and therefore suffer dilution, unless local securities laws have been complied with and the Issuer may not be able, or may choose not to take steps necessary, to make rights available for exercise by Shareholders outside the Netherlands and the UK in compliance with local laws.

In particular, Shareholders located in the United States would not be able to receive (or trade) or exercise their pre-emptive rights in respect of any issue of Ordinary Shares unless a registration statement under the Securities Act is effective with respect to such rights or an exemption from the registration requirements of the Securities Act is available. The Issuer does not plan to become a registrant under the U.S. securities laws. If U.S. holders of the Ordinary Shares are not able to receive (or trade) or exercise pre-emptive rights granted in respect of their shares in any pre-emptive offering by the Issuer or participation in a rights offer, as the case may be, then they may not receive the economic benefit of such rights or participation. In addition, their proportional ownership interests in the Issuer will be diluted.

The rights and responsibilities of Shareholders are governed by Dutch law and the Articles of Association, which differ in some respects from the rights and responsibilities of shareholders under Austrian law and the current constitutional documents of RHI.

The Issuer's corporate affairs are governed by its Articles of Association, the Board Rules (as defined in "*Management and Corporate Governance")* and the laws governing companies incorporated in the Netherlands. The rights of Shareholders and the responsibilities of members of the Board under Dutch law differ from the rights of shareholders and the responsibilities of a company's board of directors under Austrian law.

For example, the provisions of Dutch corporate law and the Articles of Association have the effect of concentrating control over certain corporate decisions and transactions in the hands of the Board. As a result, Shareholders may have less control over actions by members of the Board than if the Issuer were incorporated in Austria. Dutch law also requires that, in the performance of its duties, the Board will need to consider the interests of the Issuer and its business, its Shareholders, employees and other stakeholders, and it is possible that some of these parties will have interests that differ from, or are in addition to, the interests of the Shareholders. It may further be difficult for Shareholders who are not familiar with Dutch corporate law and market practice to exercise their shareholder rights due to foreign legal concepts, language and customs. Any action to contest any of the Company's corporate actions must be filed with, and will be reviewed by, a Dutch court, in accordance with Dutch law.

These aspects could have a material adverse effect on the value of the Ordinary Shares and could materially impact the rights of Shareholders. See "*Management and Corporate Governance*" for a summary of certain provisions in the Articles of Association regarding the Issuer's corporate bodies, management and corporate governance, "*Description of the Share Capital and the Articles of Association*" for a summary of certain other provisions of the Articles of Association, and "*Applicable Regulations*" for a summary of certain applicable Dutch and UK laws.

Investors with a reference currency other than the euro will become subject to foreign exchange rate risk when investing in the Ordinary Shares.

The Ordinary Shares are, and any dividends to be declared in respect of the Ordinary Shares will be, denominated in euro unless the Board determines in its sole discretion that payment shall be made in a different currency. An investment in the Ordinary Shares by an investor whose principal currency is not the euro exposes the investor to currency exchange rate risk that may impact the value of the investment in the Ordinary Shares or any dividends.

IMPORTANT INFORMATION

General

This Prospectus does not constitute an offer of securities by, or on behalf of, the Issuer or anyone else and has been prepared solely in connection with the Admission.

Prospective investors are expressly advised that an investment in the Ordinary Shares entails certain risks and therefore they should carefully review the entire content of this Prospectus. Furthermore, before making an investment decision with respect to any Ordinary Shares, prospective investors should consult their stockbroker, bank manager, lawyer, auditor or other financial, legal and tax advisers and carefully review the risks associated with an investment in the Ordinary Shares in light of their personal circumstances.

Prospective investors should rely only on the information contained in this Prospectus. The Issuer does not undertake to update this Prospectus, and potential investors should not assume that the information in this Prospectus is accurate as of any date other than the date of this Prospectus. No person is or has been authorized to give any information or to make any representation in connection with the Admission, other than as contained in this Prospectus, and, if given or made, any other such information or representations must not be relied upon as having been authorized by the Issuer, the members of the Board, Citigroup Global Markets Limited (the "**Sponsor**") or any of their respective representatives. Without prejudice to any obligation of the Issuer to publish a supplementary prospectus, the delivery of this Prospectus at any time after the date hereof will not, under any circumstances, create any implication that there has been no change in the Group's affairs since the date hereof or that the information set forth in this Prospectus is correct as of any other date.

Responsibility statement

This Prospectus is made available by the Issuer. The Issuer accepts responsibility for the information contained in this Prospectus. The Issuer declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Notice to investors

This Prospectus may not be used for and does not constitute an offer to sell, or the solicitation of an offer to buy, any of the Ordinary Shares or any other securities issued by the Issuer.

Distribution of this Prospectus may, in certain jurisdictions, be subject to specific regulations or restrictions. Persons in possession of this Prospectus are urged to inform themselves of any such restrictions which may apply in their jurisdiction and to observe them. Any failure to comply with these regulations or restrictions may constitute a violation of the securities laws of that jurisdiction. The Issuer disclaims all responsibility for any violation of such regulations or restrictions by any such person.

Forward-looking statements

This Prospectus contains forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts or events or to facts or events as at the date of this Prospectus. This applies, in particular, to statements in this Prospectus containing information on the Group's, RHI's and Magnesita's future earnings capacity, plans and expectations regarding its business growth and profitability, and the general economic conditions to which it is exposed. Statements made using words such as "predicts", "forecasts", "aims", "believes", "outlook", "estimates", "anticipates", "targets", "plans", "endeavors" or "expects" may be an indication of forward-looking statements.

The forward-looking statements in this Prospectus are subject to risks and uncertainties, as they relate to future events, and are based on estimates and assessments made to the best of the Issuer's present knowledge. These forward-looking statements are based on assumptions, uncertainties and other factors, the occurrence or non-occurrence of which could cause the Issuer's actual results, including the financial condition and profitability of the Group, to differ materially from or fail to meet the expectations expressed or implied in the forward-looking statements. These expressions can be found in several sections in this Prospectus, particularly in the sections entitled "*Risk Factors*", "*Operating and Financial Review of RHI*", "*Operating and Financial Review of Magnesita*", and "*Business of RHI*" and "*Business of Magnesita*", and wherever information is contained in this Prospectus regarding the Issuer's intentions, beliefs or current expectations relating to the Issuer's future financial condition and results of operations, plans, liquidity, business outlook, growth, strategy and profitability, as well as the economic and regulatory environment to which the Issuer and the Group are subject.

In light of these uncertainties and assumptions, it is also possible that the future events mentioned in this Prospectus might not occur. In addition, the forward-looking estimates and forecasts reproduced in this Prospectus from third-party reports could prove to be inaccurate (for more information on the third-party sources used in this Prospectus, see "*—Sources of market data*"). Actual results, performance or events may differ materially from those in such statements due to, among other reasons:

- adverse developments in worldwide economic conditions;
- the availability and cost of raw materials;
- the development and performance of the steel industry and the cement, lime, glass, non-ferrous metals, environmental, chemicals and energy industries;
- unexpected changes in market demand for refractory products and for the Combined Group's products in particular;
- significant pricing and margin pressure as a result of intense competition;
- increasing consolidation and concentration of customers;
- unusual changes in foreign exchange rates;
- legal, tax or regulatory disputes;
- legal or regulatory changes;
- the imposition or lifting of trade barriers; and
- unexpected difficulties with the Acquisition or with the integration of the Group and Magnesita.

By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. Prospective investors should not place undue reliance on forward-looking statements. In addition, even if the Issuer's results of operations, financial condition and liquidity, the development of the industry in which it operates and the effect of acquisitions on it are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

Moreover, it should be noted that none of the Issuer, the members of the Board, the Sponsor or any of their respective representatives assumes any obligation, except as required by law, to update any forward-looking statement or to conform any such statement to actual events or developments. See "*Risk Factors*", "*Refractory Industry & Regulatory Overview*", "*Business of RHI*", "*Business of Magnesita*", "*Profits and Distributions*", "*Operating and Financial Review of RHI*" and "*Operating and Financial Review of Magnesita*" for a more detailed discussion of the factors that could affect the Issuer's future performance and the industry in which it operates. New risks may emerge from time to time, and it is not possible for the Issuer to predict all such risks, or combination of risks and other factors, that may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, prospective investors should not rely on forward-looking statements as a prediction of actual performance or results.

Sources of market data

To the extent not otherwise indicated, the information contained in this Prospectus on the market environment, market developments, growth rates, market trends and competition in the markets in which the Group operates is based on management's assessments. These assessments, in turn, are based in part on observations of the market and on various market studies.

In addition to information that has been based on assessments by management, the following sources were used in the preparation of this Prospectus:

- World Steel Association, press release *World crude steel output increases by 0.8% in 2016* (January 25, 2017);
- European Automobile Manufacturers' Association, press release *Commercial vehicle registrations: +11.6% in 2016; +10.4% in December* (January 25, 2017); and
- Baker Hughes, Rig Count Data in *North America Rotary Rig Count Pivot Table (Feb 2011 - Current*) (August 25, 2017).

In particular, it should be noted that reference has been made in this Prospectus to information concerning markets and market trends. Information in relation to such markets and market trends was obtained from the above-mentioned market studies. The Issuer has accurately reproduced such information and, as far as it is aware and able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. For example, market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative.

Irrespective of the assumption of responsibility for the content of this Prospectus by the Issuer (see "—*Responsibility statement*"), the Issuer has not independently verified the figures, market data or other information on which third parties have based their studies. Accordingly, the Issuer makes no representation or warranty as to the accuracy of any such information from third-party studies included in this Prospectus. Prospective investors should also note that the Issuer's own estimates and statements of opinion and belief are not always based on studies of third parties.

Incorporation by reference

The Articles of Association (the official Dutch version and an English translation thereof) are incorporated into, and form part of, this Prospectus and can be obtained free of charge on the Issuer's website set up for purposes of this Prospectus (prospectus.rhimagnesita.com). Other than the Articles of Association, nothing is incorporated by reference into this Prospectus.

No incorporation of websites

Investors should only rely on the information that is provided in this Prospectus or incorporated by reference herein as noted above under "—*Incorporation by reference*". No other documents or information form part of, or are incorporated by reference into, this Prospectus. In particular, but without limitation, none of the information presented on or contained in the Issuer's website (www.rhimagnesita.com), Magnesita's website (www.magnesita.com), or any website accessible via hyperlinks on these websites. These website addresses are an inactive text reference and are not intended to be actual links to the websites.

Definitions

Defined terms are used in this Prospectus. Certain of these terms are listed and explained under "Glossary / Definitions".

PRESENTATION OF FINANCIAL INFORMATION

General

The Issuer was incorporated on June 20, 2017 for the purpose of effecting the Merger and the Acquisition. The Issuer does not have any material assets, liabilities or operations at the date of this Prospectus. Therefore, financial statements of the Issuer are not included in this Prospectus since such financial statements would not reflect the business operations of the Combined Group as defined below.

Therefore, the Issuer's management is of the view that the financial statements of the RHI Group and the Magnesita Group as of and for the periods incorporated herein provide the information required to be presented in accordance with Item 20.1 of Annex I of Commission Regulation (EC) No 809/2004 and pursuant to the Dutch Financial Supervision Act, which is designed to ensure that investors and potential investors in the Ordinary Shares are aware of all information that, according to the particular nature of the RHI Group, the Magnesita Group and of the Ordinary Shares, is necessary to enable investors and potential investors to make an informed assessment of the assets and liabilities, financial position, profit and losses, and prospects of the Issuer and of the rights attaching to the Ordinary Shares.

This Prospectus contains audited financial information for each of the RHI Group and the Magnesita Group, as outlined below under "*—The RHI Group*" and "*—The Magnesita Group*", respectively.

In addition, since RHI, as the Issuer's legal predecessor, has entered into a binding agreement to undertake a transaction (the Acquisition of Control) which, on completion, will give rise to a difference of more than 25% to its revenue and assets, this Prospectus contains certain pro-forma financial information for the periods indicated, see "*Pro Forma Financial Information*".

Upon the Merger becoming effective and the completion of the Acquisition of Control, the Issuer will become the new holding company of the Group. For the periods covered by the financial information in this Prospectus: (i) the business activities of the Combined Group have been conducted by RHI Group and Magnesita Group, respectively; and (ii) the Issuer was not engaged in any business activities. Therefore, the omission of the Issuer from the discussion has no material effect on the information presented in this Prospectus.

References in this Prospectus to the "**Group**" which relate to matters occurring prior to the effective date of the Merger and completion of the Acquisition of Control are to RHI and its consolidated subsidiaries and subsidiary undertakings from time to time (also referred to as the "**RHI Group**"), and references to the "Group" which relate to matters occurring after the effective date of the Merger and the completion of the Acquisition of Control relate to the Issuer and its consolidated subsidiaries and subsidiary undertakings from time to time, including Magnesita.

References to the "**Combined Group**" are to the Group after giving effect to the Merger and the Acquisition of Control and which are in particular forward-looking, e.g. in the description of the rationale for the Acquisition of Control or the strategy for the Combined Group.

The RHI Group

RHI has prepared German language audited consolidated financial statements as of and for the years ended December 31, 2016, 2015 and 2014 (English translations thereof, the "**RHI Consolidated Annual Financial Statements**") in accordance with International Financial Reporting Standards, as adopted by the European Union ("**EU-IFRS**"), and the additional requirements of § 245a of the Austrian Commercial Code (*Unternehmensgesetzbuch*).

In addition, RHI has prepared German language audited consolidated interim financial statements for the six-month period ended June 30, 2017 including comparative information as of and for the six-month period ended June 30, 2016 (English translations thereof, the "**RHI Consolidated Interim Financial Statements**" and together with the RHI Consolidated Annual Financial Statements, the "**RHI Financial Statements**"). The RHI Consolidated Interim Financial Statements were prepared in accordance with EU-IFRS.

The German language RHI Consolidated Annual Financial Statements as of and for the years ended December 31, 2014 and 2015 have been audited by Deloitte Audit Wirtschaftsprüfungs GmbH, Renngasse 1, 1010 Vienna, Austria ("**Deloitte**") in accordance with Austrian Standards on Auditing, which require the application of International Standards on Auditing (ISA). Deloitte is registered with the Austrian chamber of certified public accountants and tax consultants (*Kammer der Wirtschaftstreuhänder*).

The German language RHI Consolidated Annual Financial Statements as of and for the year ended December 31, 2016 and the German language RHI Consolidated Interim Financial Statements as of and for the six-month period ended June 30, 2017 have been audited by PwC Wirtschaftsprüfung GmbH, Erdbergstraße 200, 1030 Vienna, Austria in accordance with Austrian generally accepted auditing standards, which require the application of International Standards on Auditing (ISA). PwC Wirtschaftsprüfung GmbH is registered with the Austrian chamber of certified public accountants and tax consultants (*Kammer der Wirtschaftstreuhänder*).

The RHI Financial Statements are included in this Prospectus from page F-2 to page F-338.

The Magnesita Group

Magnesita has prepared audited consolidated historical financial information for the years ended December 31, 2016, 2015 and 2014 (the "**Magnesita Consolidated Historical Financial Information**") in accordance with EU-IFRS.

In addition, Magnesita has prepared audited special purpose consolidated interim financial information for the six-month period ended June 30, 2017 (the "**Magnesita Special Purpose Consolidated Interim Financial Information**" and together with the Magnesita Consolidated Historical Financial Information, the "**Magnesita Financial Information**") in accordance with EU-IFRS.

The Magnesita Financial Information included in this Prospectus was prepared for the purpose of this Prospectus in order to conform the financial reporting standards and accounting policies of Magnesita to those of RHI.

The Magnesita Consolidated Historical Financial Information has been reported on by ERNST & YOUNG Auditores Independentes S.S., Rua Antônio de Albuquerque, 156 - 11ºandar, Belo Horizonte, Brazil 30112-010 in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. ERNST & YOUNG Auditores Independentes S.S., are registered under number CRC2SP015199/O-6 with the Regional Accounting Council of the State of São Paulo (*Conselho Regional de Contabilidade do Estado de São Paulo – CRC-SP*), an accounting professional body and has given and has not, prior to publication, withdrawn its consent to the inclusion of its report in the form and context in which it appears.

The Magnesita Special Purpose Consolidated Interim Financial Information has been reported on and audited by PricewaterhouseCoopers Auditores Independentes, Rua dos Inconfidentes, 911 - 17th e 18th floors, 30140-128 - Belo Horizonte/MG – Brazil. PricewaterhouseCoopers Auditores Independentes are registered with the Federal Council of Accounting / Conselho Federal de Contablidade.

The Magnesita Financial Information is included from page F-339 to page F-455.

The original financial statements published by Magnesita were prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) while the Magnesita Financial

Information as included in this Prospectus was prepared in accordance with EU-IFRS. In connection with preparation of the Magnesita Financial Information no significant difference was identified in the application of EU-IFRS compared to the application of IFRS as issued by the International Accounting Standards Board. The differences between the original financial statements published by Magnesita and the Magnesita Financial Information relate to the alignment of Magnesita's accounting policy on investment property to the Issuer's respective accounting policy.

Pro Forma Financial Information

This Prospectus includes the following unaudited pro forma financial information: (i) unaudited pro forma statement of net assets which has been prepared to illustrate the effect of the Acquisition as if it had taken place on June 30, 2017, (ii) unaudited consolidated pro forma income statements for the year ended December 31, 2016 prepared to illustrate the impact of the Acquisition as if it had taken place on January 1, 2016 and (iii) unaudited consolidated pro forma income statements for the six months ended June 30, 2017 have been prepared to illustrate the impact of the Acquisition as if it had taken place on January 1, 2017 (together the "**Pro Forma Financial Information**").

The unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not reflect the actual financial position or the financial performance of the Issuer as at any historical date, nor does it project the future financial position or financial performance of the Issuer. The unaudited pro forma financial information has been prepared consistently with the RHI consolidated financial statements for the year ended December 31, 2016. The Pro Forma Financial Information should be read in conjunction with the RHI Financial Statements and the Magnesita Financial Information.

Currency presentation, presentation of figures and presentation of other information

In this Prospectus, "**euro**" and "**EUR**" refer to the single European currency adopted by certain participating member states of the European Union, "**Brazilian real**" and "**BRL**" refer to the currency of Brazil and "**U.S. dollar**" and "**USD**" refer to the currency of the United States of America.

The percentage changes that are stated in the text and the tables have been commercially rounded to one decimal point unless stated otherwise. With respect to financial data set out in the main body of this Prospectus, "-" signifies that the relevant figure is not available, while a zero ("0") signifies that the relevant figure is available but is or has been rounded to zero.

Segment reporting

RHI's segments are referred to as divisions. The Steel Division, the Industrial Division and the Raw Materials Division are the RHI Group's operating segments in accordance with IFRS 8.

Magnesita's operating segments in accordance with IFRS 8 are the Refractory Products, Minerals and Services business lines.

Segment reporting of RHI and Magnesita as presented in this Prospectus is not fully comparable and the following differences should be considered:

- RHI's Raw Materials Division includes internal sales to the Steel Division and the Industrial Division and accordingly the Raw Materials Division's revenues are split into internal and external revenues. On the other hand, Magnesita's Minerals segment includes exclusively sales to third parties.
- Due to internal revenues between RHI's segments an elimination of intra-Group transactions is required to calculate Group results. Such elimination is not required for Magnesita's segments as there are no transactions between Magnesita's segments.

- RHI's segments other than the Raw Materials Division are based on the branch of its customers. The Steel Division includes sales to customers from the steel industry while the Industrial Division includes sales to all other industries. This segmentation is also based on different product requirements between the steel industry and other industries. Magnesita's segments, in contrast, other than its Minerals segment are based on the value delivered by Magnesita. While the Refractory Products segment includes all sales of refractory products produced by Magnesita, its Services segment includes services provided by Magnesita.

Rounding adjustments

As is customary in accounting, some numerical figures (including percentages) in this Prospectus have been commercially rounded for the ease of presentation. As a result, figures shown as totals in some tables may not be the exact arithmetic aggregation of the rounded figures that precede them. Percentages cited in the text, however, were calculated using the actual values rather than the rounded values. Accordingly, in certain cases it is possible that the percentages in the text differ from percentages based on the rounded values.

Non-IFRS Measures

This Prospectus contains the following financial measures that are not defined or recognized under IFRS (the "**non-IFRS measures**"):

RHI Non-IFRS Measures

- "**EBITDA**" represents EBIT, adjusted for depreciation and amortization charges, impairment losses of property, plant and equipment and intangible assets, and income from the reversal of investment subsidies.

- "**ROACE**" is the return on average capital employed. ROACE is calculated by dividing EBIT (less income tax) by average capital employed, which is the sum of average property, plant and equipment, goodwill and other intangible assets and net current assets.

Magnesita Non-IFRS Measures

- "**EBITDA**" represents operating profit/loss before financial income/expenses (EBIT), adjusted for depreciation and amortization.

- "**Adjusted EBITDA**" represents EBITDA adjusted for other operating income and expenses, net (which include impairments).

These measures and other information are provided in this Prospectus because the Group believes they provide investors with additional information to measure the economic performance of business activities. For a reconciliation of RHI's EBITDA to its EBIT and for calculation of ROACE, please see "*Selected Consolidated Financial Data of RHI*". For a reconciliation of Magnesita's EBITDA and Adjusted EBITDA to its operating profit (loss) before financial income (expenses), please, see "*Selected Consolidated Financial Data of Magnesita*". It should be noted that RHI's calculation of EBITDA is not fully comparable with Magnesita's calculation of EBITDA, in that EBITDA as calculated by RHI is before impairments (impairments are excluded in EBITDA) while EBITDA as calculated by Magnesita is after impairments (impairments are included in EBITDA, but are not included in Adjusted EBITDA). EBITDA of RHI and Adjusted EBITDA of Magnesita are also not fully comparable because Adjusted EBITDA of Magnesita is adjusted to exclude other operating income and expenses, while no such adjustment is made in the calculation of RHI's EBITDA.

Non-IFRS measures are not recognized terms under IFRS and should not be considered as an alternative to the applicable IFRS measures. These non-IFRS measures are not audited (unless otherwise indicated) and are not measures of financial performance under IFRS and should not be considered as a replacement for any IFRS financial measure. Moreover, such measures, as defined by the Group, may not be comparable to other similarly titled measures used by other companies, because the above-mentioned non-IFRS measures are not defined under IFRS; other companies may calculate them in a different manner than the Group, which limits their usefulness as comparative measures. These non-IFRS measures have limitations and should not be considered in isolation, or as substitutes for financial information as reported under IFRS. Accordingly, undue reliance should not be placed on the non-IFRS measures presented in this Prospectus.

Exchange rates

The Magnesita Financial Information was prepared in Brazilian real.

The following table sets forth the high, low, period average and period end Bloomberg Composite Rate of Brazilian real per euro in effect for the period noted. The Bloomberg Composite Rate is a "best market" calculation in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. The rates may differ from the actual rates used in the preparation of the Magnesita Financial Information and other financial information appearing in this Prospectus. The Issuer makes no representation that any amount of currencies specified in the table below has been, or could be, converted into euro at the rates indicated or any other rate.

The period average for a year means the average of the Bloomberg Composite Rates on the last day of each month during a year. The period average for a month, or for any shorter period, means the average of the daily Bloomberg Composite Rates during that month, or shorter period, as the case may be.

On October 13, 2017, the exchange rate was BRL 3.72 per euro.

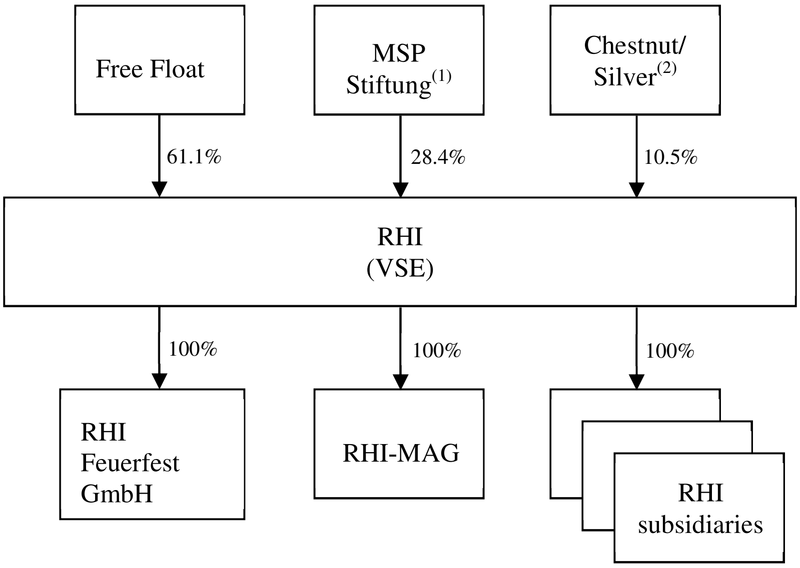
Period	High	Low	Period average	Period end
	(BRL per euro)			
Year ended				
2012	2.78	2.26	2.51	2.71
2013	3.27	2.53	2.87	3.25
2014	3.42	2.90	3.12	3.22
2015	4.67	2.90	3.70	4.30
2016	4.53	3.39	3.85	3.43
Month ended				
April 2017	3.46	3.30	3.36	3.46
May 2017	3.75	3.41	3.54	3.64
June 2017	3.78	3.64	3.71	3.78
July 2017	3.78	3.63	3.69	3.70
August 2017	3.79	3.68	3.73	3.75
September 2017	3.76	3.69	3.73	3.74
October 2017 (to October 13)	3.77	3.69	3.72	3.72

(Source: Bloomberg.)

DESCRIPTION OF THE ACQUISITION AND THE RESTRUCTURING

Situation prior to the Acquisition of Control and the Restructuring

The chart below illustrates the RHI Group and its shareholder structure before the implementation of the Acquisition of Control and the Restructuring (as defined below):



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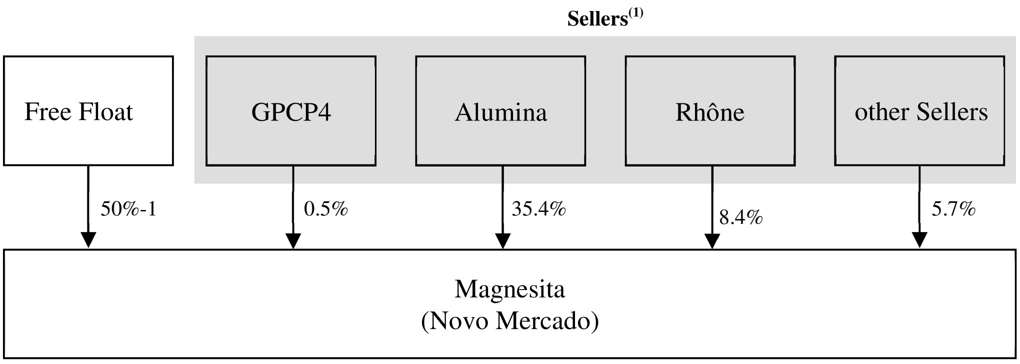
(1) MSP Stiftung is a foundation under Liechtenstein law, whose founder is Mag. Martin Schlaff. Mr. Schlaff has certain supervisory rights and the right to unilaterally amend the foundation documents with respect to MSP Stiftung. Upon completion of the Merger MSP Stiftung directly and Mr. Schlaff indirectly (via MSP Stiftung) will hold 11,347,058 voting rights in RHI AG.

(2) Ms. Elisabeth Prinzessin zu Sayn-Wittgenstein holds a controlling interest in Chestnut Beteiligungsgesellschaft mbH ("**Chestnut**"), while Mr. Konstantin Alfred Winterstein exercises control over Silver Beteiligungsgesellschaft mbH ("**Silver**"). Ms. Sayn-Wittgenstein made an agreement with Mr. Winterstein which allows Chestnut to exercise the voting rights of Silver in RHI. Ms. Sayn-Wittgenstein and Mr. Winterstein share a family relationship.

The chart below illustrates the Magnesita Group and its shareholder structure before the implementation of the Acquisition of Control and the Merger:



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(1) The sellers of 50% plus one share of the issued and outstanding share capital of Magnesita, i.e. Alumina Holdings LLC, GPCP4 Fundo de Investmento em Partic., Rearden L. Holdings 3 S.À R.L. and members of the board of directors of Magnesita (including Octavio Lopes, the Issuer's CFO) and other individuals and investment funds which have acceded to the share purchase agreement.

The Acquisition

Share Purchase Agreement and Acquisition of Control

On October 5, 2016 (and as amended by further agreement on November 3, 2016), RHI and its indirect, wholly-owned subsidiary Dutch Brasil Holding B.V. ("**Dutch Brasil Holding**"), on the one hand, and Alumina Holdings LLC ("**Alumina**"), the largest shareholder of Magnesita and the vehicle through which funds managed by subsidiaries of GP Investments Limited, a corporation listed on the Luxembourg Stock Exchange ("**GP Investments**") hold their participation in Magnesita, GPCP4 Fundo de Investmento em Partic., a fund also managed by subsidiaries of GP Investments ("**GPCP4**"), Rearden L. Holdings 3 S.À R.L. ("**Rhône**") and members of the board of directors of Magnesita (including Octavio Lopes, the Issuer's CFO) and other individuals and investment funds which have acceded to the share purchase agreement (together with Alumina, GPCP4 and Rhône the "**Sellers**"), on the other hand, entered into a share purchase agreement (the "**SPA**") for the sale by the Sellers to Dutch Brasil Holding of 50% plus one share of the issued and outstanding share capital of Magnesita (the "**Acquisition of Control**"; the Acquisition of Control, the Mandatory Offer and any subsequent Delisting Offer (as defined below) with respect to Magnesita, together the "**Acquisition**").

The purchase price for one Magnesita share under the SPA was fixed at EUR 8.19 (rounded), representing a total purchase price of EUR 430.9 million for all Magnesita shares outstanding at the time the SPA was concluded; as a result of subsequent repurchases and cancellation of some of these shares by Magnesita, the number of Magnesita shares issued and outstanding has decreased to 50,040.481 and accordingly the total purchase price also decreased to EUR 409,684,071 (the "**Total Purchase Price**").

Upon the Acquisition of Control, the Sellers will transfer to RHI Magnesita 25,020,242 Magnesita shares, being 50% plus one share of the total number of Magnesita shares issued and outstanding at that time. The purchase price for the Acquisition of Control amounts to EUR 204,842,035 (half of the Total Purchase Price) and will be paid in the form of 5,000,000 newly issued Ordinary Shares (valued for these purposes at a fixed pre-agreed value of EUR 17.50 per share) and EUR 117,342,035 in cash. For more details on the determination of the purchase price see "*Business of RHI—Material contracts*".

The closing of the Acquisition of Control is expected to occur on October 26, 2017, and Admission is expected to occur on October 27, 2017. The Issuer intends to apply for the Ordinary Shares to be admitted to trading on the Third Market, a multilateral trading facility operated by the Vienna Stock Exchange.

Takeover and delisting of Magnesita

Once the Acquisition of Control has completed, the Issuer is required – in accordance with the SPA, Brazilian law and the provisions of the Novo Mercado segment of the Brazilian Stock Exchange in São Paulo ("**Novo Mercado**") – to make a mandatory public offer in Brazil which must be addressed to all remaining Magnesita shareholders and must be an offer to acquire all of their Magnesita shares (the "**Mandatory Offer**").

The Mandatory Offer is required to be made on the same terms and conditions as those made available to the Sellers under the SPA, including as to purchase price and form of consideration. Accordingly, the remaining Magnesita shareholders will be offered a mix of cash and Ordinary Shares in the same proportions as paid to the Sellers under the SPA. They will also be offered a cash-only alternative equal to EUR 8.19 per Magnesita share. The Mandatory Offer is expected to be launched in 2018.

Under applicable Brazilian law and stock exchange rules, the Issuer may combine the Mandatory Offer with a so-called "delisting tender offer" pursuant to which the Issuer offers consideration reflecting the fair value per share (as supported by an independent appraisal report) to the remaining Magnesita shareholders, excluding controlling shareholders and certain insiders, for their shares (the

"**Delisting Offer**" and, if the Delisting Offer is combined with the Mandatory Offer, the "**Integrated Offer**"). The Delisting Offer, whether on a stand-alone basis or as part of an Integrated Offer, is a requirement to delist the Magnesita shares from Novo Mercado and the São Paulo Stock Exchange, and will be deemed to be successfully approved only if at least two-thirds of the remaining Magnesita shareholders who are registered to participate in the offer either tender their shares or otherwise expressly agree with the delisting. For a description of the risks involved with not achieving the delisting see *"Risk factors—Risks relating to the Acquisition—The Group may be unable to realize the targeted synergies and other anticipated benefits of the Acquisition, which could adversely affect the value of the Ordinary Shares*".

The Issuer intends to launch an Integrated Offer through Dutch Brasil Holding to all shareholders of Magnesita with a mix of cash and Ordinary Shares in the same proportions as paid to the Sellers under the SPA and a cash-only alternative equal to EUR 8.19 per Magnesita share to the extent and after having been confirmed to be fair by an independent appraiser selected by Magnesita's general meeting. The Integrated Offer will be extended to U.S. Qualified Institutional Buyers, as defined in Rule 144A under the U.S. Securities Act of 1933, also referred to herein as "**QIBs**"; U.S. investors who do not qualify as QIBs will be excluded. The Integrated Offer will not provide for the issuance of a Brazilian Depositary Receipt program or for a sales facility for the immediate sale of Ordinary Shares received by accepting Magnesita shareholders. Magnesita shareholders will be offered Depositary Interests in the Issuer and therefore, if wishing to accept the mix of cash and Ordinary Shares, will have to designate a CREST account to which the Depositary Interest can be distributed through CREST. If Magnesita shareholders fail to designate a valid CREST account before the deadline, such shareholder will not be able to opt for the mix of cash and Ordinary Shares. The final structure of the Integrated Offer will depend on further discussions with CVM, the Brazilian Securities and Exchange Commission (*Comissão de Valores Mobiliários*) following official filing of the Integrated Offer proposal.

Possible further issuance of Ordinary Shares

If and to the extent the number of Magnesita shareholders electing to receive cash-only consideration under the Mandatory Offer or Integrated Offer, as applicable, results in less than 5,000,000 additional Ordinary Shares being taken up by the remaining Magnesita shareholders, the Issuer may decide to place with investors in one or more private placements and/or public offers an aggregate number of Ordinary Shares up to the difference between the 5,000,000 additional Ordinary Shares and the actual number of Ordinary Shares so taken up by the remaining Magnesita shareholders, and to exclude all pre-emptive rights in relation thereto.

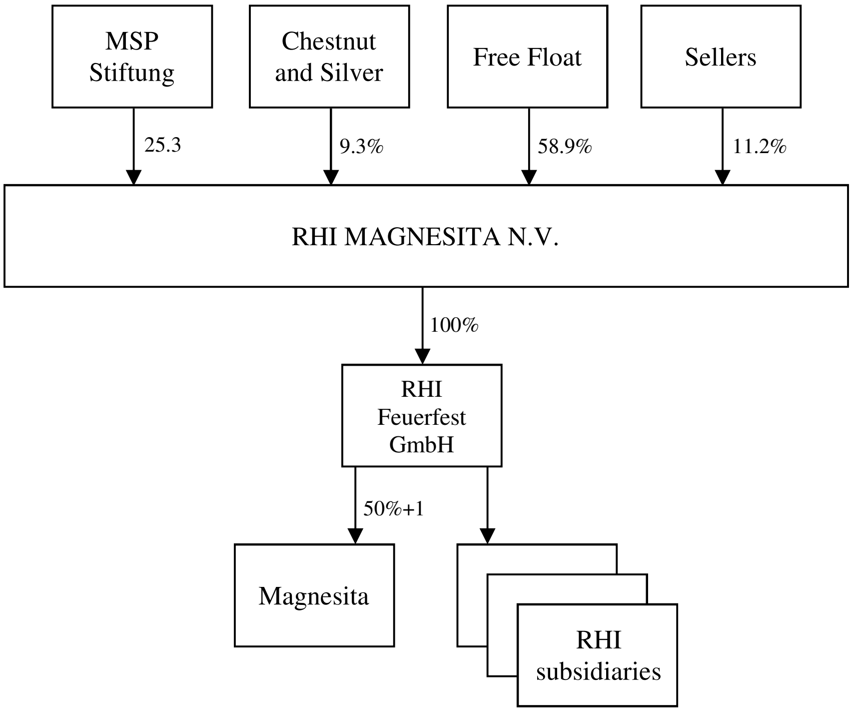
Lock-up arrangements

The Sellers have agreed that for a period of 12 months with respect to Ordinary Shares received as consideration in the Acquisition of Control following completion of the Acquisition of Control, they will not dispose of, nor agree or announce any intention to agree or dispose of, any of the Ordinary Shares so acquired by them, and the Sellers have agreed to procure, to the extent applicable and insofar as it is reasonable able to do so, that their affiliates adhere to the same restrictions. The Issuer may, in its sole discretion and at any time without prior public notice, waive these restrictions.

Ordinary Shares offered to Magnesita shareholders in the course of a Mandatory Offer or an Integrated Offer will not be subject to a lock-up.

The Restructuring

As a condition precedent under the SPA, RHI is required to carry out a restructuring which consists of a demerger and, subsequently, the Merger (the "**Restructuring**"). The chart below illustrates RHI Magnesita and its shareholder structure after the Demerger (as defined below) and the Merger, but before the Mandatory Offer, and assumes that 5,000,000 Ordinary Shares will be issued to the Sellers in the Acquisition of Control. Pursuant to the issuance of these 5,000,000 Ordinary Shares as part of the Acquisition of Control, the Issuer's shareholders immediately following the Merger taking effect will experience a 11.2% dilution.



The Demerger

Prior to the Merger, RHI will have transferred (by way of universal succession from RHI as the transferring company to RHI Feuerfest GmbH as the acquiring company under applicable Austrian law) substantially all of its business operations to RHI Feuerfest GmbH, an Austrian limited liability company that is an indirect, wholly-owned subsidiary of RHI (such transfer, the "**Demerger**").

The Merger

Following the Demerger, the Merger will take place, in which RHI will merge with and into the Issuer, as a result of which the Issuer will become the universal successor of RHI, and RHI will cease to exist. As a result of the Merger, each RHI shareholder (except for shareholders who have exercised their withdrawal rights, as described below) will receive one Ordinary Share for each RHI Share. At the time the Merger takes legal effect, the Issuer will accede to the SPA by operation of law.

Share swap

When the Merger takes legal effect, RHI will cease to exist without being liquidated – no separate resolution for the winding-up of RHI is required – and the listing of RHI on the Official Market of the Vienna Stock Exchange will be terminated by operation of law. Persons who hold RHI Shares at the end of the business day preceding the day on which the Merger takes legal effect and who have not elected for Cash Compensation (as defined and described below) will receive one Ordinary Share for each RHI Share they hold. The last trading day on which RHI Shares can be traded on the Vienna Stock Exchange (the "**Record Date**") is expected to be on October 25, 2017. RHI will determine such Record Date and will publish the Record Date via ad-hoc-announcement at least five bank working days before such date. Matched trades not settled on the Record Date will be transformed for settlement in Ordinary Shares. Claims for the delivery of RHI Shares will be transformed into claims for the delivery of Ordinary Shares and will be settled in Ordinary Shares. Trades not matched on the Record Date will not be settled and therefore not be transformed for settlement in Ordinary Shares and would need to be repeated after the Merger takes legal effect.

Cash settlement of withdrawal shareholders

Shareholders holding 6,300 RHI Shares (the "**Withdrawal Shareholders**") have validly exercised their right under Austrian corporate law not to retain Ordinary Shares following the effectiveness of the Merger and instead to receive cash compensation of EUR 26.50 per RHI Share (the "**Cash Compensation**"). The total minimum Cash Compensation payable to Withdrawal Shareholders therefore amounts to EUR 166,950 and the Issuer has, as required by applicable law, placed such amount into escrow.

On the effectiveness of the Merger, the Ordinary Shares to which Withdrawal Shareholders would otherwise have been entitled ("**Withdrawal Shares**") will instead be held by an escrow agent on their behalf and will then be placed with qualified investors in a private transaction. The Group has engaged Raiffeisen Centrobank AG to conduct such placement. All the proceeds of such placement will be for the account of the Withdrawal Shareholders – neither the Issuer nor any member of the Group will be entitled to any of the proceeds of any such placement. Should the price per Withdrawal Share realized in such placement exceed the Cash Compensation, the Withdrawal Shareholders will be compensated with such higher price. Should the price per Withdrawal Share realized in such placement be less than the Cash Compensation, the Issuer will itself compensate the Withdrawal Shareholders for the difference from the amount held in escrow referred to in the preceding paragraph.

RHI Hypothetical Valuation

RHI does not as a matter of course make public forecasts as to future performance, revenues, earnings or other results due to the unpredictability and uncertainty of the underlying assumptions and estimates.

In connection with the Merger, however, Austrian law required RHI, in order to substantiate its determination of the cash value per share payable to Withdrawal Shareholders, to state the basis for a hypothetical valuation of RHI. This hypothetical valuation (the "**RHI Hypothetical Valuation**"), which was included in the merger report published in connection with the Merger in June 2017, reflects estimations by RHI's management of what RHI's revenue, EBIT margin and EBITDA margin would be for the years 2017 to 2021.

As required by law, these estimations treat RHI on a stand-alone basis, without giving effect to, and as if RHI had never contemplated, the Acquisition of Control, including disregarding the impact of negotiating or executing the Acquisition of Control, the expenses incurred in connection with consummating the Acquisition of Control, the potential synergies that may be achieved as a result of the Acquisition of Control and the effect of any business or strategic decision or action that has been or will be taken as a result of the Acquisition of Control.

As the RHI Hypothetical Valuation does not take into account the Acquisition of Control, it does not reflect a large part of the Issuer's business. In addition, the RHI Hypothetical Valuation:

- has not been audited, reviewed or reported on;
- was prepared on a hypothetical basis that does not relate to or reflect the views of RHI's management regarding the business plans, strategies or expectations of RHI, the Issuer or the Group;
- took into account numerous variables and assumptions that are inherently uncertain and may be beyond the control of RHI's management; and
- was not and is not an indication or a reflection of actual, expected or forecast future results of RHI, the Issuer or the Group.

Important factors that may affect the actual results of the Issuer and Group include, but are not limited to, risks and uncertainties relating to the Group's business (including its ability to achieve strategic goals, objectives and targets over applicable periods), industry performance, general business and economic conditions, see "*Risk Factors*".

For all the reasons stated above, persons in possession of this Prospectus should disregard the RHI Hypothetical Valuation when reading this Prospectus. To the extent the RHI Hypothetical Valuation constitutes or is deemed to constitute a profit forecast within the meaning of Commission Regulation (EC) 809/2004 (Prospectus Regulation), such profit forecast is hereby withdrawn.

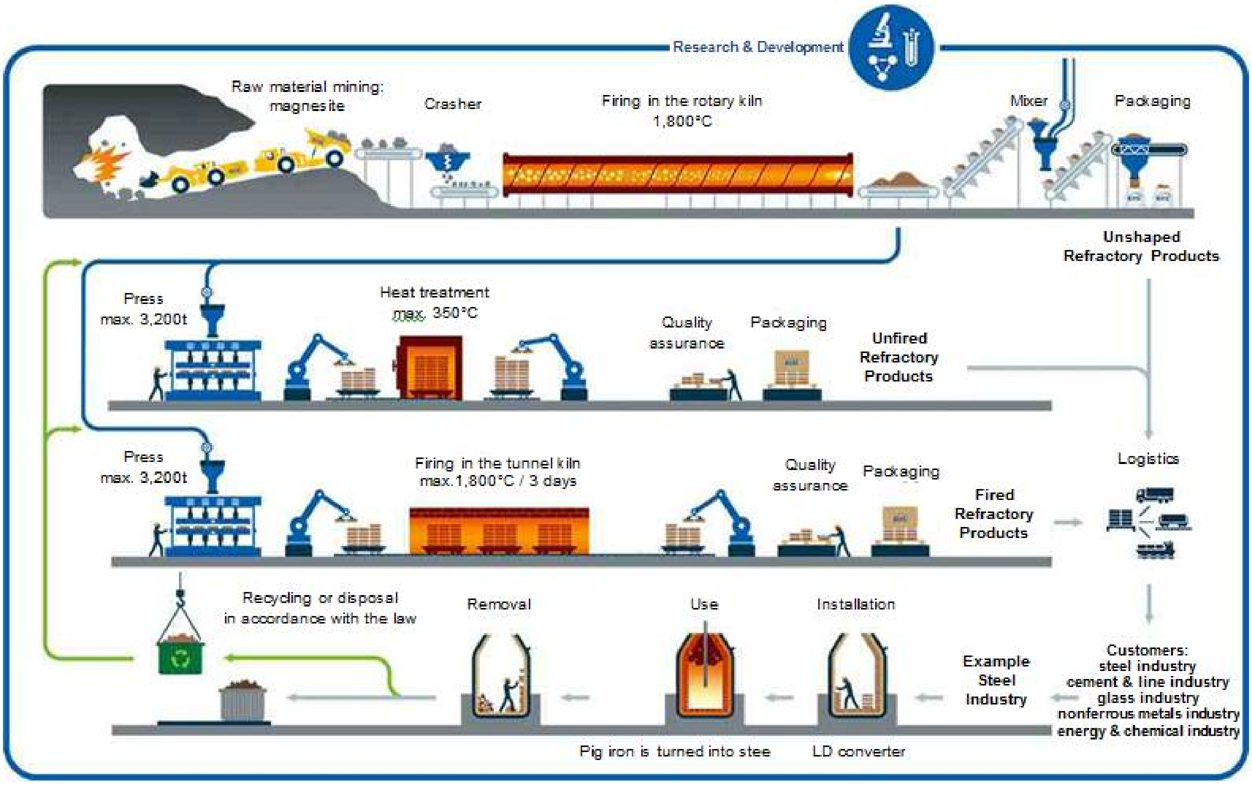
EXPECTED TIMETABLE OF PRINCIPAL EVENTS

The following table sets out the expected timetable of the principal events relating to the Merger, the Acquisition of Control and the Admission following the date of this Prospectus. All references to times in this Prospectus are to London time unless otherwise stated. Dates are indicative and may be subject to change. The timetable should be read in conjunction with the more detailed descriptions of the Acquisition of Control and the Restructuring contained in this Prospectus. See "*Description of the Acquisition and the Restructuring*".

Date	**Time**	**Event**
October 25, 2017		The Record Date
October 26, 2017	00:00 am	Effectiveness of the Merger; issuance of Ordinary Shares
October 27, 2017	08:00 am	Ordinary Shares issued as part of the Merger and of the Acquisition of Control admitted to listing on London Stock Exchange (Admission)

Production of refractory materials

Refractories are materials with physical and chemical properties that remain stable at high temperatures (some can resist up to 2,000° Celsius), and are indispensable for industrial high temperature processes. They are consumed in the ongoing production of steel, cement, ferroalloys and non-ferrous metals, among other industrial applications, and retain their physical and chemical properties in industrial furnaces, kilns, incinerators and reactors, without melting, retracting or deforming.



(Source: Internal data.)

The typical value chain in the production of refractory materials comprises the following main processes and activities:

Mining and seawater extraction

The production of refractories begins with the mining process by which the necessary raw materials are extracted from the earth. The primary raw materials that are used to produce refractory products are magnesite, dolomite and alumina.

RHI mines magnesite and dolomite at five locations in Austria, Italy and Turkey. In above ground exploration, the raw material is extracted in open-cut mining following a terrace pattern by means of drilling and blasting. In underground mining, magnesite is excavated at different levels of the pit by means of drilling and blasting. Magnesita has its own magnesite and dolomite quarries which contain high-quality reserves and are accessed using standard quarrying methods.

After extraction, raw materials which are determined to have sufficient quality for use in refractories are separated from the other materials extracted in the mining process and sent to the kilns for sintering. Non-refractory grade minerals are generally sold to third parties for other uses.

In both Drogheda, Ireland, and Porsgrunn, Norway, RHI pursues an alternative method of extracting raw materials from seawater. In this production method, the magnesium chloride ($MgCl_2$) contained in seawater is converted into magnesium hydroxide and calcium chloride in a reactor using hydrated lime. The magnesium hydroxide settles in a sedimentation basin and is then dehydrated in filter systems and presses. It is heat-treated to turn it into caustic magnesia, which is then fired to become caustic calcined or sintered magnesia, which, through further processing, are turned into deadburned magnesia or fused magnesia. This process in use both in Drogheda and Porsgrunn requires more energy than the treatment of magnesite ore due to the two-stage procedure, but enables higher raw material qualities.

Sintering, caustering and melting and further processing

In sintering, caustering and melting plants, raw magnesite and dolomite from mines is placed in a kiln and burnt to caustic, sintered and fused magnesia and sintered dolomite, respectively, at temperatures ranging from 500° to 2,800° Celsius. In the case of magnesite, the chemical process consists of the conversion of magnesite (or magnesium carbonate, $MgCO_3$) into magnesia (or magnesium oxide, MgO) and carbon dioxide. In the case of dolomite, the chemical process consists of the transformation of dolomite in the double carbonate form ($CaCO_3$, $MgCO_3$) to the oxide form sintered dolomite (CaO, MgO), with carbon dioxide being driven off as gas. The purpose of the sintering process is to heat, in different types of kilns, the raw material to the maximum temperature possible without causing it to fuse, thus removing carbon dioxide from the raw material and increasing its density. Effective sintering is essential to the production of high-quality refractories, as a less dense and more porous refractory will degrade more rapidly when subjected to the severe conditions of the steel and cement making and other industrial processes and consequently contaminate the materials being produced. The temperature and duration of the burning procedure determines the respective reactive properties (grades) of magnesia and sintered dolomite:

- Caustic magnesia, requires the lowest temperatures, from approximately 500° to approximately 1,000° Celsius. During the burning procedure, the material decomposes carbon dioxide but retains its magnesia structure. Caustic magnesia is characterized by its high reactivity and used in the construction industry (e.g., heraklith plates, fire doors), in agriculture (as an additive for animal feed) and as an industrial mineral for various other applications (e.g., in the pulp and paper industry or for waste water treatment).

- Sintered magnesia: Burning at temperatures above 1,600° Celsius transforms magnesite into sintered magnesia, a magnesium oxide with extremely low reactivity, which due to its heat resistance is primarily used as refractory material.

- Fused magnesia: The production of fused magnesia involves the complete melting of the material in electric arc furnaces at temperatures of approximately 2,800° Celsius, which results in the characteristic properties of fused magnesia (namely, high density and very large crystals). In addition to its application as refractory material, fused magnesia is, for instance, used as filler for heating elements.

- Sintered dolomite: Sintered dolomite is obtained by treating dolomite at approximately 1,900° Celsius in sintering kilns. The material is characterized by its high density and constitutes the basic material for the production of bricks and unshaped products, which are mainly used as refractory linings in the steel industry.

The magnesite ore is crushed and fired at 1,800° Celsius in special kilns. In the burning process, the carbon dioxide contained in the magnesite is released, and the density of the material increases. Then the bulk material is either mixed with binding agents, packaged and shipped as repair materials, or pressed in different sizes and shapes with a pressing power of up to 3,200 tons. Depending on the application, the refractory bricks are then either subjected to heat treatment at up to 350° Celsius or fired at up to 1,800° Celsius in tunnel kilns for three days. While so-called unfired products are primarily used in the steel industry, the main applications of fired products are in the cement, non-ferrous metals, glass and energy industries.

The ratio of minerals employed to refractory materials produced is approximately 2:1, i.e., 1,000 tons of minerals (magnesite or dolomite) result in approximately 500 tons of magnesia/sintered dolomite. These resulting base materials are viewed by the Combined Group as its “raw materials”.

Depending on the intended use or application of the refractory product to be produced, further processing can involve sieving, crushing, grinding and/or mixing the raw material with non-basic materials (bauxite, alumina, quartz, carbonates, various ores, clay, etc.) as well as various additives and binding agents. The Combined Group purchases such non-basic materials, additives and binding agents primarily from third-party suppliers.

Refractory Products

Refractory products are a key input for steelmaking and have no substitutes. Although each phase of steel production has its technical specificities and needs, refractory products must withstand the physical and chemical conditions in each phase of liquid steel production such as chemical erosion and oxidation due to molten iron and slag penetration into the material, pH changes and carbon gas absorption, abrasion and mechanical impacts from raw materials charging, or abrupt temperature, pressure and humidity changes.

High-quality refractory products are essential to ensure high-quality steel output and conversion efficiency. High-quality refractories also ensure a lower consumption of fuel, energy, electrodes and raw materials, as well as a higher useful life of equipment and fewer maintenance stoppages and related expenses. Although crucial to steel production, refractories represent a relatively small cost when compared to iron ore or coke, accounting for approximately 3% of the total costs of steel production. Areas of application for refractory products include:

- steel casting ladles, i.e., refractory-lined buckets for receiving and transporting hot steel e.g., from the furnace to the mold (customer solutions, including roof and lining concepts, ladle gas purging refractories and gas regulation systems);
- electric arc furnaces, i.e., furnaces that shoot electric arcs between electrodes to melt a combination of pig iron scrap and other materials to produce steel, with eccentric bottom tapping as well as gas purging systems facilitating the injection of argon, nitrogen and oxygen into melts;
- slide gate systems made out of ceramics which control the flow of molten metals (at the converters, at the ladles and at the tundish gate);
- basic oxygen furnaces, i.e., furnaces for conversion of iron into steel in which oxygen is blown through molten iron to lower the carbon content;
- tundishes, i.e., refractory-lined distributers that receive steel from the ladle used for the continuous production of steel in the casting process, for the separation of non-metallic inclusions and for reducing the current by balancing the temperature to prevent re-oxidation of the steel;
- isostatic products, i.e., special parts produced in high pressure containment vessels by applying pressure on the material from all directions via an inert gas, such as argon; isostatic products are used in continuous casting machines at the end of the steelmaking process, where their main function is to enable the safe and controlled transfer of liquid steel from the ladle to the mold, where the liquid steel solidifies; isostatic products are mainly tubes made out of special refractory ceramics with high technological requirements regarding thermal and chemical resistance; due to the variety of casting machines used, isostatic products are designed and developed individually for each customer, which renders production and service management very complex;

- vacuum degassers, i.e., treatment vessels in which liquid metals are exposed to low pressure in order to reduce the content of certain gases such as hydrogen (refractory products providing thermal, chemical and mechanical resistance);
- lining concepts for the transport of hot metal;
- argon oxygen decarburization ("**AOD**") converters used in the production of stainless steel and other high-alloy grades that contain highly oxidizable elements such as chromium and aluminum to dilute the injected oxygen with argon to minimize the risk of oxidation of the alloying elements during the process of removing carbon from the metal bath (magnesia-dolomite bricks and lining concepts); and
- induction furnaces, i.e. electrical furnaces in which the heat is produced by electromagnetic induction (high-grade sinter magnesia and additives to enhance product properties according to application).

Production of end products

The raw materials, in particular sintered and fused products, are further processed into finished refractory products for customers in the respective industries. The variety of industrial applications of the Combined Group's products is reflected in its product range of unshaped products (mixes and mortars), shaped products (in particular bricks) and functional products.

- Mixes are sold as castables, mortars and other monolithic products, but may also be used to repair wear or linings of kilns. Unshaped products are also frequently used as additives to the combustion process in furnaces or converters (e.g. in steel or glass production). In this case they partly serve insulation purposes while partly being consumed in the process, thereby enhancing the final product's features (e.g. by making steel more elastic or glass harder). For the production of unshaped products, magnesite, silicon, dolomite, alumina and other raw materials, which come either from the Combined Group's own mines or are acquired from suppliers, are milled and weighed and go through a series of grinders and screens to ensure that the raw materials have been crushed into suitable gradings and are combined in a mixer, with exact proportions of dolomite, magnesite and other materials that vary depending on which individual product that will be produced. In the case of tempered bricks, a binding agent is added which helps to chemically bind the raw materials. In all facilities, the preparation and mixing functions have been fully automated, with centralized control and monitoring.

- Shaped products such as refractory bricks and cast products may, for instance, be used as wear or linings in all types of kilns. After the individual composition of a specific batch has been achieved, the resulting mixture moves on to the brick presses to be formed into specific shaped products. In all of the Combined Group's plants, the brick presses have been fully automated, with robots used to remove the finished refractory pallet bricks from the presses and place them onto the kiln cars for firing. The kiln cars are then automatically moved from the loading area to the tunnel kilns. Temperatures in the tunnel kilns can reach up to 1800° Celsius for burnt bricks, with lower temperatures of between 250° Celsius and 300° Celsius for tempered products. Bricks move slowly along the length of the kiln, remaining inside for up to 24 hours. Fired bricks are then cooled before being moved from the kiln cars to pallets. The quality of the product, including its dimensions and physical properties, is controlled throughout the entire process with strict statistical limits.

- Functional products are specialized articles fulfilling process engineering and metallurgical functions. Extremely pure steel grades with low contents of accompanying and trace elements must be melted, treated and cast in the steel plant in order to produce steel grades that fulfill very stringent quality requirements and rigid specifications. Due to the high grade quality requirements of steel and the steel industry's demanding higher grade steel in increasing amounts, the importance of the continuous caster as a metallurgical unit is increasing continuously and ensured by the flow control system components. Functional products include purging plugs, roofs, tap holes, slide gate ceramics, tundishes, zirconia nozzles, isostatic ceramics, the prefabricating of functional products (from monolithics) and kiln furnitures.

Product service life

The service life of refractory products depends on their industrial application. With periods from a few minutes to two months, the steel industry has the shortest intervals between product replacements. While service lives in the cement industry amount to roughly one year, the replacement cycle in the glass industry takes up to ten years. In the production of different nonferrous metals such as copper, nickel, zinc, aluminum and numerous ferroalloys, refractory products have service lives from one to ten years, depending on the aggregate. The Combined Group offers its customers solutions specifically tailored to their production process and refractory requirements.

Regulatory overview

The Combined Group is subject to numerous laws and regulations in the jurisdictions in which it operates, including with respect to environmental protection. The following is an overview of some of the main laws and regulations that are most relevant for the Combined Group's business in the European Union, the United States and Brazil. It is not a comprehensive summary of all laws and regulations to which the Combined Group is subject.

European Union laws and regulations

Emission Directive and carbon dioxide emissions

Directive 2003/87/EC on emission trading as amended most recently by decision (EU) 2015/1814 of the European Parliament (the "**Emission Directive**") provides for reductions of greenhouse gases. The Emission Directive establishes a scheme of greenhouse gas emission allowance trading in order to promote reductions of greenhouse gas emissions in an economically efficient manner. Installations listed in the directive are allocated a certain amount of allowances allowing a predetermined amount of greenhouse gas emission (one ton of carbon dioxide-equivalent per year per allowance). All industrial sectors in which the Combined Group produces and processes raw materials have carbon leakage status. Therefore, the Combined Group receives a higher share of free allowances for its installations, compared to certain other industrial installations. Allowances are freely tradable; a market for emission permits has developed. The total number of allowances for the entire European Union is fixed and decreases by 1.74% per year between 2013 and 2020. The goal is to lower greenhouse gas emissions in compliance with the Kyoto Protocol, as prices for allowances are expected to be higher than the costs of installing production facilities that reduce the emission of greenhouse gas.

In implementing the directive, Austria enacted the Austrian Emission Certificate Act (*Emissionszertifikategesetz 2011*). In general, since 2013 auctioning is the default method for allocating emission allowances to companies participating in the emissions trading system of the European Union. However, in sectors other than power generation, the transition from the free allocation to auctioning is taking place progressively. The current level of free allowances is regulated under the national allocation tables valid for the period 2013 to 2020. In the period 2013 to 2020, a total amount of approximately 6.6 billion allowances, with 165 million allocated to Austria, will still be allocated free of charge. Pursuant to the Kyoto Protocol, operators since 2013 can no longer use international credits (so-called certified emission reductions which are financial instruments that represent one ton of carbon dioxide removed or reduced from the atmosphere as a result of an emissions reduction project) from emission reduction projects (so-called joint implementation or clean development mechanism projects) directly for compliance, but have to exchange them for so-called European allowances. (see also "*Business of RHI—Carbon dioxide emissions trading*".)

The production of raw materials for refractories is energy-intensive and associated with emissions, because the materials only obtain the necessary refractory properties at temperatures of 1,800° Celsius and above and because carbon dioxide is released in the treatment of raw materials. This is inevitable as carbon dioxide is already contained in the raw material. While Magnesita produces magnesia by firing magnesite from mines ("dry route"), RHI uses this process and in addition extracts magnesia from seawater ("wet route"). In both processes the carbon dioxide emissions are largely raw-material-related; therefore, the options to lower emissions are limited: In the production of one ton of magnesia using the dry route, roughly 1.4 tons of carbon dioxide are created, which consist of roughly 1.0 tons of carbon dioxide contained in the raw material and roughly 0.4 tons from the use of the fuel. Consequently, carbon dioxide bound in the raw material accounts for more than 70% of the emissions and cannot be avoided in the production process. Less than 20% of the emissions come from the thermal energy required to separate the magnesium oxide from carbon dioxide and the fusion energy for crystal formation. Roughly 10% is related to energy losses of the plant such as heat losses and waste gas temperature. Theoretically, a third of these 10% could be reduced, which corresponds to about 0.05 tons of carbon dioxide (of the total 1.4 tons created to produce one ton of magnesia). Although RHI continuously takes measures to enhance energy efficiency, the physical and thermal possibilities have been nearly exhausted.

REACH Regulation

REACH stands for registration, evaluation, authorization and restriction of chemicals. The REACH Regulation 2006/1907/EC (as most recently amended in 2016 by Regulation 2016/1688) (the "**REACH Regulation**") is concerned with chemicals and their safe use and increases control of the use of chemical products within the EU by imposing on all affected industries the responsibility for ensuring and demonstrating the safe manufacture, use and disposal of chemicals. It deals with the registration, evaluation, authorization and restriction of chemical substances and has been in effect since 2007. Manufacturers and importers of chemical substances are required to collect information on the properties of their chemical substances and to register the information in a central database run by the European Chemicals Agency (ECHA) in Helsinki. The regulation also requires the substitution of the most dangerous chemicals if suitable alternatives have been identified. In connection with its use of chemicals, the Combined Group has to comply with registering requirements as well as to adapt its production to REACH Regulation standards. Moreover, the REACH Regulation is supplemented by Regulation 1272/2008/EC, which regulates the classification, labelling and packaging of substances and mixtures. This regulation aligns existing EU legislation to the United Nations' globally harmonised system. It applies to dangerous substances and requires companies to classify, label and package appropriately their hazardous chemicals before placing them on the market.

NEC-Directive and its successor

Directive 2001/81/EC on national emission ceilings for certain atmospheric pollutants provided for a reduction of emissions of sulphur dioxide (SO_2), nitrogen oxide (NO_X), volatile organic compounds (VOC) and ammonia (NH_3) with the goal that by 2010 emissions of atmospheric pollutants in each member state of the European Union will not exceed certain levels. Until 2013 the European Commission conducted a review of the EU air policy in order to set new objectives for EU air policy for 2020 and 2030 and enacted Directive 2016/2284/EU which entered into force on December 31, 2016 and sets new national reduction commitments for the five pollutants (sulphur dioxide, nitrogen oxides, volatile organic compounds, ammonia and fine particulate matter) responsible for acidification, eutrophication and ground-level ozone pollution. In addition to process-driven carbon dioxide emissions, the production of magnesia involves emissions of, *inter alia*, sulphur dioxide and nitrogen oxide, with regard to which the RHI Group is subject to this Directive.

Industrial Emissions Directive and its national implementations

The Industrial Emissions Directive 2010/75/EU on integrated pollution prevention and control of industrial emissions ("**IED**") is a European Union directive which commits European Union member states to control and reduce the impact of industrial emissions on the environment following a review by the European Commission from 2005 through 2017 with all stakeholders to examine how the legislation on industrial emissions could be improved to offer a high level of protection for the environment and human health while simplifying the existing legislation and cutting unnecessary administrative costs. The IED had to be implemented in the EU member states by 2013. The IED is intended to provide significant improvement on the interaction between the previous seven directives (including the waste incineration Directive) which it replaced. It also strengthens, in several instances, some provisions in previous directives, for example the Large Combustion Plant Directive (2001/80/EC on the limitation of emissions of certain pollutants into the air from large combustion plants). The IED sets out the main principles for the permitting and control of installations based on an integrated approach and the application of best available techniques. Best available technique is the most effective technique to achieve a high level of environmental protection, taking into account the costs and benefits.

In each of Germany and France, the IEB was implemented through national legislation which established more stringent conditions and limits on the Combined Group's operations than those required by IED. Several EU Directives with the collective objective of improving air quality and reducing pollutants from certain industrial activities, including by establishing strict limits or targets on specific emissions, are implemented through national legislation.

Environmental Liability Directive

The environmental liability Directive 2004/35/EC ("**ELD**"), which was required to be implemented into national law by member states by 2007, established comprehensive liability for operators whose manufacturing or other activities cause environmental damage. Based on the "polluter pays" principle, the Directive requires operators to remediate damages to water and soil as well as protected species and natural habitats. Claims may be brought by regulators based on fault or strict liability, but generally do not include compensation for losses to third parties. The Directive does not apply to historical contamination occurring prior to the date national implementing legislation was enacted in the relevant member state.

The ELD has been amended three times through Directive 2006/21/EC on the management of waste from extractive industries, through Directive 2009/31/EC on the geological storage of carbon dioxide, and through the offshore safety Directive 2013/30/EU, on safety of offshore oil and gas operations. The amendments broadened the scope of strict liability by adding the "management of extractive waste" and the "operation of storage sites" pursuant to Directive 2009/31/EC to the list of dangerous occupational activities in Annex III of the ELD.

In addition to laws and regulations of the European Union, the Group is also subject to state and local environmental laws and regulations in the various EU member states and other jurisdictions in which it operates. For example, the Group's operations in Austria are subject to the Federal Act on Water Rights, the Federal Act on Waste Management and a number of Austrian state statutes requiring authorizations for certain projects, including the construction, expansion and re-cultivation of facilities for the extraction of natural resources. Similarly, refractory companies in Germany, including the Combined Group's operations, are subject to the Federal Emission Control Act (*Bundesimmissionsschutzgesetz*) and the Federal Soil Protection Act (*Bundesbodenschutzgesetz*).

Brazil

Environmental Liabilities

According to the Brazilian Constitution of 1988, environmental liability in Brazil can (independently) have civil, administrative and criminal consequences: The National Environmental Policy provides that all those who directly or indirectly cause damage to the environment can, regardless of fault, be held liable, severally or jointly, for the repair of the damage. Alternatively or in addition, administrative liability arises out of actions or omissions resulting in a violation of an environmental protection rule set out by Federal Decree or other state or local statute. Administrative penalties include, among others, fines and suspension of environmental permits. In addition, the Environmental Crimes Act subjects individuals and legal entities to criminal liability, which requires proof of fault or wrongful intent on the part of the offender.

Environmental Permitting

According to the National Environmental Policy, the location, construction, installation, expansion, modification, and operation of undertakings or activities that use environmental resources and are considered to be effectively or potentially polluting, or that could in any way cause environmental deterioration, requires obtaining permits by the appropriate environmental authority.

A complementary law and resolutions passed by the National Environmental Council, called "CONAMA", establish rules on permitting, the jurisdiction of environmental agencies and applicable environmental assessments. The location of the project and/or the extent of its impact defines the federal, state or local agency which is competent for the environmental permit. Therefore, in addition to federal laws and regulations, the Group in Brazil is also subject to state and local environmental laws and regulations.

Air Emissions

Air emission standards are determined taking into consideration levels of concentration of air pollutants which, if exceeded, could adversely affect the health, safety and welfare of the population and cause damages to the environment. CONAMA over the years issued several technical rules relating to air emissions, which will be applied as conditions to the environmental permits: These include air quality control programs, levels of concentration of air pollutants, nationwide limits for emission of air pollutants by external combustion processes conducted by new stationary sources of pollution with total power ratings up to 70MW and higher, emission limits for air pollutants from stationary sources generally, and emission limits for air pollutants applicable to stationary sources initially permitted prior to 2007.

Further federal rules determine the Brazilian climate change policy: as a voluntary national commitment, Brazil plans measures to reduce greenhouse gas emissions by 36.1% to 38.9% of its projected emissions by 2020.

Changes in law regarding real property in Brazil

Brazilian law contains certain restrictions on the acquisition or lease of rural real property by foreigners that historically did not apply to Brazilian companies controlled by foreigners. In August 2010, the Brazilian Federal General Attorney's Office revised its interpretation, confirming that Brazilian companies controlled by foreigners are also subject to such restrictions.

On July 26, 2017, the Brazilian government proposed changes to mining legislation, including to the Brazilian Mining Code, pursuant to the Provisional Measures No. 789/2017, 790/2017 and 791/2017, which are in accordance with Brazilian Constitution and are currently in force (the implementation into federal law is under discussion by the National Congress).

The Provisional Measure 790/2017 (i) has broad scope, (ii) governs obligations and exemptions, grants and licenses, and (iii) regulates new rules in the mining sector. This Provisional Measure also changes the definitions of mining activities and mineral prospecting, and provides that mining licenses will now be governed by the existing Federal Law 6.567/1978 (which regulates the special regime for the exploitation and use of mineral substances). Pursuant to such Provisional Measure, miners are liable for environmental recovery in the areas affected by their activities and it also contains new rules on mineral prospecting, such as specifications on the definition of deposits, their evaluation, determinations as to economic use, and payments owed by miners.

In addition, the penalties for failure to comply with such new provisions of Mining Code have also been changed, and now include (i) a warning, (ii) administrative fines, in amounts that range from BRL 2,000.00 to BRL 30,000,000.00, which can be doubled in the case of repeat offenses, (iii) daily fines, (iv) suspension of mining activities, in part or in whole, (v) seizure of ore, equipment and other property, and (vi) forfeiture of mining or prospecting rights in case of (a) formal abandonment of the deposit or mine, (b) continued extraction that fails to conform with the pre-established plan, despite application of a fine, (c) failure to comply with repeated notices, as evidenced by repetition of the same offense, with imposition of a fine, within a period of two years.

The Brazilian National Congress is still discussing such Provisional Measures, which were valid for an initial period of 60 days and were extended for the same period on September 22, 2017.

United States

Clean Air Act and Climate Change

In the United States, the Clean Air Act ("**CAA**"), regulates air emissions from various sources and requires, among other things, monitoring and reporting of specified pollutants, including greenhouse gases and hazardous air pollutants such as volatile organic compounds and mercury. The CAA also imposes stringent air emissions limits on certain pollutants and requires federal permit holders to certify compliance with operating permit conditions and to report all deviations from any operating permit conditions. Strict federal and state controls on ozone, carbon monoxide, benzene, sulfur dioxide, nitrogen oxide and other emissions also apply to the Group's operations in the United States.

In addition, various bills have been introduced in the United States Congress and in various state legislatures that would seek to regulate emissions of carbon dioxide and other greenhouse gases and to significantly limit emissions of these gases from industrial facilities. The Combined Group believes it is likely that greenhouse gas emissions will be regulated in the future, but the content of these regulations cannot yet predicted, or what the associated costs will be, which will depend on the timing of any reductions, the impact on energy prices, and, if a cap and trade system is enacted, whether emissions allowances will be allocated with or without cost to existing generators, among other factors.

The Comprehensive Environmental Response, Compensation and Liability Act

The U.S. Comprehensive Environmental Response, Compensation and Liability Act ("**Superfund**") and analogous state laws generally impose liability without regard to fault or legality of the original conduct, on classes of persons who are considered to be responsible for the release of a hazardous substance into the environment. These persons include the current owner or operator of a contaminated facility, a former owner or operator of the facility at the time of contamination and those persons that disposed or arranged for the disposal of the hazardous substance at the facility. Liability for the costs of removing or remediating previously disposed wastes or contamination, damages to natural resources, the costs of conducting certain health studies, amongst other things, is strict and joint and several. In addition, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. In the course of its operations, the Combined Group uses materials that, if released, would be subject to Superfund and comparable state laws. Therefore, governmental agencies or third parties may seek to hold the Group responsible under Superfund and comparable state statutes in connection with onsite or offsite contamination issues, including those caused by predecessors or relating to divested properties or operations.

Clean Water Act

The U.S. Clean Water Act (the "**Clean Water Act**") established a number of programs designed to restore and protect the quality of U.S. waters by controlling the discharge of pollutants. These programs include the National Pollutant Discharge Elimination System ("**NPDES**") permit program, which implements the Clean Water Act's prohibition on unauthorized discharges by requiring a permit for every discharge of pollutants from a point source into navigable waters of the United States. Discharges that require a permit include industrial process wastewater, non-contact cooling water and collected or channeled stormwater runoff. The CWA also requires many facilities to develop and maintain plans for preventing and responding to spills of hazardous substances, called Spill Prevention

Control and Countermeasure Plans, and certain high volume hazardous substance handling/storage facilities are required to prepare and maintain a more extensive plan called a Facility Response Plan. The EPA generally allocates permitting authority under the NPDES to the states. Breaches of the Clean Water Act can result in administrative, civil or criminal sanctions.

Other Regulations

Kyoto Protocol

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the "**Kyoto Protocol**") entered into force. Adopting countries are required to implement national programs to reduce emissions of certain gases suspected of contributing to global warming. Currently, the greenhouse gas emissions from international shipping do not come under the Kyoto Protocol. In December 2009, more than 27 nations, including the United States, entered into the Copenhagen Accord. The Copenhagen Accord is non-binding, but is intended to pave the way for a comprehensive, international treaty on climate change.

Paris Agreement

On December 12, 2015 the Paris Agreement (the "**Paris Agreement**") was adopted by a large number of countries at the 2015 United Nations Climate Change conference in Paris. The Paris Agreement, which entered into force on November 4, 2016, deals with greenhouse gas emission reduction measures and targets from 2020 in order to limit global average temperature increases to well below 2° Celsius above pre-industrial levels. The Paris Agreement consists of two elements: (1) a legally binding commitment by each participating country to set an emissions reduction target, referred to as "nationally determined contributions" (*NDCs*) with a review of the NDCs that could lead to updates and enhancements every five years beginning in 2023, and (2) a transparency commitment requiring participating countries to disclose their progress. The Paris Agreement will become effective in 2020, once it has been ratified by 55 countries representing at least 55% of global greenhouse gas emissions. Although the Paris Agreement does not impose penalties on countries that fail to comply with the agreement, once ratified, the terms of the Paris Agreement and individual countries' NDCs will encourage the further curtailment of greenhouse gas emissions.

Other

The Combined Group is also subject to a number of other federal, state, local, foreign and transnational laws, regulations and recommendations, including laws in jurisdictions other than the European Union, Brazil and the United States and various laws, regulations and recommendations relating to emissions, environmental pollution, safe working conditions, manufacturing practices and the use, transportation and disposal of hazardous or potentially hazardous substances. Furthermore, import and export laws require the Combined Group to abide by certain standards relating to the importation and exportation of finished goods, raw materials and supplies and the handling of information. The Combined Group is also subject to certain laws and regulations concerning the conduct of foreign operations, including, but not limited to, the U.S. Foreign Corrupt Practices Act, the U.K. Anti-Bribery Act and other anti-bribery laws, various international sanction regimes administered by the United States and the European Union, among other jurisdictions, and laws pertaining to the accuracy of internal books and records. For more details on the regulatory requirements applicable to the Combined Group, please see "*Risk Factors—Legal, regulatory and financial risks relating to the Group.*"

BUSINESS OF RHI

Overview

RHI is a globally operating supplier of high-grade refractory products, systems and services, which are indispensable for industrial high-temperature processes exceeding 1,200°Celsius. Refractory linings made by RHI ensure that a wide range of aggregates including steel ladles, cement rotary kilns, copper converters or glass furnaces withstand extreme thermal, mechanical and chemical stress. With 30 production sites across Europe, Asia, America and Africa and more than 70 sales offices, RHI serves more than 10,000 customers in the steel, cement, non-ferrous metals, glass, energy, environment and chemical industries in nearly all countries of the world under product brands such as Didier, Radex, Interstop, Deltek and Ankral which are combined under the umbrella brand RHI. RHI produces more than 1.5 million tons of refractory products per year and supplies customized product and system solutions. In the year ended December 31, 2016, RHI generated revenue of EUR 1,651.2 million, EBIT of EUR 116.1 million and profit after income tax of EUR 75.9 million. In the six months ended June 30, 2017, RHI generated revenue of EUR 855.8 million, EBIT of EUR 49.6 million and profit after income tax of EUR 25.7 million.

Although refractory products typically account for an insignificant percentage of production costs for the relevant product, they are crucial to the quality of the products manufactured.

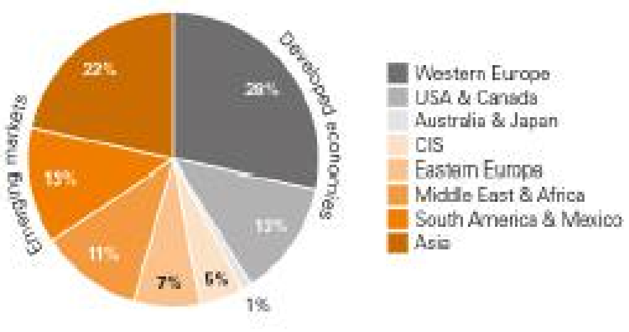
The RHI Group's operations are organized in the following three segments:

- the Steel Division, which according to management estimates is one of the world's leading global suppliers of high-grade refractory products and services to the steel industry, as measured by revenues. In 2016, the Steel Division accounted for 64.9% of the Group's revenues and 65.7% of its EBIT;

- the Industrial Division, through which RHI supplies its products and services to the cement/lime, glass, non-ferrous metals and energy, environment and chemical ("**EEC**") sectors, which accounted for 32.6% of the Groups revenues and 27.6% of its EBIT in 2016. Of the Industrial Divisions' 32.6% revenue percentage, 11.5% was attributable to the cement sector, 8.8% to the non-ferrous metals sector, 8.0% to the glass sector and 4.3% to the EEC sector; and

- the Raw Materials Division, which supplies the other two divisions with raw materials and also sells raw materials externally, and which accounted for 2.5% of the Group's revenues and 6.7% of its EBIT in 2016.

The developed economies accounted for 42% of RHI's revenues in 2016, with emerging markets accounting for 58% of RHI's revenues. The following diagram sets forth a breakdown of RHI's 2016 revenues by geographic region:



As of December 31, 2016, the Group had 7,385 employees. RHI is vertically integrated with its own raw materials production and sources 60% to 80% (depending on product mix of finished products sold and market prices of raw materials) of its magnesite requirements from its own mines and raw material production facilities in Austria, Italy, Turkey, Ireland, Norway and China.

The RHI Group attaches great importance to research. RHI management believes that RHI's innovative capabilities, which are based on decades of R&D investment and experience, have made RHI one of the global technology leaders in the refractories industry. RHI invests more than EUR 20 million annually in R&D and considers it critical to maintaining RHI's leading edge.

The R&D division is based in RHI's centralized technology center in Leoben, Austria, and local departments and employees work on specific tasks in coordination with the central unit. As of December 31, 2016, more than 170 people worked in R&D functions for RHI.

Business activity

RHI covers all steps along the refractory value chain. This enables RHI to offer its customers high-quality refractory products based on R&D, its own raw materials and technical customer process know-how. The core processes along the value chain include mining, crushing, mixing, firing, packaging, transportation, customer application, recycling and disposal according to legal requirements. The Group also enters into service contracts with its customers, under which experienced employees of the RHI Group install the refractory products and partly manage the steelworks at the customers' facilities.

One of the basic materials for refractory products is magnesite, a mineral that RHI mines in both underground and surface mines. Another key material used in RHI's production is dolomite, which RHI extracted in surface mining from its mine in Marone, Italy prior to sale of the mine to comply with conditions imposed by merger control authorities in connection with the Acquisition of Control. Furthermore, RHI purchases some additional materials for its production process from third parties (and also opportunistically purchases magnesite and dolomite on the open market from time to time to take advantage of lower prices).

For the year ended December 31, 2016, approximately half of the RHI Group's revenues were allocated to shaped products (e.g. hydraulically pressed bricks, fused cast bricks, isostatically pressed products), approximately one fifth to each unshaped products (e.g. repair mixes, construction mixes and castables) and functional products and approximately one tenth to other revenue, which includes revenue from the provision of services as well as the sale of non-Group refractory products.

After their use in customer production processes, worn refractory linings are broken out and, if possible, reused as secondary raw materials. RHI is thus involved in the entire product cycle, from raw material production to the recycling of used products.

The service life of each refractory product depends on the respective industrial application for which it is used. With periods from a few minutes to two months, the steel industry has the shortest intervals between product replacements. While service lives in the cement industry generally amount to roughly one year, the replacement cycle in the glass industry can take up to ten years. RHI offers its customers solutions specifically tailored to their production processes and refractory requirements.

Steel Division

Through its Steel Division, RHI acts as a global partner for its customers in the steel industry. The Steel Division provides individually customized solutions as well as commoditized products and comprehensive packages for steel production consisting of (i) refractories (basic and non-basic mixes, bricks and functional products), (ii) machinery and (iii) services to the flow control segment, such as providing slide gates and systems as well as isostatic products and related systems.

RHI also offers machinery, primarily for the application of unshaped products and/or the repair of kilns, furnaces, converters, ladles, degassers, etc. These include rotary gunning machines for the application of unshaped products; pressure vessel machines used for unshaped products in a variety of production units such as furnaces, converters, ladles or degassers; demolition hammers and tap hole breakout devices (to break out the worn bricks from the tap hole channel and remove tap hole residual material); and converter shooters and gunning manipulators for repairs in different converter areas.

In addition to supplying refractory components and providing related machinery to its customers, the Group provides services, know-how and individual package solutions to its customers in the steel industry, particularly through full line supply ("**FLS**") and other service contracts. Under service contracts RHI offers (besides material deliveries) the complete or partial refractory products' installation and the management of steelworks, thus allowing customers to outsource these non-core activities. The services can include logistic services (demand planning, stock keeping), reports, machinery, consultation, engineering, and project management. FLS solutions include the development of economical lining concepts, the selection and supply of the best suited refractory products, machinery and its installation or servicing during operations, necessary infrastructure (machines, stock-keeping), efficient logistics concepts and provision of qualified staff. In addition to FLS contracts, RHI offers other service contracts with a smaller service coverage. Under all types of service contracts RHI charges a fixed amount per ton of steel produced depending on the output of the unit or steelworks. In 2016, approximately one fourth of the Steel Division's revenues were based on such service contracts, which have an average term of two to three years. The prevalence of service contracts has remained relatively stable over the last years, but varies significantly by region, with the greatest relative percentage of revenues coming from service contracts in the Americas (particularly South America) and Western Europe.

In the Steel Division, the purchasing of refractories varies significantly depending amongst other factors on the customers' size: while large, global steel manufacturers agree with RHI's key account managers on global framework price lists on the basis of which individual customer subsidiaries or plants place their orders, smaller producers and individual steel plants place individual orders. Prices are usually individually agreed for three to six months based on minimum purchase volumes. For refractory products no spot market prices exist.

Sales and distribution

In order to achieve customer proximity, the sales and distribution activities of RHI's Steel Division are regionally organized with approximately 680 sales and administrative staff employed in the division's sales and representative offices around the world. Approximately 235 of the division's employees are trained staff and serve as service technicians, supervisors and customer application engineers. The remaining staff include, for example, service technicians and bricklayers. The Group benefits from this regional organization and the resulting proximity to customers since it enables it to obtain detailed knowledge of customer processes and technologies and to adjust and fine-tune the refractories to the production technologies.

The Steel Division's sales regions comprise Western Europe, accounting for 29% of the division's revenues in 2016, the United States and Canada (accounting for 13% of division revenues), Asia (22%, thereof China less than 3%) and South America and Mexico (12%). The remaining 24% of revenue was generated in the Middle East & Africa (10%), Eastern Europe (8%), CIS (5%) and Australia & Japan regions (1%).

Market position and competition

In 2016, Steel Division segment revenues totaled EUR 1,071.4 million (a decrease by 2.6% compared to EUR 1,099.9 million in 2015) and division EBIT was at EUR 76.3 million (an increase of 20.3% compared to EUR 63.4 million in 2015). As of December 31, 2016, 1,496 employees worked in the Steel Division.

RHI defines the refractory industry as supplying refractory products for industrial high-temperature processes exceeding 1,200° Celsius and views itself not only as one of the market leaders in terms of global presence and product range in this industry but also as one of the leading refractory suppliers to the steel industry in terms of revenue. This view is based on own estimates and financial statements to the extent published by RHI's competitors. The Group's rank as refractory supplier to the steel industry varies according to application. Its main competitor is the UK-based Vesuvius, which is listed on the London Stock Exchange and, according to RHI management's estimates, has a similar market share to RHI in the global steel refractory industry, specializes on flow-control products and is the only competitor of RHI (in providing refractories products to customers in the steel industry) that also offers a full range of refractories products globally. Until the Acquisition of Control, Brazil-based Magnesita will have been one of RHI's main competitors with a regional focus on the South American refractory market and a market share of approximately half the size of RHI's; following the Acquisition of Control, the Combined Group will be the largest refractory market player worldwide in terms of revenue, according to RHI management estimates. Other competitors are the German Refratechnik group, Calderys, a subsidiary of the Imerys group (France) that competes with RHI primarily in the area of unshaped products, and a number of additional competitors of RHI as refractory suppliers to the steel industry which do not have a global presence, but a regional focus: Shinagawa and Krosaki Harima are focused on the Japanese market, Magnezit on the Russian market, Minteq and ANH Refractories on the U.S. market and Chosun on the Korean market.

Industrial Division

Through its Industrial Division, RHI supplies customers in the cement/lime, glass, non-ferrous metals and environment, energy and chemicals industries with refractory systems based on a global production and sales network. RHI provides customized solutions and consulting services which are increasingly required by customers that employ sophisticated process technologies. The division's range of products and services comprises refractories and refractories solutions for the following industries:

- *Cement/lime industry*: Applications include preheaters, kilns, grate coolers and planetary coolers (basic and non-basic bricks and unshaped products as linings and gunning mixes and mortars as well as auxiliary materials such as metallic and ceramic anchoring systems, calcium silicate boards and fiber products). The particular challenges for refractory products in the cement/lime industry to a large degree depend on the production methods and, in particular, the type of kiln used. The basic section of modern rotary kilns has to withstand the challenges of constantly changing operational parameters and must meet the demands of consistently changing processes (for example, due to the increased use of alternative fuels). Non-basic linings also play an important role in reliable kiln operation in this context. RHI has developed a series of new and more resistant non-basic linings to withstand attacks of alkalis, sulfur and chlorine in the course of alternative fuel burning. Alternative spinels like hercynite and galaxite improve the kilns' lining lives. Shaft kilns used in the lime industry operate under a high gas pressure requiring tight fitting brickwork with a minimum of measurement tolerance and mortar joints. These kilns also subject the refractory lining to substantial abrasion and changes in temperature and chemical conditions resulting from the fact that the burning zone is difficult to control and the chemical composition of raw materials and the various fuels employed vary. Therefore, the choice of refractory grade requires detailed knowledge of customer processes.

- *Glass industry*: Applications include the different types of glass melting furnaces and auxiliary plants such as glass tank bottoms, basins, superstructures, feeders or regenerators operated by manufacturers of flat glass, container glass and special glass (e.g. the production of organic light-emitting diodes (OLED) or thin-film-transistor (TFT) liquid crystal displays). Applications also include linings of fused cast refractories which are made by melting alumina-, zirconia- and silica-refined raw materials and pouring them into specific molds to solidify gradually.

- *Non-ferrous metal industry*: Differing manufacturing processes require numerous, often customer specific furnaces and plants and process optimization solutions developed by RHI's metallurgists. RHI offers a broad product line of different refractories such as magnesia,

magnesia-chrome, alumina-chrome, and silicon-carbide. Within the non-ferrous metal industry segment RHI focuses on offering customized materials and solutions to manufacturers of heavy metals (such as copper, nickel, lead, zinc and tin) rather than on the more commoditized segment of aluminum production.

- *Environment, energy and chemicals industries*: Applications include petrochemical plants, refineries, power plants and waste incineration plants, where RHI's services include assistance in the design of the plants and furnaces, consulting during the process of selecting suitable refractories, installation, logistics and after sales services.

In all of these end markets, the Group's portfolio is complemented by RHI's offering of related services and process engineering capabilities. The service life of refractory products in the Industrial Division is significantly longer than in the Steel Division, ranging from roughly one year in the cement industry, to between one and ten years in the production of certain non-ferrous metals, such as copper, nickel, zinc, aluminum and numerous ferroalloys, and up to ten years in the glass industry. Customers in the Industrial Division regard the refurbishment of a plant, which includes the delivery of a full set of refractory material, as a maintenance investment (in the cement industry) or a general investment (in the other industries served by RHI's Industrial Division). For RHI, these refurbishments are viewed as a project-related, recurring installation business. In industries with longer life cycles typically certain engineering components and related services are involved, allowing RHI to achieve revenues along the entire value chain.

Sales and distribution

The Industrial Division is organized according to customer and industry-oriented business units: cement/lime, accounting for 35% of the division's revenues in 2016, non-ferrous metals (27%), glass 24%, and environment, energy and chemicals (13%). Its global sales and distribution activities are managed out of Austria, Germany and Canada and conducted by expert teams, which are specialists for the respective business units. As of December 31, 2016, 252 employees were assigned to the Industrial Division's sales teams. The organization of sales and distribution according to customer and industry-oriented business units allows the Group to cater to the different requirements of its customers. This is of particular importance, since RHI not only acts as refractory supplier but also as a project planning, implementation and service partner in these industries.

Market position and competition

In 2016, the Industrial Division generated segment revenues of EUR 538.6 million (a decrease of 12.4% compared to EUR 614.6 million in 2015) and EBIT of EUR 32.0 million (a decrease of 45.7% compared to EUR 58.9 million in 2015). As of December 31, 2016, 472 employees worked in the Industrial Division.

According to management estimates and financial statements to the extent published by its competitors, the Group is one of the leading refractory suppliers in all customer industries of the Industrial Division in terms of revenue, whereby its rank and the competitive environment varies according to industry. The majority of the Industrial Division's competitors specialize in one industrial segment only. Only RHI acts as full range supplier of refractory products across industries:

- *Cement/lime industry*: In the cement/lime industry, RHI's competitors vary from continent to continent, the most important one being Refratechnik.
- *Non-ferrous metals industries*: In the non-ferrous metals industries, RHI's competitors vary from continent to continent, the most important one being ANH Refractories.
- *Glass industry*: The Group's position in the glass industry is characterized by a broad product portfolio of high-grade products, combined with global market presence and a network with plant manufacturers and customers. RHI's main competitor in the glass industry is Saint-Gobain SEFPRO (which stands for sintered and electrofused products), a subsidiary of the Saint-Gobain group.

- *Environment, energy and chemicals industries*: Innovation, product and service quality as well as project engineering skills are the prerequisites for the Group's performance in the environment, energy and chemicals industries; its most important global competitors are ANH Refractories, Resco and Calderys, a subsidiary of the Imerys group.

Raw Materials Division

The business activity of the Raw Materials Division mainly comprises the Group-wide supply of the Steel and Industrial Divisions with raw materials produced in its own plants, which are passed on within the Group at market prices. Furthermore, the division purchases different, especially non-basic raw materials (e.g. bauxite) which RHI itself does not produce and sells raw materials it produces itself primarily to buyers in businesses outside the refractory industry (e.g. food, pulp and paper). Another focus of the Raw Materials Division is on new fields of application for caustic, sintered and fused products. RHI's sinter production is technically very advanced; with quality levels at least comparable to those of its competitors.

RHI is vertically integrated with its own raw materials production and sources 60% to 80% (depending on product mix of finished products sold and market prices of raw materials) of its magnesite requirements from its own mines and raw material production facilities in Austria (Breitenau, Hochfilzen, Radenthein), Turkey (Eskisehir), Norway (Porsgrunn), Ireland (Drogheda), and China (Dashiqiao). In 2016, approximately three-quarters of internal sales were to the Steel Division and the remainder to the cement/lime business unit of the Industrial Division. RHI balances reliance on its own reserves against raw materials sourced from third parties on the open market based on its production costs and prevailing market conditions for the relevant raw materials. When RHI decides to purchase on the market, RHI's central procurement purchases raw materials on the basis of framework agreements with (usually) one-year terms or on an opportunistic basis including in particular raw materials from China. Hedging of raw material prices on the other hand is not feasible, as there is no active trading market for the raw materials RHI uses.

In 2016, RHI Group produced an aggregate of more than 800,000 tons of raw materials. Approximately 90% thereof can be allocated to sintered raw materials (77% sintered magnesia, 13% sintered dolomite), 6% to melted materials (4% basic, 2% non-basic), and 4% to caustic magnesia for external sale.

RHI mines magnesite and dolomite at five locations. Underground mining is used at the Austrian sites in Radenthein and Breitenau, while raw materials are extracted in surface mining operations in Eskisehir, Turkey, and Hochfilzen, Austria. With respect to mines not owned by the Group, long-term mining licenses secure the access to the deposits. Core drilling activities are performed continuously in order to categorize deposits. Sustainable mining plans taking into account the lower mining districts are predominantly prepared within the RHI Group, analyzing where in the rock the resources are located and which mining options are available to develop rock strata that are located even lower in the future. In addition, RHI pursues an alternative method of extracting raw materials from seawater in Porsgrunn, Norway and Drogheda, Ireland. This process requires more energy than the treatment of magnesite ore due to the two-stage process described in "*Refractory Industry & Regulatory overview—Production of refractory materials—Mining and seawater extraction*", but enables higher raw material qualities.

The Group owns a 83.33% stake in Liaoning Jinding Magnesite Group Co., Ltd. in Dashiqiao, China, which produces magnesia for RHI's Steel Division plant in Bayuquan and its Industrial Division plant in Dalian, China. The company's minority shareholder provides the ore for the magnesia production. The plant allows RHI to produce refractory raw materials at a logistically efficient location in the immediate vicinity of raw material sources and its own plants and provides the Group with an important source of magnesia.

The Raw Materials Division's external sales volume rose significantly from roughly 297,000 tons in 2015 to roughly 342,000 tons in 2016; this increase by 15.2% is above all attributable to the increase in the sale of raw dolomite in Italy, which makes a large contribution in terms of volume. However, due to the low price per ton, the contribution in terms of value was minor. Overall segment revenues of the Raw Materials Division decreased from EUR 272.6 million in 2015 by 2.4% to EUR 266.0 million in 2016, divided into EUR 224.8 million of revenues attributable to sales within the RHI Group and EUR 41.2 million to external customers. EBIT totaled EUR 7.8 million in 2016 (as compared to EUR -84.8 million in 2015). As of December 31, 2016, 985 employees worked in the Raw Materials Division.

Production

RHI has plants in Austria, Germany, Ireland, Norway, China, India, Mexico, Turkey, Belgium, Switzerland, the UK, Canada, the United States and Chile.

In 2016, RHI produced 56% of its refractory products volume in Europe (with Austrian plants accounting for 33%), 31% in Asia (with Chinese plants accounting for 23%), 7% in North America and 6% in Turkey.

Veitsch (Austria) is one of the most important plants of RHI in terms of volume and produces refractories for both the steel and the industrial markets such as basic unshaped products, rotary kiln bricks for the cement industry and magnesia carbon bricks for converters. It is the oldest plant within the RHI Group and the world's oldest magnesia processing factory; nevertheless it is now one of the most modern and efficient sites in the RHI Group. In Radenthein, fired and unfired magnesite, dolomite and non-basic bricks are produced both for the steel and industrial markets, but also significant volumes of functional products such as tapholes, built-up shapes (with joints), gas purging ceramics, monolithic shapes, products with other raw material bases shapes, tuyere blocks, slide gate ceramics and metering nozzles, nozzles, stoppers. RHI also mines magnesite underground in Radenthein. In 2016, the smelter and fusion facility were modified as a first phase of redesigning the crushing and loading processes, with a focus on reducing diffuse dust emissions at the site. The Group's Radenthein facility also focuses on developing innovative new products, and the test plants of the technology center Leoben further develop production methods until they are ready for use in the Group's production facilities. The Breitenau and the Hochfilzen facilities predominantly produce magnesite basic mixes for the steel industry, especially for the use in electric arc furnaces. RHI mines magnesite in Breitenau (underground mining) and Hochfilzen (surface mining). The Group's Trieben facility is a specialty plant for magnesia bricks used in the glass, non-ferrous metals and some areas of the steel industry; it also produces functional products such as built up shapes (with joints), isostatically pressed ceramics (except tapholes), slide gate ceramics, gas purging ceramics, tapholes and tuyere blocks. As one of RHI Group's environmental projects, its wet dust removal plant was replaced in 2016.

The production facility in Urmitz (Germany) concentrates on non-basic unshaped products, alumina magnesia carbon bricks, purging ceramics, prefabricated components, and functional products such as gas purging and slide gate ceramics, monolithic shapes, metering nozzles, nozzles, stoppers, built up shapes (with joints) and tapholes. The Marktredwitz production facility supplies slide gate ceramics and functional products, in particular metering nozzles, nozzles and stoppers. The Aken production facility produces almost exclusively resin- and pitch-bonded magnesia carbon bricks. The Mainzlar production facility serves as high-volume supplier for standard products in the area of fired magnesia and non-basic bricks targeted at the cement/lime and glass industries. The Niederdollendorf production facility produces non-basic alumina refractories.

RHI's Italian plants will no longer be part of the Combined Group. RHI reached agreement with a buyer to sell its dolomite plant in Marone in order to comply with conditions imposed by the EU merger control authorities in connection with their approval of the Acquisition of Control. The disposal is subject to the Acquisition of Control and the Restructuring and is expected to be completed in the first half of November 2017, see "*Operating and Financial Review of RHI—Recent developments*". The Refel plant in San Vito al Tagliamento was a glass refractory plant sold on October 12, 2017 as part of RHI's decision to end fused cast brick production.

The Bayuquan plant (China) supplies magnesia carbon bricks, other magnesite and non-basic unshaped products, functional products such as monolithic shapes, gas purging ceramics, metering nozzles, nozzles, stoppers and slide gate ceramics, and prefabricated components. The high-volume magnesia brick plant at Dalian produces fired and unfired isostatic magnesite and non-basic bricks to meet demand from expected market growth in Asia. The Group's Indian plants in Venkatapuram, Bhiwadi provide RHI with local non-basic shaped and unshaped production capacities and for end functional products (such as slides, gates and isostatically pressed products) and act as global supplier of alumina bricks for all of the division's customer industries.

The following map sets forth the locations of RHI's plants, main sales offices and other sites:

An integrated management system of RHI in the areas of quality (ISO 9001), environment (ISO 14001), and occupational health and safety (OHSAS 18001) serves as an instrument to continuously improve performance and processes throughout the RHI Group. The potential for improvement is continuously identified through internal and external audits and implemented as part of the continuous improvement process. RHI is externally certified according to ISO 9001:2008 at 25 production sites.

Research and development

Innovative capability is an important prerequisite for RHI to remain competitive in the contested global refractories market.

The RHI Group's R&D division is based in the technology center in Leoben, Austria, and local departments and employees work on specific tasks in coordination with the central unit. At the end of the year 2016, more than 170 people worked in R&D. The R&D team in Leoben consists of employees from 12 different countries, with more than 40% of them holding a university degree. R&D costs before subsidies and capitalization amounted to EUR 23.9 million in 2016, of which EUR 4.8 million were capitalized. Subsidies for R&D amounted to EUR 4.0 million in R&D expenses in 2016. R&D costs net of subsidies and capitalization of EUR 15.1 million were reported as an expense in the RHI Group's profit and loss statement. RHI's R&D activities focus on basic research, the development of new products and production methods, the optimization of existing products and production methods and process improvements, as well as environmental protection and energy efficiency.

Basic research

In basic research, an important focus lies on gaining an understanding of corrosion and erosion mechanisms of RHI products in different customer processes. The development of the models for simulation systems used at RHI also takes place as part of scientific collaborations. Various methods enable the analysis of the flow conditions of liquid steel from the steel ladle through the tundish to solidification in the mold. Based on the models, customer-specific design and refractory solutions are created.

Development of new products and production methods

Innovative, new fused raw materials are developed at the test plants of the technology center in Leoben and developed further until ready for series production at the production facilities in Radenthein, Austria. In addition to classic oxidic raw materials, research is also conducted with non-oxidic raw materials. So-called sol mixes are a new product group in the non-basic mixes segment which replace cement bonding and due to their better refractory properties have set new standards in many areas of application. In 2016 RHI developed a frost-resistant liquid binder for sol mixes which no longer irreversibly destroys the mixes when it freezes, making a seamless (and costly) temperature control of the entire logistics chain dispensable.

In the coming years, the Group also intends to focus on the development of new service products involving the Industry 4.0 initiatives, i.e. an increased interaction between industrial production and modern information and communication technology by using intelligent digital networks. RHI expects the development to be completed within approximately three years.

Optimization of existing products, production methods and process improvements

To enhance existing production processes, the process data and data from the automatic product test facilities are interlinked and analyzed on the basis of big data approaches, including with a software tool developed for the rapid processing of complex mass data in order to be able to derive proposals for optimization for a longer service life of refractory linings and improvements of the customer's specific process costs. Used refractory materials taken from a variety of customer aggregates are thoroughly studied. The results of the analyses often lead to product innovations or improvements of the properties of existing products; raw material alternatives to existing products are examined to secure raw material availability and to optimize the customer's total cost of ownership. To transfer knowledge to customers, they are invited to the training center in Leoben where they are introduced to RHI's refractory products and lining techniques on a full-scale model of a cement rotary kiln using modern lining machinery.

Environmental protection and energy efficiency

Energy-intensive processes such as drying, curing and sintering are analyzed to further develop the environmental standards and to lower the energy consumption of the RHI Group. RHI's material development professionals look for alternatives for substances which may no longer be used within the EU after the implementation of the REACH Regulation (see also "*Refractory industry & Regulatory overview—Regulatory overview—European Union laws and regulations*") or are considered to cause concern for other environmental reasons. New developments with reduced emissions have already been successfully placed in the market. New refractory insulating materials with improved density, porosity, strength, thermal conductivity and thermal capacity, allowing a reduction of the use of ceramic fibers in some sub-segments, have been developed in order to support customers in reducing their energy consumption.

Carbon dioxide emissions trading

In 2016, the RHI Group's total carbon dioxide emissions added up to 1.65 million tons (nearly unchanged compared to 2015). Roughly 88% thereof was accounted for by direct carbon dioxide emissions, i.e. related to the RHI's own production processes, and 12% by indirect emissions derived from power consumption. Roughly two-thirds of the direct carbon dioxide emissions come from European sites and are subject to the EU emissions trading system of the European Union and externally audited (see "*Refractory industry & regulatory overview—Regulatory overview—European Union laws and regulations—Emission Directive and carbon dioxide emissions*"). Outside the EU comparable methods are used to record carbon dioxide emissions. Emissions of the Turkish site in Eskisehir are shown under the region Asia as it does not fall within the EU emissions regime. Direct carbon dioxide emissions in 2016 totaled 971,000 tons in Europe and 406,000 tons in Asia. While RHI in 2016 and 2015 was slightly short of allowances, it was granted additional allowances in 2017 for the Porsgrunn plant's increased capacity, which were also granted retroactively for the previous years and can be used within the Group. Based on current capacity utilizations, RHI expects a balanced ratio of emissions until 2020.

Intellectual property

RHI seeks to protect its intellectual property through patents and trademarks. RHI continuously examines the patentability of newly developed products, systems and technologies. At the end of the year 2016, the patent portfolio comprised roughly 140 patent families.

Patents: RHI has filed for approximately 1,000 patents in approximately 140 patent families worldwide, covering both products (mostly flow control and functional products) and processes. Although most Group revenues stem from non-patented products, RHI attributes an appreciable share of its overall performance to the effectiveness of its patent policy. The business activities and profitability of RHI AG or the Group do not depend to a material extent on any particular patents.

Brands: Under the RHI brand, the Group deals with the production, sale and lining of refractory products, which are indispensable for all industrial high-temperature processes. The RHI Refractories umbrella brand comprises more than 100 registered trademarks with a large number of brands that have been established in the market for many years, including Didier, Radex, Interstop, Deltek and Ankral.

Employees

The table below provides a breakdown of the Group's employee numbers by region as of June 30, 2017 and as of December 31, 2016, 2015 and 2014:

	As of June 30,		As of December 31,					
	2017		2016		2015		2014	
Employees	**Number of employees**	**% of total employees**	**Number of employees**	**% of total employees**	**Number of employees**	**% of total employees**	**Number of employees**	**% of total employees**
South America	98	1.0	99	1.4	108	1.4	123	1.5
Europe	4,153	55.5	4,157	56.3	4,391	55.6	4,384	54.7
North America	602	8.0	599	8.1	790	10.0	856	10.7
Near and Middle East	317	4.2	223	3.0	225	2.9	215	2.7
Africa	104	1.4	104	1.4	102	1.3	122	1.5
Asia Pacific	2,209	29.5	2,203	29.8	2,282	28.9	2,316	28.9
Total	**7,483**	**100%**	**7,385**	**100%**	**7,898**	**100%**	**8,016**	**100%**

(Source: RHI Annual Reports 2016, 2015 and 2014, RHI own data.)

As of December 31, 2016, 1,496 employees worked in the Steel Division, 472 in the Industrial Division and 908 in the Raw Materials Division. 579 employees worked in central units (thereof 331 in shared service center such as the Group's IT and accounting departments, 116 in corporate purchasing/supply chain management, 132 in other central units such as the Group's legal, human resources and financing departments) and 181 in research & development. 4,657 employees worked in operations.

As of December 31, 2016, 53.6% of the employees in fully consolidated companies of the RHI Group worked in Western Europe, 29.8% in Asia/Pacific, 8.1% in North America, 3.0% in the Middle East, 2.7% in Eastern Europe and 1.4% in Africa and South America respectively. As of December 31, 2016, the Group had 1,780 employees in Austria.

As of December 31, 2016, 60.3% of RHI's employees were covered by collective bargaining agreements. In countries where such agreements exist, 100% of the employees are covered. In Austria and Germany, most employees are members of unions. RHI considers its employee representatives as business partners. The management board of RHI pursues active exchange, for example through participation in works council conferences. RHI management believes that its employee relations are good.

Health and Safety Matters

RHI attaches significant importance to its employees' health and safety at work. Safe business and production processes and measures to improve conduct serve to minimize risks. RHI collects parameters on accident development as well as reported near accidents for the purpose of accident prevention. The accident rate, defined as the number of accidents resulting in lost time of more than eight hours per 200,000 working hours, was 1.74 in the year 2016, ranging from below 1.0 in the United States to 2.58 in Europe. RHI benchmarks itself with peer companies which have operational procedures similar to RHI according to publicly available sources such as their published financial reports. Most of the time lost accidents at work are due to human error and non-adherence to safety policies. RHI therefore emphasizes measures to improve safe conduct. RHI's target is a group-wide accident rate of less than 1.0 within the next several years. The number of days lost based on an eight-hour working day per 200,000 working hours amounted to 33.5 days in 2016. The calculation takes into account employees of the RHI Group and contracted personnel.

Real property, plant and equipment

The book values of property, plant and equipment as of December 31 were as follows in the years 2016, 2015 and 2014:

(in EUR million, audited)	2016	2015	2014
Real estate, land and buildings	168.1	165.9	177.3
Raw material deposits	7.6	7.6	7.9
Technical equipment and machinery	238.6	243.5	248.1
Other plant and office equipment	64.6	66.2	67.8
Prepayments made and plant under construction	42.9	49.0	43.1
Total	**521.8**	**532.2**	**544.2**

(Source: RHI Annual Reports 2016, 2015 and 2014.)

Based on the carrying amounts as of December 31, 2016, 35.0% of the real estate, land and buildings owned by the Group was located in Austria, 16.6% in Germany and 22.0% in China.

The following is an overview of RHI's main production plants and mines both owned and based on mining rights. Except for RHI's Chinese operations and as set forth in the following paragraph, all production facilities are owned by RHI. RHI's Chinese operations are, in accordance with local requirements, subject to long-term leases with Chinese state-owned entities, although RHI owns all machinery and equipment at those sites:

		Plant function				Title status	
Country	Plant owned by RHI Group	Mine	Seawater plant	Production of Raw materials	Production of finished refractory products	Mine / seawater plant owned by RHI Group	Land not owned / mining based on mining right
Austria	Breitenau	●		●	●		●
	Hochfilzen	●		●	●		●
	Radenthein	●		●	●	●	
	Trieben			●	●		

	Plant function					Title status	
Country	Plant owned by RHI Group	Mine	Seawater plant	Production of Raw materials	Production of finished refractory products	Mine / seawater plant owned by RHI Group	Land not owned / mining based on mining right
	Veitsch				●		
Germany	Aken				●		
	Mainzlar				●		
	Marktredwitz				●		
	Niederdollendorf				●		
	Urmitz				●		
Ireland	Droheda		●	●			●
Norway	Porsgrunn		●	●			●
China	Bayuquan				●		
	Dalian				●		
	Dashiqiao			●	●		
India	Venkatapuram				●		
	Bhiwadi				●		
Mexico	Ramos Arizpe				●		
	Tlalnepantla				●		
Turkey	Eskisehir	●			●		●

(Source: RHI Internal data.)

Mines and raw material deposits are fully owned by RHI at Radenthein and partially owned at Hochfilzen, where the Group partially owns the mountain and relies on mining rights with respect to other parts of the mountain owned by third parties. At the Breitenau site in Austria and in Turkey, RHI has mining rights. Magnesite in China is obtained from its partner in Dashiqiao. The following raw materials are produced at RHI's production sites: Caustic magnesia is produced at the Radenthein, Breitenau (both Austria), Dashiqiao (China), Drogheda (Ireland) and Porsgrunn (Norway) sites. Sintered magnesia in the single-stage burning process is produced in Breitenau (Austria), Hochfilzen (Austria) and Eskisehir (Turkey), and in the two-stage burning procedure (caustering followed by sintering) in Dashiqiao (China), Drogheda (Ireland), Radenthein (Austria) and Trieben (Austria); fused magnesia is produced at RHI's sites in Radenthein (Austria), Dashiqiao (China) and Porsgrunn (Norway). RHI management believes that its raw material reserves are sufficient for the RHI Group's operations as currently conducted for the foreseeable future.

There are no restrictions on the sale of property, plant and equipment as a consequence of commitments as collateral for credits.

Obligations from rental and leasing contracts which includes payment obligations in respect of property, plant and equipment were EUR 66.7 million in 2016 (2015: EUR 66.0 million).

Significant subsidiaries

Seth forth below is a table of RHI's significant subsidiaries:

Name of the subsidiary	Registered office	Share in percentage
Didier-Werke Aktiengesellschaft	Wiesbaden, Germany	100.0
Magnesit Anonim Sirketi	Eskisehir, Turkey	100.0
Premier Periclase Limited	Drogheda, Ireland	100.0
RHI Dinaris GmbH	Wiesbaden, Germany	100.0
RHI ITALIA S.R.L.	Brescia, Italy	100.0
RHI Refractories Asia Pacific Pte. Ltd.	Singapore	100.0
RHI US Ltd.	Wilmington, DE, USA	100.0
RHI-Refmex, S.A. de C.V.	Ramos Arizpe, Mexico	100.0
Veitscher Vertriebsgesellschaft m.b.H.	Vienna, Austria	100.0
Veitsch-Radex GmbH & Co OG	Vienna, Austria	100.0

Intangible assets

The book values of the Group's intangible assets as of December 31 developed as follows in the years 2016, 2015 and 2014:

(in EUR million, audited, except as otherwise noted)	2016	2015	2014
Goodwill	37.8	37.5	36.1
Other intangible assets	71.1	74.2	74.0
Total (unaudited)	**108.9**	**111.7**	**110.1**

(Source: RHI Annual Reports 2016 and 2015.)

Goodwill

Goodwill totalled EUR 37.8 million as of December 31, 2016 (as compared to EUR 37.5 million as of December 31, 2015). As of December 31, 2016, EUR 9.4 million thereof is allocated to the cash-generating unit Steel/Linings (unchanged as of December 31, 2015) and EUR 27.1 million to the cash-generating unit Steel/Flow Control (December 31, 2015: EUR 26.7 million).

Other intangible assets

Other intangible assets totaled EUR 71.1 million as of December 31, 2016 (as compared to EUR 74.2 million as of December 31, 2015). EUR 18.2 million of this amount was internally generated and comprised capitalized software and product development costs. The remaining intangible assets include in particular acquired patents, trademark rights, software, customer relations of the Indian company Orient Refractories Ltd. and land use rights. The land use rights have a carrying amount of EUR 23.4 million (December 31, 2015: EUR 24.0 million) and a remaining useful life of 30 to 61 years. There are no restrictions on the sale of intangible assets.

Insurance

The Group maintains insurance in such amounts and with such coverage as management believes is reasonable and prudent. In particular, the Group is insured against credit risks to counteract the imminent risk of default inherent in business operations. Furthermore, it has D&O and legal expenses insurance, the costs of which are borne by the Issuer. In addition, RHI is insured against claims resulting from general liability, as well as against property damage, business interruption, construction risks, transport risks and environmental risks.

Material contracts

In the usual course of its business, RHI enters into numerous contracts with various other entities.

SPA

The SPA was entered into between RHI, Dutch Brasil Holding, Alumina and Rhône on October 5, 2016. On November 3, 2016, GPCP4 acceded to the SPA as additional seller via an accession agreement between the parties to the SPA that amended the SPA. The SPA was initially for the sale of not less than 46% and not more than 50% plus one share, of the share capital of Magnesita, not taking into account own shares held by Magnesita and was in particular subject to the following conditions precedent:

- Merger control clearance or the non-prohibition of the transaction or confirmation that notification is not necessary, by the competent authorities. In this regard, the European Commission on June 28, 2017 approved the Acquisition of Control, subject to the divestment of the dolomite business of the RHI Group in the EEA, which concerned two production sites in Marone (Italy) and Lugones (Spain), Magnesita's entire Oberhausen business, which included Magnesita's production, sale, and related activities of magnesia-carbon bricks and basic mixes in the EEA, and the conclusion of a supply contract. For more details on the disposal of these production sites see "*Operating and Financial Review of RHI—Recent developments*" and "*Operating and Financial Review of Magnesita—Recent development*". On July 11, 2017, merger control clearance in Brazil was granted;

- implementation of the Restructuring;

- approval for the Merger by RHI's and RHI Magnesita's shareholders' meetings on August 4 and August 16, 2017, respectively;

- settlement of cash compensation claims of those RHI shareholders who made use of their statutory withdrawal right, see "*Description of the Acquisition and the Restructuring—The Restructuring—Cash settlement of Withdrawal Shareholders*";

- Admission;

- taking the measures necessary to obtain all permits, licenses, decisions, confirmations, consents, clearances, authorizations or approvals (including the consent of the representative and supervisory bodies) required under applicable national legislations for implementation of the Restructuring and the capital increase for the purpose of issuing the new Ordinary Shares to the Sellers; and

- declaration, notification and submission of the Acquisition of Control and the Mandatory Offer as a foreign investment to the competent authorities which was completed in August 2017.

Under the terms of the SPA, the Total Purchase Price will be paid partly by issuing and transferring 10,000,000 newly issued Ordinary Shares to the Sellers and Free-Float Shareholders, and partly in cash. In the SPA, the newly issued Ordinary Shares were valued by mutual agreement at EUR 17.50 per share. Accordingly, EUR 175,000,000 of the Total Purchase Price will be paid in newly to be issued Ordinary Shares. The difference to the Total Purchase Price will be paid by the Issuer in cash.

Upon closing of the SPA, the Sellers will transfer to RHI Magnesita 25,020,242 Magnesita shares. The purchase price for the Acquisition of Control alone therefore amounts to EUR 204,842,035 ("**Control Price**"). The Control Price is composed partly of shares and partly of cash. RHI Magnesita will allocate and issue 5,000,000 new Ordinary Shares to the Sellers. With Ordinary Shares valued at EUR 17.50 each, this is equivalent to EUR 87,500,000. The remaining cash consideration payable to the Sellers thus will amount to EUR 117,342,035.

Under the Mandatory Offer, Free-Float Shareholders will have to be treated equally to the Sellers from whom control is acquired, which means that the purchase price under the Mandatory Offer must amount to the Brazilian real equivalent at the time of the Mandatory Offer of EUR 8.19 per Magnesita share and the same mixed consideration of cash and shares as offered to the Sellers. Therefore, the Free-Float Shareholders can request newly issued Ordinary Shares in exchange for transferring their Free-Float Shares, with 5,000,000 Ordinary Shares available to Free-Float Shareholders as share-for-share consideration. With an issue price of EUR 17.50 per Ordinary Shares, the share-for-share consideration for Free-Float Shareholders has a total cash value equivalent to EUR 87,500,000. If the acceptance ratio for the Mandatory Offer were 100% and all 25,020,241 Free-Float Shares would opt for the mixed consideration, a cash consideration of EUR 117,342,036 would be payable to Free-Float Shareholders, or 0.1998 Ordinary Shares and EUR 4.69 per Free-Float Share. As an alternative to the mixed consideration, a cash only offer of EUR 8.19 will be offered for each Free-Float Share. The Free-Float Shareholders will therefore be free to accept either the cash offer or the mixed consideration.

Except for the SPA and as disclosed in this Prospectus, in particular under "*Operating and Financial Review of RHI—Liquidity and Capital Resources—Debt—Description of the Group's main financing contracts as of June 30, 2017*", RHI has not entered into any material contracts outside the ordinary course of its business within the past two years.

Regulatory matters / Investigations

RHI is subject to comprehensive regulatory provisions under Austrian and EU law, as well as in all local jurisdictions in which it has operations, including health and safety laws, employment laws, competition laws and environment laws (in respect of the latter, also see "*Refractory industry & Regulatory overview—Regulatory overview*"*)*. RHI's management believes that the Group is substantially in compliance with all of these laws and regulations, as they are currently interpreted. Except as disclosed below, to the best of management's knowledge, there are no current or potential material regulatory claims against the Group.

Litigation and regulatory proceedings

The RHI Group is party to certain lawsuits and administrative proceedings before various courts and governmental agencies arising from the ordinary course of business involving various contractual, labor and other matters. Typically, lawsuits deal with disputes with suppliers or customers about the quality of goods and services provided (such as warranty disputes). In addition, there are typical labor disputes and litigations with distributors. In connection with environmental issues, RHI's management currently does not envisage any major litigation or financial liabilities.

RHI Group is not, or during the 12 months preceding the date of this Prospectus has not been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had in the recent past, significant effects on the RHI Group's financial position or profitability.

BUSINESS OF MAGNESITA

Overview

Magnesita is a global company dedicated to the production and sale of an extensive line of refractory materials and industrial minerals, and distinguishes itself through its vertically integrated operations, by offering integrated solutions in a wide range of refractory products and services. Magnesita's products are used mainly by the steel, cement, glass and non-ferrous metals industries. Magnesita produces and markets a broad range of refractory materials, including non-molded products, such as cement or monolithic materials, molded products such as refractory bricks and special shaped refractories for steelmaking and general industrial purposes. Magnesita's industrial activities began in 1940, soon after the discovery of magnesite deposits in Brumado, Bahia State, Brazil. Today, it operates 27 industrial facilities in eight countries (Brazil, the United States, Germany, France, China, Belgium, Argentina and Taiwan). Magnesita maintains long-standing relationships with the leading global steel and cement producers and in 2016 its products were sold to approximately 1,000 customers spread throughout 100 countries in the Americas, Europe, Asia, Oceania and Africa.

In 2016, Magnesita generated revenue of BRL 3,393.1 million with an Adjusted EBITDA of BRL 528.6 million (a 15.6% margin), an EBIT of BRL 464.5 million and income before taxes of BRL 378.2 million. Magnesita had a total of 7,165 employees as of December 31, 2016. In the six-month period ended June 30, 2017, the Magnesita Group generated revenue of BRL 1,755.1 million, Adjusted EBITDA of BRL 289.6 million, negative EBIT of BRL 1.5 million and loss after income tax and social contribution of BRL 166.6 million.

Magnesita owns a large magnesite mine in Brumado, Brazil and a large dolomite mine in York, Pennsylvania, in the United States. Magnesita also extracts other minerals from its quarries in Brazil, including chromite, clays and other minerals and holds a 70% interest in Sinterco, a processing plant of sinter doloma in Belgium of which its non-controlling shareholder is Carrières et fours à Chaux Dumont-Wautier S.A. (Lhoist Group). Altogether, Magnesita sources approximately 75% on a per ton basis of its raw material needs internally. The remainder of Magnesita's raw materials, specifically graphite, carbide, binders and alumina, are purchased from third-party suppliers at prevailing market prices. Magnesita sells to third parties the excess of minerals that it produces and that is not consumed internally, such as sintered magnesia, sintered doloma, chromite and clays, in addition to caustic magnesia which is only sold to third parties.

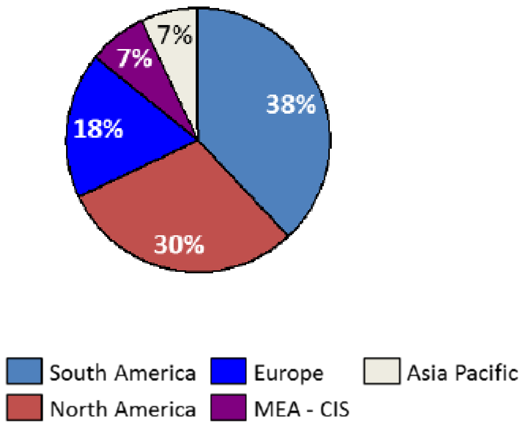
The Magnesita Group's business is organized in the following three segments:

- the Refractory Products segment, which sells refractory materials for the steel industry and other industrial applications such as the cement, non-ferrous and glass industries, as well as certain other industries. Magnesita produces its refractory products in its facilities in Brazil, Argentina, the United States, Germany, France, China and Taiwan. In 2016, the Refractory Products segment accounted for 87.6% of Magnesita's consolidated revenue;

- the Minerals segment, comprising mainly the sale of excess production of sintered magnesia and sintered doloma produced in Magnesita's mining facilities in Brazil and the United States. The largest part of the materials produced in Magnesita's mines is consumed internally to produce refractories, as described above, but the excess is sold to third parties, mostly other refractory companies. Magnesita also produces caustic magnesia (magnesia oxide) in Brumado, Brazil, which it sells mainly to the fertilizer, steel, abrasives and animal feed industries. This segment, which comprises only the sales of minerals to third parties, accounted for 5.8% of Magnesita's consolidated revenue in 2016; and

- the Services segment, which offers services ranging from the installation, repair and removal of refractories, to the monitoring of a customer's production systems for steel and industrial clients. This segment is concentrated in Brazil and South America and accounted for 6.6% of Magnesita's consolidated revenue in 2016.

In 2016, 83.6% of Magnesita's consolidated refractory revenues were generated from sales to customers in the steel industry and 16.4% were generated from sales to customers in other industrial sectors, mainly cement, non-ferrous metals and glass. The following diagram sets forth Magnesita's revenue from the Refractory Products segment in 2016 by geographic region:



Business activity

Refractory Products

Magnesita's current product portfolio includes a variety of industrial refractory products, ranging from regular magnesia bricks, shapes and refractory castables to high performance products, such as alumina and carbon containing refractories, precast refractories, nozzles and special mechanisms for continuous steel casting. Magnesita currently produces a wide range of refractories, each with a special purpose and the great majority of which are tailored to a specific customer. Because the use of refractories is highly specific to each operation and because of the resulting low levels of replication in their use among steel plants, refractories do not have commodity characteristics.

Demand for Magnesita's products is largely dependent on the volume of steel and cement production, especially in South America, North America and Western Europe. The steel industry is the largest and the cement industry is the second largest consumer of Magnesita's refractory products. The demand for steel and cement products is highly cyclical and is affected by macroeconomic fluctuations in the global markets and in the domestic economies of steel- and cement-consuming countries, including trends in the automotive, construction, home appliances, packaging and distribution industries.

Technological developments in the refractories industry are driven by the need to increase refractory performance and manufacture high-quality products at low production costs. While the increased consumption of higher quality and lighter refractory materials with longer useful lives and better performance generally decreases the total volume of consumed refractories, the improvement of refractory quality and the consequent added value in terms of a customers' improved productivity contribute to an increase in refractory prices and margins. Refractory products represented 87.6% of Magnesita's consolidated net revenue from sales and services in the year 2016.

Refractory products – Steel

Magnesita's engineers have extensive knowledge of refractories and its customers' steel production processes, allowing it to offer a full line of refractories and refractory management services for steelworks. In order to successfully provide a full line of refractories management services for steelworks, Magnesita has developed a highly skilled technical staff. The staff are trained to offer tailored solutions to each steelmaking customer which includes not only the refractory products themselves, but also the process automation, refractory application, computer-aided simulations and general process steelmaking assessment. An in-depth knowledge of customers' methods and production processes enables Magnesita to develop solutions that benefit its customers through innovation, efficiency and productivity gains.

Magnesita currently serves most of the largest steel producers throughout the world. The sale of refractories for the steel industry is the main source of Magnesita's income, representing 73% of its consolidated net revenue from sales and services in the year ended December 31, 2016 and 83% of its refractories sales in the same period, of which 38% consisted of sales in South America, 31% in North America, 20% in Europe, 7% in Asia and Oceania, and 4% in the Commonwealth of Independent States, the Middle East and Africa.

Refractory products – Industrial

The Industrial segment consists of all customers that are not related to the steel industry, including customers in non-metallic industries, such as cement, glass and lime, as well as customers that produce non-ferrous metals, such as aluminum, copper, silver, nickel and zinc. Customers in this segment do not require replacement of refractories as frequently as customers in the steel industry, but refractories are crucial for their industrial processes. As with steelmakers, refractories represent a relatively small proportion (usually less than 1%) of production costs to industrial clients.

Industrial segment customers are the second largest consumers of Magnesita's refractory products, with sales in the industrial segment representing 14.8% of Magnesita's consolidated net revenue from sales and services in the year ended December 31, 2016 and 16.9% of its refractories sales in the same period. In the year ended December 31, 2016, approximately 40% of Magnesita's sales to industrial applications were directed to South America, 24% to North America, 8% to Europe, 8% to Asia and Oceania and 20% to the Commonwealth of Independent States and the Middle East.

Sales and distribution

In the year ended December 31, 2016, Magnesita's largest and its ten largest customers accounted for approximately 11% and 50%, respectively, of its net revenue from sales and services.

The sales and marketing of Magnesita's products and services vary by industrial segment and geographic region. Magnesita has its own sales and technical assistance departments in most markets where it operates, focusing on the steel and cement segments. In certain segments and countries, Magnesita also serves its customers through commissioned representatives.

In the Refractory Products segment, Magnesita generally maintains short-term, often annually renewable, supply agreements with most of its major customers, pursuant to which Magnesita agrees to deliver a percentage of such customers' refractory requirements. The terms of these supply agreements typically require that, on an annual basis, Magnesita determines jointly with the customer the prices for each supply year. Prices are generally determined by reference to Magnesita's underlying raw material, energy and labor costs.

Magnesita's pricing model varies among different customer industrial segments and Magnesita may have contracts with different pricing terms with the same customer group. In Magnesita's steel industry business, customer contracts are either direct sale contracts (under which customers are charged a price per ton or per piece of refractory supplied), flat fee contracts (under which Magnesita charges a fixed price per ton of steel produced), performance contracts or equipment installation contracts. Under direct sales contracts, Magnesita supplies refractory products directly to the customer's site. Industrial refractory products are charged by the ton (in the case of direct sales) or at a fixed rate per lining (under its lining contracts), and prices may or may not include delivery costs. Under the "cost per performance" ("**CPP**") model, customers are charged based on the volume of steel produced instead of the volume of refractories sold and Magnesita and the customer share the economic benefit of efficiency gains achieved through Magnesita's services. Under the CPP model, Magnesita offers mechanical equipment and a complete range of maintenance and management services relating to the application of refractories. For 2016, approximately one-third of Magnesita's total revenues from sales to the steel industry came from customers with which Magnesita has arrangements based on CCP models.

Market position and competition

Magnesita's refractories business faces competition, from both international and regional companies, including generalists producing a wide range of refractory products and specialists with more limited product offerings. Magnesita's largest competitors in the refractories business are RHI (prior to the Acquisition of Control) and Vesuvius, a UK-based company. Magnesita has several additional competitors in specific regions and segments. Magnesita also competes with a number of local players in each of the markets in which it sells its products. See "*Risk Factors—Risks relating to the Group's markets and industry—The Group operates in a competitive environment and may not be able to compete successfully if its businesses do not adequately adapt to market developments*".

Industrial Minerals

Industrial minerals are nonmetallic minerals used in products and processes of various industrial segments as raw materials, input or additives. Magnesita's Minerals segment comprises mainly the sale to third parties of (i) excess production of sintered magnesia and sintered doloma produced in Magnesita's mining facilities in Brazil and the United States and (ii) caustic magnesia (magnesia oxide) produced in Magnesita's facilities in Brazil and mainly used as fertilizers, slag conditioners in steelmaking, for abrasives and magnesium salts and as animal food additives.

Magnesita consumes the largest part of the industrial minerals produced in its mines internally to produce its refractories, and only the excess is sold to third parties. In 2016, approximately 87% of Magnesita's sintered magnesia production was used internally and the remaining 13% was sold to third parties. Similarly, 96% of Magnesita's doloma sinter production was consumed internally in 2016, while the remaining 4% was sold to third parties. Magnesita sold only limited amounts of chromite in 2016. All caustic magnesia that Magnesita produces is sold to third parties.

Sales of industrial minerals represented 5.8% of Magnesita's consolidated net revenue from sales and services in the year ended December 31, 2016. Sintered magnesia represented 24% of Magnesita's sales of industrial minerals in 2016, caustic magnesite represented 20%, sintered doloma 16% and other industrial minerals 40%. Until 2016, Magnesita also used to sell talc to third parties. Magnesita sold its talc business in the fourth quarter of 2016.

Sales and distribution

Sales of excess of sintered magnesia produced at the Brumado mine in Brazil are usually made to refractory producers and trading companies. Doloma sinter, which is produced at the York, Pennsylvania mine and production facility in the United States, is sold mostly to refractory producers and steelmakers. In addition, caustic magnesia produced in Brazil is sold mainly to the fertilizer, steel, abrasive and animal feed industries. Sales are made either on a spot basis or under a short-term contract.

Market position and competition

In the sintered magnesia market, Magnesita competes with Chinese exporters and other suppliers such as Nedmag Industries from the Netherlands, Queensland Magnesia from Australia and Konya Selcuklu Krom Magnezit Tudla Sanayi (Konya Krom) from Turkey. In the caustic magnesia market, Magnesita competes mostly with IBAR Nordeste, Magnesium do Brasil and Xilolite.

Services

In addition to services that are directly related to the sale of refractory products under CPP service contracts, which are allocated to the Refractory Products segment, Magnesita also offers services ranging from the installation, removal, repair and recycling of refractories, to the monitoring of a customer's production systems through its Services segment. The services offering is mostly focused on steel and cement customers in Brazil and South America. This segment accounted for 6.6% of Magnesita's consolidated revenue in 2016.

Customers in South America accounted for 93% of the services revenue in 2016, North America 5%, and Europe 2%; customers in the steel industry accounted for 81%, Industrial clients for 19% of the services revenue.

Sales and distribution

Steel and cement customers in Brazil and South America account for the largest share of the service business for Magnesita. The offering includes spot services and recurring contracts with these customers. To some extent it also includes other companies such as non-ferrous and mining companies.

Market position and competition

Competition in Magnesita's service business is based on price, quality and delivery time. Important competitors in this segment include companies such as Reframax Engenharia, RIP Serviços Industriais and Engemax.

Raw materials and energy

Raw materials

Magnesite sinter is the main raw material used in refractory production due to its extreme resistance to high temperatures (up to 2,000° Celsius). Magnesita produces sintered magnesia in its Brumado mine in Bahia, Brazil, a reserve large enough to cover its demands in the foreseeable future. Except for the Dalian plant in China, Magnesita fully relies on its Brumado mine for its sintered magnesia demand. In 2016, 87% of Magnesita's sintered magnesia production was used in Magnesita's production process, with the remaining 13% being sold to third parties.

Due to its extreme resistance to high temperatures (up to 1,800° Celsius) doloma sinter is also a main raw material. Magnesita produces sintered doloma in its York, Pennsylvania, mine in the United States, and in its Acaba Mundo mine, Belo Horizonte, Brazil and through Sinterco. Magnesita's own sintered doloma sources are sufficient to cover its demands in the foreseeable future. In 2016, approximately 96% of Magnesita's sintered dolomite production was used in Magnesita's production process, with the remainder being sold to third parties.

Alumina is another important raw material for Magnesita, also due to its extreme resistance to high temperatures (up to 1,800° Celsius). Magnesita produces aluminous chamote from its Uberaba mine in Minas Gerais, Brazil, which covers parts of its needs in Brazil. For its operations is the United States and Europe, Magnesita purchases from third parties 100% of the alumina it needs.

Magnesita also mines chromite, kyanite, clays and pyrophyllite. Magnesita uses chromite for the production of refractory materials and sells only limited amounts of by-products to third parties.

Magnesita purchases the remainder of the raw materials it needs, primarily alumina, graphite, zirconia and other materials such as binders, from third-party traders on the commodities market or directly from producers. These raw materials are not tradable commodities and therefore have usually modest price volatility. Apart from the influence of inflation rates and foreign exchange fluctuations, these raw materials may be subject to price increases due to increased demand, increased production, commercial duties such as export quotas, or shipping costs or increases in import taxes. See "*Risk factors—Risks relating to the Group's business, production and operations—The Group depends on a* *limited number of third party suppliers for certain raw materials and may not obtain the raw materials in the required quantities or qualities or at economically feasible prices.*

Energy

Magnesita meets its electricity needs in Brazil through both the purchase of electricity from utility companies in long term contracts and the operation of its own thermoelectric power generators. Magnesita operates two thermoelectric power generators in Brumado, where its sintering mills are located, and has another three thermoelectric power generators in Contagem, all of which it has historically operated only at peak energy use times when electricity generation costs using these power generators are lower than the prices for electricity offered by local electric utility companies. The power generators provide greater autonomy by reducing the risk of interruptions in the event of electric power failures, thus enabling continuous production and supply of products to customers.

For all of Magnesita's operations, natural gas is the primary source of energy used in Magnesita's production of tempered and burnt refractory products. For the production of magnesite sinter in Brumado, oil is used as energy, which is purchased from local suppliers at market prices. For the production of dolomite sinter, coal and anthracite are the major sources of energy. In Europe, energy supplies are purchased from local suppliers at market prices. Energy used in Magnesita's U.S. operation is generally provided by a combination of coal, electricity and natural gas.

Production

Magnesita has production sites in Brazil, the United States, Germany, France, Belgium (joint venture), China, Argentina and Taiwan (joint venture). Magnesita currently owns mines in Brazil and the United States. Magnesita believes that it has sufficient minerals reserves to sustain its operations as currently conducted for the foreseeable future.

Operating Assets

The following table contains certain information about Magnesita's primary operating facilities:

	Plant function				Title status	
Country	**Plant owned by Magnesita Group**	**Mine**	**Production of Raw materials**	**Production of finished refractory products**	**Mine owned by Magnesita Group**	**Land not owned / mining based on mining right**
Brazil	Brumado	●	●		●	
	Uberaba	●	●		●	
	Acaba Mundo	●	●		●	
	Santa Luz	●	●		●	
	Itabirito	●	●		●	
	Pitangui	●	●		●	
	Contagem			●		
	Coronel Fabriciano			●		
Argentina	Rasa			●		
United States	York	●	●	●	●	
	KMR[1]			●		
Germany	Kruft			●		
	Hagen			●		
France	Valenciennes			●		
	Flaumont			●		
China	Dalian			●		
Belgium	Sinterco [2]		●			
Taiwan	Envoy [3]			●		

(Source: Magnesita internal data.)

(1) KMR is a joint venture between Magnesita (40%) and Krosaki (60%); it is intended to be liquidated.

(2) Sinterco is an operation of which Magnesita holds a 70% interest and Lhoist the remaining 30%. The operation includes the processing facility (the mine belongs to Lhoist).

(3) Envoy is a joint venture in which Magnesita holds a 50% interest.

In Brazil, Magnesita's principal magnesite ore reserves and most significant extraction activities as well as its facilities for the production of sintered magnesia and caustic magnesia are located in the city of Brumado, Brazil. The Brumado operation supplies sintered magnesia to Magnesita's plants in Brazil, Argentina, the United States and Europe.

Eight of Magnesita's industrial units and its administrative offices are located in the city of Contagem, Brazil. Five plants there are dedicated to the production of alumina refractories, basic refractories, aluminum-graphite tubes, monolithics and pre-casted refractories. These plants cover an extensive line of magnesite and alumina based refractories supplied mainly to the steel and cement industries.

Finally, Magnesita owns a refractory plant in Coronel Fabriciano, State of Minas Gerais, Brazil, with the main activity being the production of refractories such as lances, snorkels, impellers and concrete used by large-sized integrated steel plants.

In Argentina, Magnesita owns an industrial unit dedicated to the manufacturing of various types of refractories, including bricks, masses, concrete, mortar, blocks and pre-molded refractory parts, for the steel industry.

In the United States Magnesita owns a quarry in York, Pennsylvania. The mined stone is burnt in a rotary kiln and then is used in the production of shaped and unshaped refractories, manufactured on the same campus. KMR, which Magnesita intends to liquidate, markets, sells and delivers flow control refractories and certain related services and products. KMR is 40% owned by Magnesita Refractories Company.

In Germany, Magnesita owns two refractory plants, one located in Hagen for bricks of burnt and tempered dolomite, as well as burnt and tempered magnesite and basic monolithics, and one in the city of Kruft for specialty products and other non-basic products. In September 2017, Magnesita reached an agreement to sell a third plant, located in Oberhausen, in order to satisfy conditions imposed by the EU merger control authorities in connection with their approval of the Acquisition of Control. The disposal is expected to be completed in the first half of November 2017. In France, Magnesita owns a plant in Valenciennes dedicated to producing dolomite shaped products and a plant in Flaumont dedicated to the production of shaped and unshaped dolomite products. In Belgium, Magnesita operates a production facility of sintered doloma through Sinterco. The sintered doloma is sourced to Magnesita's plants in Europe.

In China, Magnesita owns a plant located in the city of Dalian to produce mag-carbon refractory bricks. The operation in Dalian is export oriented. In Taiwan, Envoy is Magnesita's joint venture which manufactures monolithics and high alumina products for sale in the Asian markets. Magnesita holds a 50% interest in the joint venture.

Mineral concessions

In Brazil, Magnesita holds several active mineral concessions registered with the National Department of Mineral Production (*Departamento Nacional de Produção Mineral,* "***DNPM***"). These mineral concessions are valid until all of the minerals at the mines have been consumed. Magnesita is also subject to a governmental royalty fee on the exploitation of mineral which is payable to the DNPM and assessable on the transportation of minerals from its mines at a rate of 0.2% to 3% on the net revenues from these minerals.

In China, Magnesita has the right to exploit one mine, but the operation has been temporarily decommissioned since 2015. The exploration, mining and processing of dolomite by a foreign-owned enterprise in China is subject to the approval of competent governmental authorities and is governed by a set of laws and regulations known as the Mineral Resources Law. Together with the Chinese Constitution, the Mineral Resources Law provides that mineral resources are owned by the State, and the State Council, the highest executive organization of the Chinese government, exercises ownership rights of mineral resources on behalf of the state. Therefore, the Chinese government is free to license to third parties its right to occupy and use mineral resources and may collect resource taxes and royalties pursuant to its right to profit from mineral resources.

Magnesita's quarry operations at its York, Pennsylvania site are subject to extensive regulation by state and federal environmental and mining authorities. Magnesita is required to obtain and maintain permits to conduct non-coal surface mining, and these permits require preparation of a reclamation plan to address environmental impacts caused by mining operations and to restore soil and vegetation once mining operations cease. As required by law, Magnesita has established a bond as financial security to guarantee post-closure reclamation obligations.

Logistics

Magnesita manages its own logistics for the receipt and distribution of raw materials and finished products, as well as for the internal transportation of materials. Magnesita manages its inventory levels based on market demand and on the production plans of each customer's plant. Magnesita monitors its logistic chain through highly developed information systems. These systems monitor distribution, inventory and application of Magnesita's products at its main customer sites. Magnesita transports its products in Brazil, as well as in Argentina, Paraguay and Uruguay, by road transportation, except for ores extracted from Brumado, which are transported by rail. Magnesita's exports from Brazil to other countries are shipped mainly through the Aratu Port. The transport of raw materials from Sinterco in Belgium to the plants in Germany and France is made by road transportation. In Magnesita's York facility the mine and the plant are both at the same location.

Magnesita also leases a port terminal in the Aratu Port in the City of Candeias, Brazil, under a 25-year lease agreement, which is renewable for another 25 years subject to both parties' agreement. The lease agreement requires Magnesita to make certain minimum investments in the port and to transport through the port at least 80 thousand tons of solid bulk cargoes, calcined magnesite and magnesium oxide per year. Magnesita was in compliance with both conditions in 2016 and is also authorized to transport third-party cargo through the port, as long as the area is subject to federal customs control. The port terminal is dedicated primarily to the outflow of industrial minerals, predominantly sintered magnesia from Brumado. Magnesita's warehouse at the port terminal is completely covered, with renovated individual storage bays and loading is entirely mechanized.

Research and development

Magnesita has a research and development center in its Contagem facility, a research laboratory in its Hagen facility and a research laboratory in its York facility, all of which are equipped with state-of-the-art technical equipment. Magnesita's research and development centers have been responsible for a significant improvement in its methods for extraction of ores, production of refractories and product distribution. As of December 31, 2016, Magnesita's research and development department had 113 employees, including 35 engineers who supervise and monitor new product trials as they are introduced to customers. The Brazilian, U.S. and European research teams meet on a quarterly basis to review departmental progress and to exchange know-how on the latest technical advancements.

Magnesita has partnerships with top universities such as UFSCar (Brazil) and Freiburg (Germany) with an emphasis on research in refractory materials. Magnesita's technological research projects involve numerous departments and include performing laboratory tests as well as field tests with its customers.

As of December 31, 2016, Magnesita had a total of two R&D-related agreements in force, including technology transfer, patent license and technical assistance agreements. Both of the agreements are registered with the Brazilian National Institute of Industrial Property (*Instituto Nacional da Propriedade Industrial*), or INPI, and with the Brazilian Central Bank.

In 2016, costs related to R&D amounted to BRL 30.7 million, accounting for 0.9% of Magnesita's consolidated revenue.

Development of new products and production methods

Magnesita keeps its focus on product R&D on innovative technologies of refractories in order to provide value-added solutions for the Magnesita Group's customers. The R&D initiatives involve not only refractory products, but also raw materials produced by the Magnesita Group.

The ability to produce ultra-low carbon steel is a top priority for steel makers. To enable this, R&D developed low carbon content products which have to be combined with special additives in order to avoid the carbon pick-up on steel, and at the same time maintain key properties such us thermal shock resistance and corrosion resistance. Magnesita is also focusing on environmentally friendly products for the steel making industry. For example, the use of nano-additives enables a thermal conductivity reduction of refractory linings leading to lower energy consumption in the steelmaking process. Further initiatives include blast furnace high erosion resistance castables, high performance convertors linings and more.

R&D also develops higher performance products in the cement industry. Magnesita is investigating the use of specific oxides capable of improving the hot temperature mechanical properties of products used in this industry; the introduction of additives is also analyzed in order to promote the refractory's coating on cement kilns, resulting in a longer useful life. Magnesita is developing low energy requiring refractory products for the cement industry as well.

As a raw material vertically integrated company, Magnesita keeps a strong R&D focus on its own mineral resources: Reducing the waste resulting from existing mineral concentration processes serves cost reduction and is at the same time an environmentally friendly approach. In addition, Magnesita incrementally develops existing products and services to provide value-added solutions for the Magnesita Group's customers.

Intellectual property

Magnesita relies on patent protection for certain technologies and processes and trademark protection for various marks. Worldwide, it holds 28 patents (including patent applications and granted patents). The trademark portfolio consists of 133 trademarks (including trademark registrations and applications). Magnesita also holds domain name registrations in several countries related to its main trademarks.

Magnesita also relies on copyright and trade secret protection for its confidential and proprietary information and technologies.

Employees

The table below provides a breakdown of Magnesita's employee numbers by region as of June 30, 2017, and as of December 31, 2016, 2015 and 2014:

	As of June 30,		As of December 31,					
	2017		2016		2015		2014	
Employees	Number of employees	% of total employees	Number of employees	% of total employees	Number of employees	% of total employees	Number of employees	% of total employees
South America	5,860	79.8%	5,664	79.1%	6,009	81.1%	5,596	77.4%
Europe	598	8.1%	605	8.4%	562	7.6%	556	7.7%
North America	627	8.5%	675	9.4%	586	7.9%	604	8.4%
Asia	259	3.5%	221	3.1%	252	3.4%	471	6.5%
Total	**7,344**	**100%**	**7,165**	**100%**	**7,409**	**100%**	**7,227**	**100%**

Out of Magnesita's 7,165 employees as of December 31, 2016, 80% worked in operations, 10% worked in commercial and technical assistance and 10% were employed in administrative functions. The employee turnover rate was 1.13% in 2016, 1.54% in 2015 and 1.42% in 2014. To improve career and succession plans, Magnesita has implemented several trainee and internship programs.

In addition to variable compensation, Magnesita offers benefits to its employees such as health and dental care, pharmacy discount cards, staple food baskets, payroll deduction loans, full support, life insurance, private pension plan, subsidized transportation ticket and meal vouchers. As of December 31, 2016, the defined contribution plan had 3,696 active participants and the defined benefit plan had 195 inactive members (retirees and pensioners) and 980 participants who will remain entitled to defined benefits.

The Magnesita Group is currently involved in several hundred labor and employment lawsuits in relation to, among other issues, salary parity, indemnity for occupational disease, work injuries, health exposure pay, hazardous duty pay and overtime, which, although individually of low importance, could, as a whole, have a material effect on the Group if adversely determined. Magnesita has in the past experienced brief work slowdowns and strikes, especially in Brazil and in Argentina. Magnesita management believes its employee relations have improved since then and are currently good.

Health and Safety Matters

The health and safety of its employees is important to Magnesita. In 2016, safety management continued to improve as Magnesita enhanced procedures to identify and minimize risks, defining a rigorous set of operational controls and implementing a robust safety training program. The lost-time injury rate, defined as the number of accidents with absence from work, multiplied by 200,000 and divided by the number of worked hours, has decreased to 0.27 in 2016, a record low for Magnesita and, Magnesita believes, in line with the rates of Magnesita's peer companies which have operational procedures similar to Magnesita according to publicly available sources such as the Global Report Initiatives. Magnesita continuously invests in safety training programs. In 2016, training focused in particular on risk perception, operational procedures, emergency plans, confined spaces entry, work at height, hot work, lifting equipment operation, mobile equipment operation, lock out and tag out.

Magnesita's awareness policies for health and safety are applied in all Magnesita units worldwide and most of its industrial units are ISO 14001 and ISO 18001 certified. In 2016, all previously obtained certifications were in accordance with the international standard ISO 14001. Furthermore, all ISO 9001 quality management system certifications were maintained in 11 units in Brazil, in addition to units in Europe, Asia and the United States. OHSAS 18001 certifications for occupational health and safety management systems at the Vitória and Usiminas Cubatão Regional units were also maintained.

Environmental matters

Magnesita's facilities and its refractory, exploration and mining operations are subject to environmental laws and regulations in each of the jurisdictions in which it operates. These laws govern, among other things, air emissions (including dust control), water discharges, the use, storage and disposal of solid and hazardous substances and wastes, reclamation or restoration of the environment in mined areas and the cleanup of contaminated properties. For a detailed description of the regulatory provisions applicable to Magnesita, in particular in Brazil, see "*Refractory Industry & regulatory overview—Regulatory overview*".

Magnesita performs several preventive actions to minimize its environmental impact. In addition to using high-efficiency filters to reduce emissions, Magnesita systematically promotes reforestation, water quality monitoring, and water recycling projects and environmental education programs – not only for its workforce, but also for neighboring communities. It also owns a Private Natural Heritage Reserve (*Reserva Particular do Patrimônio Natural*) located in Bahia, Brazil, a type of preservation area privately owned to preserve biodiversity which may be used for scientific research, education, recreation and public visits for eco-tourism.

Magnesita is a pioneer in reverse logistics of refractory waste. About ten years ago, even before legislation was passed making the adoption of this process mandatory in Brazil, Magnesita's R&D area had been improving methods for the nearly full recycling of refractories. Gross recycled products acquired in 2016 totaled 15,500 tons and, of such total, Magnesita used 12,158 in own production, in addition to 5,400 tons of waste as sinter substitute. Almost all the raw materials for production of magnesia and sintered doloma used in production of refractories are extracted from Magnesita's own mines. Mining is planned so as to protect the environment.

Property, plant and equipment

The book values of property, plant and equipment as of December 31 developed as follows in the years 2016, 2015 and 2014:

(in BRL million, audited)	2016	2015	2014
Land	141.7	141.3	84.6
Mineral deposits	46.7	38.5	49.1
Buildings and improvements	408.2	477.6	352.8
Machinery, facilities and equipment, including IT equipment	735.1	859.0	620.6
Transportation equipment	3.2	3.4	1.1
Furniture, fixtures and other	32.9	53.1	33.6
Construction in progress (i)	161.0	233.6	223.5
Impairment of PP&E	(95.8)	(189.7)	(54.7)
Total PP&E	**1,433.0**	**1,616.8**	**1,310.6**

Intangible assets

The book values of the Group's intangible assets as of December 31 developed as follows in the years 2016, 2015 and 2014:

(in BRL million, audited)	2016	2015	2014
Goodwill on investment acquisition			
Magnesita S.A.	1,043.7	1,043.7	1,043.7
LWB	1,101.8	1,368.5	1,403.3
Magnesita Mineração S.A.	39.8	39.8	39.8
Reframec Mont. e Man. Ref. Ltda.	21.4	21.4	21.4
Impairment of goodwill	(225.5)	(291.4)	-
Software and other intangible assets	124.1	75.0	60.1
Total	**2,105.2**	**2,256.9**	**2,568.3**

Significant subsidiaries

Set forth below is a table setting forth Magnesita's significant subsidiaries and Magnesita's ownership share for each as of the date of this Prospectus:

Name of the subsidiary	Registered office	Share in percentage*
Magnesita Mineração S/A	Brumado, Bahia, Brazil	100.0
Magnesita Refractories Co	York, Pennsilvania, United States	100.0
LWB Refractories Hagen GmbH	Hilden, Germany	100.0
Magnesita Refractories GmbH	Hilden, Germany	100.0
Vierte LWB Refractories Holding GmbH	Hilden, Germany	100.0
Rearden G Holdings Eins GmbH	Hilden, Germany	100.0
Sinterco SA	Nameche, Belgium	70.0
Magnesita Finance S.A.	Luxembourg, Grand Duchy of Luxembourg	100.0

* Direct and/or indirect participation.

Litigation and regulatory proceedings

Taking into account the multiple jurisdictions in which the Magnesita Group operates, as well as the size and diversity of its operations, it is involved in a number of legal proceedings that have arisen mainly in the ordinary course of business.

In particular, the Magnesita Group is currently involved in disputes in relation to certain tax, labor and civil matters. The claims in the numerous labor lawsuits relate mainly to salary parity, indemnity for occupational disease, work injuries, health exposure pay, hazardous duty pay and overtime. Although individually of low importance, these disputes as a whole could have a material effect on the Group if adversely determined.

Magnesita is not, or during the 12 months preceding the date of this Prospectus has not been, involved in any governmental, legal, regulatory or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had in the recent past, significant effects on the Magnesita Group's financial position or profitability, except for those set out above and below.

Goodwill tax matter

There are currently tax proceedings ongoing in Brazil involving risks of loss classified as possible by the management, based on the evaluation of Magnesita's legal advisors. The total amount in controversy involving risks of loss classified as possible is estimated at BRL 642 million (as of December 31, 2016), for which no provision has been made. There are two proceedings concerning claim for corporate income tax and social contribution on net income arising from goodwill. The first claim (BRL 309.8 million) related to years 2008 and 2009: based on a tax assessment drawn up on December 26, 2011, the authorities challenged the amortization of goodwill arising from mergers of subsidiaries of Magnesita Group. On April 7, 2016, Magnesita was notified of a decision that more than 90% of the tax assessment notice related to the first claim had been canceled by the authorities; this decision is not final yet and is still subject to revision. The second claim (BRL 146 million) related to years 2011 and 2012: based on a tax assessment drawn up on December 5, 2016, the authorities challenged the amortization of goodwill arising from mergers of subsidiaries of Magnesita Group. On December 29, 2016, Magnesita filed a challenge of the tax assessment notice.

Eletrobrás lawsuit

Furthermore, Magnesita filed a lawsuit against Eletrobrás in June, 1999, claiming repayment of accrued inflation over amounts paid by Magnesita as compulsory loan. In 2001, a court decision was rendered in favor of Magnesita which became final in 2006 and Magnesita initiated enforcement. In 2007, Magnesita recovered nearly BRL 8 million, recognized as due by Eletrobrás. Subsequently, Magnesita recovered a further BRL 62 million in 2011, which payment Eletrobrás is currently challenging. The parties are currently awaiting the remittance of the files to the judicial accountant to quantify the amounts still due. Magnesita considers the risk of an adverse outcome in this case to be remote and accordingly has not made a provision in connection with this matter.

Lawsuits relating to traffic violations

In addition, Magnesita is facing actions of a civil nature from administrative authorities, suppliers, third parties who have rendered services and residents neighboring Magnesita's facilities, involving risks of loss classified by Magnesita's management as possible, based on the assessment of its legal advisors, in the amount of approximately BRL 34 million as of December 31, 2016, for which no provision has been made. The lawsuit was filed in April, 2015 and it refers to potential violations occurred between 2010 and 2015. One particular lawsuit concerns a BRL 28 million public civil action claiming moral and material damages from Magnesita for transiting with excess weight, in violation of traffic legislation. In May 2017, Magnesita got a favorable decision in the first instance with total rejection of the civil prosecutor's requests. Currently there are no similar cases judged by the Superior Court, but most of the decisions on appeal court are favorable to Magnesita's interests.

Insurance

Magnesita maintains insurance in such amounts and with such coverage as management believes is reasonable and prudent. Magnesita and its subsidiaries maintain insurance policies to cover operating risks, comprising industrial facilities, machinery and inventories. This coverage insures loss of profits, risk of fires, floods and other events. The Company also maintains civil liability insurance, credit insurance, group life insurance for employees, transportation insurance, employee accident insurance, and employee travel insurance.

Material contracts

For a description of Magnesita's main finance agreements see "*Operating and financial review of Magnesita operations—Debt— Description of Magnesita's main financing contracts*".

PROFITS AND DISTRIBUTIONS

General

The Issuer may only make distributions to its Shareholders insofar as the Issuer's equity exceeds the aggregate of the issued capital and the reserves which must be maintained pursuant to Dutch law or by the Issuer's articles of association (including a mandatory reserve of EUR 288,699,230.59 which was created in connection with the Merger to comply with Austrian creditor protection rules). Under the Articles of Association, distribution of profit, meaning the net earnings after taxes shown by the adopted annual accounts referred to in Section 2:391 of the DCC (the "**Annual Accounts**"), will be made after the adoption of the Annual Accounts from which it appears that they are permitted for the respective financial year, entirely without prejudice to any of the other provisions of the Articles of Association.

The Board may resolve that the profits realized during a financial year will be fully or partially appropriated to create increase and/or form reserves, taking into account the financial condition, earnings, cash needs, capital requirements (including requirements of its subsidiaries, group companies and other affiliated companies) and any other factors that the Board deems relevant in making such a determination. Any remaining part of the profits after the addition to reserves will be at the disposal of the General Meeting. The Board shall make a proposal to the General Meeting regarding any such remaining part of the profits.

Dividends and other distributions are further summarized in "*Description of the Share Capital and the Articles of Association—Dividends and other distributions*".

Issuer dividend history

The Issuer was incorporated on June 20, 2017 and has neither declared nor paid any dividends.

RHI dividend history

RHI declared and paid a dividend of EUR 0.75 per share for each of the financial years ended December 31, 2016, 2015 and 2014.

Dividend policy

A dividend for the financial year ending on December 31, 2017, if any, will be determined at the annual General Meeting in 2018.

The Issuer's aspiration is to pay stable dividends in respect of each of the financial years 2017 and 2018, in line with RHI's previous years' payment levels. In the mid- to long-term, however, the Issuer's aspiration is to increase dividend payments as a result of stronger cash flow generation resulting from synergies, organic growth and de-leveraging of the Issuer's capital structure.

The Issuer's intentions in relation to dividends are subject to numerous assumptions, risks and uncertainties, many of which may be beyond the Issuer's control. Since the Issuer does not itself conduct any operating business, its ability to pay dividends depends on its operating subsidiaries, group companies and other associated companies making profits and distributing these to the Issuer. Furthermore, the timing and amount of future dividend payments, if any, will depend on the Issuer's financial performance, including, among other factors, its earnings, its general financial condition and liquidity situation, general conditions in the markets in which it operates, inflow of funds from its subsidiaries, group companies and other associated companies and legal, tax and regulatory considerations, as well as such other factors as the Board may consider relevant. For further information on these limitations see "*Operating and Financial Review of RHI—Liquidity and Capital Resources—Debt—Description of the Group's main financing contracts as of June 30, 2017*" and "*Operating and Financial Review of Magnesita—Debt—Description of Magnesita's main financing* *contracts*". As a consequence of these factors, there can be no assurance as to whether dividends or similar payments will be paid in future or, if they are paid, there is consent. See also "*Risk Factors—Risks relating to the Ordinary Shares and Admission—The Group cannot make any assurance that it will pay cash dividends or make other distributions in the future*".

Manner and time of dividend payments

Payment of any dividend in cash will in principle be made in euro. According to the Articles of Association, the Board may determine that distributions on Ordinary Shares will be made payable in another currency. Any distributions that are paid to holders of Depositary Interests through CREST will be automatically credited to the accounts of the relevant holders of Depositary Interests without the need for such holders to present documentation proving their ownership of such Depositary Interests. Payment of distributions on the Shares in registered form will be made directly to the relevant Shareholder using the information contained in the Issuer's shareholders' register and records.

Distributions shall be made payable four weeks after adoption, unless the General Meeting determines another date upon a proposal by the Board.

Uncollected dividends

A claim for any declared dividend and other distributions lapses five years after the date those dividends or distributions were released for payment. Any dividend or distribution that is not collected within this period will be considered to have been forfeited to the Issuer.

Taxation

Dividend payments on the Ordinary Shares are generally subject to withholding tax in the Netherlands. See "*Taxation for Shareholders—Taxation in the Netherlands*".

CAPITALIZATION AND INDEBTEDNESS

The following tables set forth (i) RHI's and Magnesita's capitalization and net indebtedness as at June 30, 2017, (ii) a pro forma adjustment for the Refinancing at RHI and the Acquisition of Control and (iii) the pro forma capitalization and net indebtedness as at June 30, 2017 for the Combined Group (i.e. the Group after giving effect to the Merger and the Acquisition of Control).

The information presented below has been derived from the RHI Financial Statements and the Magnesita Financial Information, as well as internal data. It should be read in conjunction with the sections "*Operating and Financial Review of RHI*", "*Operating and Financial Review of Magnesita*" and *"Unaudited Pro Forma Financial Information"* as well as the RHI Financial Statements and the Magnesita Financial Information included in this Prospectus.

It should be noted that Magnesita's capitalization and net indebtedness as at June 30, 2017 is presented in euro (instead of Brazilian real as reported in the Magnesita Financial Information) and therefore unaudited. Amounts in relation to Magnesita have been extracted from the audited Magnesita Special Purpose Consolidated Interim Financial Information and translated at an exchange rate of BRL 3.77 per euro, the closing exchange rate at June 30, 2017. This currency translation has not been separately audited.

Capitalization and indebtedness

	RHI	**Magnesita**	**Pro forma Adjustment for the Refinancing and the Acquisition of Control**	**Combined Group**
	As at June 30, 2017			
	in EUR million			
	(audited)	**(unaudited)**	**(unaudited)**	**(unaudited)**
Current debt				
Guaranteed	-	-	-	-
Secured	34.0	4.0	-	38.0
Unguaranteed/Unsecured	132.1	100.7	-	232.8
Total current debt	**166.1**	**104.6**	-	**270.7**
Non-current debt (excluding current portion of long-term debt)				
Guaranteed	-	-	-	-
Secured	-	6.2	118.0	124.2
Unguaranteed/Unsecured	376.4	551.4	-	927.8
Total non-current debt:	**376.4**	**557.6**	**118.0**	**1,052.0**
Total debt	**542.5**	**662.2**	**118.0**	**1,322.7**
Shareholder's equity[(1)]				
Share capital	289.4	418.1	-	-
Group reserves	197.1	84.2	-	-
Non-controlling interests	15.9	5.3	-	-
Total equity	**502.4**	**507.6**	-	-
Total capitalization	**1,044.9**	**1,169.8**	-	-

(1) Shareholder's equity is only presented for RHI and Magnesita as it cannot yet be calculated for the Combined Group prior to the purchase price allocation for the Acquisition of Control (which is expected to be made for the consolidated financial statements of the Issuer for the financial year ending on December 31, 2017).

(Source: RHI Financial Statements, Magnesita Financial Information and internal data.)

Net indebtedness

	RHI	Magnesita	Pro forma Adjustment for the Refinancing and the Acquisition of Control	Combined Group
	As at June 30, 2017			
	in EUR million			
	(audited)	**(unaudited)**	**(unaudited)**	**(unaudited)**
A. Cash	147.3	103.9	(12.7)	238.5
B. Cash equivalent	2.1	73.6	-	75.7
C. Trading securities	-	23.5	-	23.5
D. Liquidity (A) + (B) + (C)	**149.4**	**200.9**	**(12.7)**	**337.7**
E. Current financial receivables	**-**	**-**	**-**	-
F. Current bank debt	147.4	103.5	**-**	250.9
G. Current portion of non-current debt	-	1.1	**-**	1.1
H. Other current financial debt	18.7	-	-	18.7
I. Current financial indebtedness (F) + (G) + (H)	**166.1**	**104.6**	**-**	**270.7**
J. Net current financial indebtedness (I) – (E) – (D)	**16.7**	**(96.3)**	**12.7**	**(66.9)**
K. Non-current bank loans	310.6	281.8	118.0	710.4
L. Bonds issued	0.0	275.8	-	275.8
M. Other non-current loans	65.8	-	**-**	65.8
N. Non-current financial indebtedness (K) + (L) + (M)	**376.4**	**557.6**	**118.0**	**1,052.0**
O.Net financial indebtedness (J) + (N)	**393.1**	**461.3**	**130.7**	**985.1**
P Indirect and contingent indebtedness[(1)]	33.3	198.7	-	232.0
Q. Total financial and contingent indebtedness (O) + (P)	**426.4**	**660.0**	**130.7**	**1,217.1**

(1) Indirect and contingent indebtedness for RHI entirely relates to contingent liabilities in the amount of EUR 33.3 million. Other than as reported under contingent liabilities, RHI has not incurred indirect or contingent indebtedness. For details regarding RHI's contingent liabilities, see "*Operating and Financial Review of RHI—Liquidity and capital resources—Contingent liabilities and guarantees*". Indirect and contingent indebtedness for Magnesita entirely relates to contingent liabilities in the amount of BRL 749.1 million. Other than as reported under contingent liabilities, Magnesita has not incurred indirect or contingent indebtedness. For details regarding RHI's contingent liabilities, see "*Operating and Financial Review of RHI—Debt—Contingent liabilities*".

(Source: RHI Financial Statements, Magnesita Financial Information and internal data.)

No material change

Other than set out above, there has been no material change in RHI's or Magnesita's capitalization, indebtedness or net indebtedness since June 30, 2017.

SELECTED CONSOLIDATED FINANCIAL DATA OF RHI

The selected historical financial information of the RHI Group as at and for the years ended December 31, 2016, 2015 and 2014 set out below has been extracted or derived from the RHI Consolidated Annual Financial Statements, which are included on pages F-90 *et seq.* in this Prospectus. The financial information as of and for the six-month periods ended June 30, 2017 (audited) and 2016 (unaudited) has been extracted from the RHI Consolidated Interim Financial Statements, which are included on pages F-1 *et seq.* in this Prospectus, or has been calculated based on the data in the RHI Interim Financial Statements and certain other information of the RHI Group. The RHI Financial Statements were prepared in accordance with EU-IFRS and are presented in euro.

The following selected consolidated financial data of RHI should be read in conjunction with, and are qualified by reference to, the Operating and Financial Review and the RHI Financial Statements contained in this Prospectus.

	Six-month period ended June 30,		Year ended December 31,		
	2017	**2016**	**2016**	**2015**	**2014**
	(in EUR million, except as otherwise noted)				
	(audited, except as otherwise noted)	**(unaudited)**	**(audited, except as otherwise noted)**		
Consolidated Statement of profit and loss					
Revenues	855.8	830.2	1,651.2	1,752.5	1,721.2
Cost of sales	(657.2)	(649.6)	(1,294.8)	(1,389.1)	(1,350.3)
Gross profit	**198.6**	**180.6**	**356.4**	**363.4**	**370.9**
Selling and marketing expenses	(54.2)	(52.1)	(105.2)	(112.1)	(114.7)
General and administrative expenses	(76.8)	(62.4)	(134.5)	(122.3)	(114.9)
Other income	37.0	56.8	92.3	76.0	50.9
Other expenses	(45.6)	(52.7)	(85.8)	(80.9)	(50.3)
Operating EBIT	**59.0**	**70.2**	**123.2**	**124.1**	**141.9**
Result from derivatives from supply contracts	(1.2)	3.0	10.1	(58.0)	
Impairment losses	(7.2)	-	(8.6)	(31.2)	(19.8)
Income from restructuring	-	-	0.3	5.9	-
Restructuring costs	(1.0)	(4.6)	(8.9)	(3.3)	(13.6)
Net income from US Chapter 11 proceedings	-	-	-	-	0.8
EBIT	**49.6**	**68.6**	**116.1**	**37.5**	**109.3**
Interest income	1.1	1.4	4.1	5.8	2.6
Interest expenses	(8.7)	(9.0)	(17.5)	(20.5)	(22.2)
Other net financial expenses	(2.5)	(3.5)	(7.8)	(4.6)	(13.1)
Net finance cost	**(10.1)**	**(11.1)**	**(21.2)**	**(19.3)**	**(32.7)**
Share of profit of joint ventures	6.4	5.4	10.9	9.2	8.2
Profit before income tax	**45.9**	**62.9**	**105.8**	**27.4**	**84.8**
Income tax	(20.2)	(24.0)	(29.9)	(9.8)	(32.3)
Profit after income tax	**25.7**	**38.9**	**75.9**	**17.6**	**52.5**
attributable to shareholders of RHI AG	24.5	37.8	74.0	16.0	51.0
attributable to non-controlling interests	1.2	1.1	1.9	1.6	1.5
Earnings per share in EUR	0.62	0.95	1.86	0.40	1.28
Consolidated Cash Flow Data					
Net cash flow from operating activities	39.8	76.7	162.7	175.4	72.4
Net cash flow from investing activities	(4.8)	(17.1)	(52.9)	(47.2)	(61.1)
Net cash flow from financing activities	(59.1)	(54.4)	(80.7)	(124.4)	24.6
Total cash flow	(24.1)	5.2	29.1	3.8	35.9
Cash and cash equivalents at end of period	153.9	156.1	182.9	149.7	151.1
Consolidated Statement of Financial Position Data					
Non-current assets	764.3	-	832.6	851.0	861.9
Current assets	975.4	-	959.6	953.5	998.6
Total assets	1,739.7	-	1,792.2	1,804.5	1,860.5
Equity	502.4	-	524.0	491.4	493.9
Non-current liabilities	707.5	-	736.4	843.1	804.8
Current liabilities	529.8	-	531.8	470.0	561.8
Total equity and liabilities	1,739.7	-	1,792.2	1,804.5	1,860.5
Non-IFRS Measures and Other Financial Data					
EBITDA[(1)]	89.2	100.6	189.1	140.0	199.4
Operating EBIT margin (in %, unaudited)	6.9%	8.5%	7.5%	7.1%	8.2%

	Six-month period ended June 30, 2017	2016	Year ended December 31, 2016	2015	2014
	(in EUR million, except as otherwise noted)				
	(audited, except as otherwise noted)	(unaudited)	(audited, except as otherwise noted)		
EBIT margin (in %, unaudited)	5.8%	8.3%	7.0%	2.1%	6.4%
Basic and diluted earnings per share (in EUR)	0.62	0.95	1.86	0.40	1.28
Declared/paid dividend per share for the period (in EUR)	-	-	0.75	0.75	0.75
ROACE (in %)[(2)]	5.5%	7.8%	7.6%	2.3%	6.5%

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(1) The following table shows how EBITDA is derived from EBIT (also see "*Presentation of Financial Information—Non-IFRS Measures*"):

	Six-month period ended June 30, 2017	2016	Year ended December 31, 2016	2015	2014
	(in EUR million)				
	(audited)	(unaudited)	(audited)		
EBIT	49.6	68.6	116.1	37.5	109.3
Depreciation and amortization charges	32.3	32.4	65.1	69.3	67.8
Impairment losses of property, plant and equipment and intangible assets	7.7	0.0	8.9	34.1	23.0
Income from the reversal of investment subsidies	(0.4)	(0.4)	(1.0)	(0.9)	(0.7)
EBITDA	**89.2**	**100.6**	**189.1**	**140.0**	**199.4**

(2) ROACE is calculated by dividing EBIT (less income tax) by average capital employed, which is the sum of average property, plant and equipment, goodwill and other intangible assets and net current assets. ROACE for the six-month periods ended June 30, 2016 and 2017 is calculated on an annual basis. The following table shows the calculation of ROACE:

	Six-month period ended June 30, 2017	2016	Year ended December 31, 2016	2015	2014
	(in EUR million, except as otherwise noted) (audited, except numbers for the six-month period ended June 30, 2016 and as otherwise noted)				
EBIT	49.6	68.6	116.1	37.5	109.3
Income tax	(20.2)	(24.0)	(29.9)	(9.8)	(32.3)
Net operating profit after taxes	**29.4**	**44.6**	**86.2**	**27.7**	**77.0**
Capital employed[(1)] at beginning of the period (unaudited)	1,095.8	1,176.5	1,176.5	1,225.2	1,138.8
Capital employed[(1)] at end of the period (unaudited)	1,047.0	1,113.7	1,095.8	1,176.5	1,225.2
Average capital employed	**1,071.4**	**1,145.1**	**1,135.2**	**1,200.8**	**1,182.1**
ROACE	**5.5%**	**7.8%**	**7.6%**	**2.3%**	**6.5%**

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(1) Capital employed includes property, plant and equipment, goodwill, other intangible assets and working capital.

(Source: RHI Financial Statements and internal data.)

The following table sets forth certain income statement data broken down according to the segments of the Group:

	Six-month period ended June 30, 2017	2016	Year ended December 31, 2016	2015	2014
	(in EUR million, except as otherwise noted)				
	(audited, except otherwise noted)	(unaudited)	(audited, except otherwise noted)		
Steel Division					
Segment revenues	558.2	542.3	1,071.4	1,099.9	1,108.8
Segment operating EBIT	36.2	47.4	76.2	64.3	93.1
Segment EBIT	30.7	47.4	76.3	63.4	91.4
Segment EBIT margin (unaudited)	5.5%	8.7%	7.1%	5.8%	8.2%
Industrial Division					
Segment revenues	270.6	265.4	538.6	614.6	566.6
Segment operating EBIT	21.7	20.3	44.5	65.0	48.6
Segment EBIT	20.0	15.7	32.0	58.9	34.9
Segment EBIT margin (unaudited)	7.4%	5.9%	5.9%	9.6%	6.2%
Raw Materials Division					
Segment revenues	127.8	143.8	266.0	272.6	303.3
thereof internal revenues	100.8	121.3	224.8	234.6	257.5
Segment operating EBIT	1.1	2.5	2.5	(5.2)	0.2
Segment EBIT	(1.1)	5.5	7.8	(84.8)	(17.0)
Segment EBIT margin (unaudited)	(0.9)%	3.8%	2.9%	(31.1)%	(5.6)%
Total revenues	**855.8**	**830.2**	**1,651.2**	**1,752.5**	**1,721.2**

(Source: RHI Financial Statements and internal data.)

OPERATING AND FINANCIAL REVIEW OF RHI

This operating and financial review is based on the RHI Consolidated Annual Financial Statements as of and for the years ended December 31, 2016, 2015 and 2014, as well as the RHI Consolidated Interim Financial Statements as of and for the six-month period ended June 30, 2017. These RHI Financial Statements are included on pages F-1 et seq. in this Prospectus. The RHI Financial Statements have been prepared in accordance with EU-IFRS. The following operating and financial review contains certain forward-looking statements that are based on assumptions about the Group and its business. The Group's actual results could differ materially from those anticipated in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly under "Risk Factors". With regard of the use of non-IFRS measures to evaluate the Group's operations see "Presentation of Financial Information—Non-IFRS Measures".

Overview

RHI is a globally operating supplier of high-grade refractory products, systems and services, which are indispensable for industrial high-temperature processes exceeding 1,200° Celsius. Refractory linings made by RHI ensure that a wide range of aggregates including steel ladles, cement rotary kilns, copper converters or glass furnaces withstand extreme thermal, mechanical and chemical stress. With 30 production sites across Europe, Asia, America and Africa and more than 70 sales offices, RHI serves more than 10,000 customers in the steel, cement, non-ferrous metals, glass, energy, environment and chemical industries in nearly all countries of the world under product brands such as Didier, Radex, Interstop, Deltek and Ankral which are combined under the umbrella brand RHI. RHI produces more than 1.5 million tons of refractory products per year and supplies customized product and system solutions.

In the year ended December 31, 2016, RHI generated revenue of EUR 1,651.2 million, EBIT of EUR 116.1 million and profit after income tax of EUR 75.9 million. In the six months ended June 30, 2017, RHI generated revenue of EUR 855.8 million, EBIT of EUR 49.6 million and profit after income tax of EUR 25.7 million. The developed economies accounted for 42% of RHI's revenues in 2016, with emerging markets accounting for 58% of RHI's revenues. As of December 31, 2016, the Group had 7,385 employees.

RHI is vertically integrated with its own raw materials production and sources 60% to 80% (depending on product mix of finished products sold and market prices of raw materials) of its magnesite requirements from its own mines and raw material production facilities in Austria, Italy, Turkey, Ireland, Norway and China.

Segment reporting

RHI AG is the parent company of the Group's 80 consolidated subsidiaries as of June 30, 2017, in which it directly or indirectly owns a majority of shares or exercises management control. Additionally, one joint venture is consolidated at equity in the Group's financial statements while three subsidiaries are not consolidated due to their minor significance.

The Group's operations are divided into three reporting segments: (i) the Steel Division; (ii) the Industrial Division; and (iii) the Raw Materials Division. In addition, the Group also provides information on the geographical allocation of the Group's revenues and assets.

Steel Division

With its Steel Division, RHI not only provides to its customers in the steel industry a broad range of commoditized products but also an increasing amount of higher-margin customized solutions and comprehensive packages for steel production consisting of (i) refractories (basic and non-basic mixes and bricks), (ii) machinery and (iii) services to the flow control business, such as providing slide gates and systems as well as isostatic products and related systems.

Industrial Division

RHI's business in the Industrial Division comprises the production of refractory products for the cement, lime, non-ferrous metals and glass industries as well as the environment, energy and chemicals sectors.

With its Industrial Division, RHI supplies its customers with high-grade refractory systems based on a production and sales network with a global reach. Through the continuous expansion of its technological capabilities and problem solving expertise, RHI can provide specific service as well as consulting services which are increasingly required by its high quality oriented customers.

Raw Materials Division

The Raw Materials Division supplies the Steel and Industrial Divisions with raw materials, in particular magnesia and dolomite, produced in its own plants. These raw materials are passed on at market prices within the Group. Purchases of raw materials from third parties are allocated directly to the Steel Division and the Industrial Division and are therefore not shown as intra-Group sales. To a lesser extent, the Raw Materials Division also sells the raw materials it produces to external customers.

Geographic allocation of revenues and assets

The following table sets forth the RHI's revenues by geographic area for each of the six-month periods ended June 30, 2017 and 2016 and for each of the years ended December 31, 2016, 2015 and 2014:

	Six-month period ended June 30, 2017	**Six-month period ended June 30, 2016**	**2016**	**2015**	**2014**
	(in EUR million; audited, except otherwise noted)				
	(unaudited)				
Austria	19.3	17.6	36.9	37.0	38.4
All other countries					
India	89.1	80.9	170.7	186.2	153.1
United States	83.0	78.8	151.2	164.9	157.2
Germany	67.8	78.4	142.7	142.0	141.1
Mexico	54.7	56.0	113.6	106.7	111.7
Italy	50.8	49.0	93.2	92.2	94.3
PR China	49.9	36.1	88.9	103.3	90.0
Canada	33.8	34.2	60.8	93.2	75.3
Russia	23.9	27.1	49.1	57.5	64.9
Saudi Arabia	20.5(*)	23.5	41.5	47.2	45.1
France	20.0(*)	18.8	34.1(*)	38.9	47.2
Brazil	15.7(*)	15.9	32.9(*)	45.3	38.8
Other countries	306.7(*)	295.8	635.6(*)	638.1	664.1
Group	**855.8**	**830.2**	**1,651.2**	**1,752.5**	**1,721.2**

(*) Unaudited

(Source: RHI Financial Statements and internal data.)

The following table sets forth a breakdown of the Group's assets by country as of June 30, 2017 and as of December 31, 2016, 2015 and 2014.

Property, plant and equipment and intangible assets	Six-month period ended June 30, 2017	2016	2015	2014
	(in EUR million; audited, except otherwise noted)			
Austria	201.7	206.5	195.8	188.0
PR China	115.2	128.3	142.1	142.8
Germany	80.1	87.9	86.9	83.3
India	61.2	64.2	64.7	58.7
Turkey	32.8	34.1	34.8	25.4
Mexico	28.8	28.4	30.8	32.5
Other countries	56.4	81.3	88.8	123.6(*)
Group	**576.2**	**630.7**	**643.9**	**654.3**

(*) Unaudited

(Source: RHI Financial Statements.)

Key factors affecting the Group's results of operations

In management's view, the following factors have been the key drivers affecting the Group's business, results of operations and financial condition over the past three years, and will continue to be the key drivers.

Economic environment

Macroeconomic developments are the main drivers for demand for the Group's products as they are a strong indicator of the level of business activity of the industries in which the Group's customers are active.

In the six-month period ended June 30, 2017, the global economy experienced accelerated growth compared to 3.2% in 2016, 3.2% in 2015 and 3.4% in 2014, according to the International Monetary Fund. In 2014, 2015 and 2016 the development of the global economy was particularly affected by high volatility in the financial markets, relatively slow growth in the advanced economies, particularly Europe and the United States, and also slower growth (and partly recession) in important emerging economies. In the first half of 2017 the economic environment has improved, with the IMF attesting to an economic upturn on a relatively broad basis in comparison with recent years in nearly all regions of the world.

In Europe, the economic upswing has continued since 2014 and accelerated in the first half of 2017 despite difficulties such as high government debt in Southern European countries, the geopolitical crisis in Ukraine and the Middle East, the sanctions imposed on Russia, the refugee crisis and the withdrawal of the United Kingdom from the European Union. This development was particularly supported by low energy prices, the quantitative easing of the European Central Bank and the devaluation of the euro against the U.S. dollar as well as other currencies.

The U.S. economy showed a robust development in 2014 and 2015, primarily due to strong domestic consumption. However, despite strong consumer confidence, which was supported by a solid labor market (in December 2016 the unemployment rate was at 4.7%) the U.S. economy lost momentum in the first half of 2016, primarily due to weak investments, especially in the energy sector, the effects of the strong U.S. dollar on investments in export-oriented industries and volatility in the financial markets. Still, the U.S. Federal Reserve started to raise interest rates in 2016, with the base interest rate being in a range from 0.5% to 0.75% by the end of 2016 and in a range from 1.0% to 1.25% in June 2017. Despite the European Central Bank's continuing its policy of monetary easing, the euro gained roughly 10% against the U.S. dollar in the first half of 2017.

The economic development in the emerging economies was adversely affected by geopolitical conflicts, political uncertainty, negative effects of the rapid credit growth in the past years and a dependency on individual economic sectors. Emerging markets particularly suffered from capital outflows, lower foreign investments, high inflation rates and falling raw material prices. These developments particularly affected the Chinese, Brazilian and Russian economies resulting in recession in Brazil and Russia.

Conditions in end markets

Demand for the Group's refractories products depends on demand from its customers in the industries to which it delivers refractories products. The Group's most relevant customer industries are the steel industry (65% of revenue in 2016) and the cement/lime industry (11% of revenue in 2016). Other industries the Group serves are the non-ferrous metals industry (9% of revenue in 2016), the glass industry (8% of revenue in 2016) and the environmental, energy and chemical industry (4% of revenue in 2016).

Demand for refractories products from these industries is proportionate (at least in the long term) to their production volumes, which in turn depend on demand for their products.

In the steel and cement/lime industries the service life of refractory products does not exceed one year and refractories are regarded as a maintenance investment. In the non-ferrous metals, glass as well as the environmental, energy and chemicals industries the service life of refractory products is generally longer (up to ten years) and refractories are therefore regarded by these industries as a general investment. Due to refractories investments in these industries being more project-oriented, in the short run demand from these industries is more volatile than demand from the steel and cement/lime industries.

While the Group's revenues and results in the Steel Division have remained relatively stable in the past, revenues and results in the Industrial Division are more volatile because refractories used in the Industrial Division's customer industries are subject to longer replacement cycles and are project-driven, resulting in demand fluctuations.

Steel

RHI provides to the steel industry all types of refractories required for steel production. This includes in particular linings used in furnaces, ladles and tundishes (where the melted steel is static) and flow control systems used for areas and applications where the steel is in movement. RHI generates more than three quarters of its revenues in the Steel Division with linings compared to less than one quarter with flow control systems.

Refractories demand from the steel industry is directly associated with the number of furnaces in operation (with respect to linings) and the steel volumes produced (with respect to flow control systems). In the long run, the number of furnaces correlates with the development of steel production. Therefore, overall refractories demand from the steel industry in the long run positively correlates with steel production, although RHI's management expects that, due to technological progress and efficiency gains, an increase in steel production will not necessarily result in a proportionate increase in refractories demand in the future.

The following table sets out world steel production broken down by region since 2011:

Steel production	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
	(in million tons)					
World	1,629	1,615	1,670	1,650	1,560	1,538
China	809	799	823	822	731	702
World ex China	820	816	847	828	829	836
Developed economies	342	345	364	361	362	368
Emerging markets	1,287	1,270	1,306	1,289	1,198	1,170
Regions						
Africa & Middle East	45	43	45	43	40	39
European Union	162	166	169	166	169	178
Other European countries	38	36	38	39	40	39

Steel production	2016	2015	2014	2013	2012	2011
			(in million tons)			
CIS	102	102	106	108	111	113
North America	111	111	121	119	122	119
South America	39	44	45	46	46	48
Asia	1,132	1,113	1,146	1,129	1,032	1,002

(Source: World Steel Association – January 2017.)

The Group's results of operations are particularly affected by the development of steel production in markets in which the Group generates the greatest portion of its sales. Therefore, the Group is particularly exposed to the development of steel production in Europe/EMEA, while changes in Chinese steel production have a relatively lower impact on the Group's results of operations.

While demand for steel by the Chinese construction industry has been weak in the previous years, the automotive industry in Europe and the U.S. as well as the U.S. construction industry showed a positive development with new registrations of commercial vehicles in Europe exceeding the 2 million mark in 2016 after a 12.5% increase compared to 2015 (source: European Automobile Manufacturers' Association). However, in the beginning of 2017 demand for steel by the automotive industry in the United States dropped slightly because of a weaker market, while in the European Union the number of new registrations of passenger vehicles rose significantly. Demand from the oil and gas industry almost came to a complete stand-still as the number of drilling rigs in the United States decreased from an all-time high in 2014 (1,600 drilling rigs) to only 330 by mid-2016 due to a significant decline of the oil price during that period (source: Baker Hughes (Rig Count Data)).

Cement/lime

Demand for cement/lime is closely linked to the construction industry, which continued to be weak in China but showed signs of recovery in Europe and particularly in the United States.

Non-ferrous metals

Production of and demand for non-ferrous metals are closely associated with the market price of such non-ferrous metals, including nickel, zinc, copper, aluminum, tin and lead. Prices for practically all of such non-ferrous metals decreased significantly from mid-2014 to the beginning of 2016 and despite substantial price increases in 2016 all relevant non-ferrous metals other than zinc and tin continued to trade below the ten-year average prices.

Glass

Demand for glass has been weak in the past years but stabilized in 2016 with signs of recovery in Europe and the United States, while the Chinese glass industry was characterized by weak demand and significant excess capacities.

Environmental, energy and chemicals

In the environmental, energy and chemicals business demand is closely linked to the development of the oil price, the deterioration of which has been a main reason for reduced investments and suspension of new construction projects.

Use of production method in steel industry

Refractories demand from the steel industry significantly depends on whether steel is produced from steel scrap (in electric arc furnaces) or from iron ore and coking coal (in basic oxygen furnaces).

Steel production in electric arc furnaces requires up to four times more refractories per ton of produced steel than steel production in basic oxygen furnaces. Therefore, an increased use of electric arc furnaces is associated with higher refractories demand. Additionally, basic mixes used in the electric arc furnace segment have relatively low volume prices (and therefore generate lower revenues), compared to basic mixes used in basic oxygen furnaces, but margins on these products are favorable for RHI. In 2016, the Group sold approximately 420,000 tons of refractories in the electric arc furnace segment compared to approximately 105,000 tons in the basic oxygen furnace segment.

The distribution of steel production volumes between electric arc furnaces and basic oxygen furnaces primarily depends on raw material prices. While production costs in the electric arc furnace segment are primarily affected by the price for steel scrap, production costs in the basic oxygen furnace segment primarily depend on the prices for iron ore and coking coal. Therefore, electric arc furnace steel production is particularly favorable in case of high prices for iron ore and coking coal with low steel scrap prices.

Electric arc furnace steel production accounted for 34% of world steel production (excluding China) in 1995 and its share increased to 43% in 2015 (source: World Steel Association) and is expected by management to increase further, in particular in China. For the risks involved with the increased proportion of electric arc furnace steel production see "*Risk Factors—Risks relating to the Group's markets and industry—Significant increases in the global proportion of steel produced using basic oxygen furnaces could impair the Group's profitability*".

While the use of basic oxygen furnaces only fluctuates in the case of long-term developments of steel prices, electric arc furnaces can be shut off and re-activated relatively quickly, so that production volumes in electric arc furnaces are more volatile.

Prices for and availability of raw materials

Generally, the prices of refractory products depend to a certain degree on the price of raw materials, in particular sintered and fused magnesia. Other refractory raw materials such as dolomite and bauxite, andalusite or fused corundum are only of small importance for the Group's business. Fluctuations in raw material and energy prices are generally passed on to customers. However, the Group produces 60% to 80% (depending on product mix of finished products sold and market prices of raw materials) of its magnesite requirements and almost 100% of its dolomite requirements from its own mines and raw material production facilities. Therefore, increases in raw material prices affect the Group's results only to a limited extent while less vertically integrated competitors may have greater exposure to increasing prices for raw materials. Consequently, increases in raw material prices can have a positive effect on the Group's operating margins.

Growing importance of China

China is the world's largest consumer of refractory products as well as the largest producer of raw materials used to create refractory products. In 2016, China produced close to 50% of the world's steel, and it holds significant deposits of many raw materials required for the production of refractory products.

Exports of raw materials from China have in the past been restricted and heavily taxed. However, this system of export quotas and export taxes has mostly been lifted at the end of 2016. On the other hand, the Chinese government has introduced stricter requirements and implemented stricter production controls in an effort to improve environmental and safety standards. As a result, many local manufacturers of sintered and fused magnesia had to completely shut down their production, which subsequently caused a sudden shortage of supply and increasing market prices. Due to the vertical integration of the Group, such increasing raw materials prices generally have a positive impact on the Group's results. However, in the first half of 2017, the Group was not able to fully pass on increased raw materials prices to its customers.

While steel production in China increased from 709 million tons in 2011 to 809 million tons in 2016, an increase of 14.1%, steel production in the rest of the world has stagnated and decreased slightly, by 1.9%, from 836 million tons in 2011 to 820 million tons in 2016. Due to the limited sales of the Group in China, which accounted for less than 3% of revenues in the Steel Division in each of the years between 2014 and 2016, the development of Chinese steel production affects the Group's results primarily through the effects of Chinese exports on the global steel industry. Such effects of Chinese steel exports primarily include price pressure and a decrease of the market share of other steel manufacturers. A consolidation of the Chinese steel sector may result in a further increase in Chinese steel exports and result in further price and cost pressure on the Group's customers.

Capacity Utilization

The Group's margins depend to a certain extent on the capacity utilization of its plants. This is particularly relevant in the Raw Materials Division and, due to the use of tunnel kilns as an additional production stage, the Industrial Division, where the proportion of fixed costs is higher than in the Steel Division. In case of the Raw Materials Division, higher production volumes allow for lower prices per unit as variable costs per unit are low. Fired refractories used in the Industrial Division are predominantly produced in tunnel kilns, which are among the most energy efficient firing aggregates if utilization is consistent and high and firing temperatures are stable. However, if utilization fluctuates and batch sizes decrease, these advantages decrease and consequently production costs per unit increase at the expense of the Group's margins.

Exchange rate fluctuations

The Group's results are generally subject to exchange rate fluctuations in relation to its operating transactions as well as in relation to the translation impact of foreign currency denominated revenues and assets on its financial results.

However, due to its global presence and production sites in different regions with different currencies, the Group's operating transactions are to a certain extent naturally hedged against currency exchange rate fluctuations, as costs are often incurred and invoiced in the same currency.

Generally, the Group's most relevant foreign currency exposure is to the U.S. dollar, because the Group invoices substantially more of its revenues in U.S. dollars than it incurs costs in U.S. dollars. Revenues invoiced in U.S. dollars have increased slightly from 20% of total revenues in 2014 to 23% in 2016 while revenues invoiced in euro have decreased in the same period from 56% to 53%. Consequently, an appreciation of the U.S. dollar has a positive impact on the Group's results, while a devaluation of the U.S. dollar adversely affects Group results.

Similarly, a devaluation in the Brazilian real also adversely affects the Group's results, primarily due to the Group's operations in Brazil resulting in long BRL positions as the Group operates and reports in euro.

Impact of restructuring and business alignment

In previous years the Group has closed several of its plants, such as the production sites in Kretz, Germany, where production was discontinued and concentrated on other plants of the Group, and Duisburg, Germany, both in 2014. In 2015, the activities of the two Scottish plants for isostatically pressed products were concentrated at the plant in Bonnybridge while the plant in Clydebank, Scotland was closed. In 2016, the Group sold the U.S. operating subsidiary RHI Monofrax LLC. In the first half of 2017, RHI's management decided to terminate the production of fused cast bricks. Accordingly, the plants in San Vito, Italy, and Sherbinska, Russia, were sold on October 12, 2017.

Restructuring measures, including plant closures, and divestments are typically associated with impairment losses. With respect to the sale of the Group's plants in San Vito, Italy, and Sherbinska in Russia, impairments recognized in 2016 amounted to EUR 8.0 million.

Since 2014, the Group has fully impaired its fused cast business, which was characterized by massive price pressure, as well as its plant in Porsgrunn, Norway, which was adversely affected by the difficult market environment for fused magnesia. Following such impairments as of June 30, 2017, the book value of the Group's assets relating to fused cast products and its plant in Porsgrunn, Norway is EUR 0.0 million.

Additionally, in relation to the operations at the Group's plant in Porsgrunn, Norway, due to the developments described above and following a fire incident at the plant in 2015, management adjusted the plant's long-term production profile and concluded that the contract volume defined in an electricity supply contract that the Group entered into in 2012 would not be needed to the full extent over the full contract term. Therefore, the volume not consumed by the Group itself must be sold in the market. Consequently, the so-called "own-use exemption" no longer applies and in accordance with IAS 39 the valuation of the energy supply contract as a financial instrument became necessary. Due to the valuation of the complete term of the contract at market price level until the end of the year 2023, a negative non-cash effect on earnings of EUR 58.0 million was recognized in 2015. Until the end of the contract in 2023, the corresponding EUR 58.0 million financial liability as of December 31, 2015 will be reversed, resulting in gains from derivatives from supply contracts. In 2016, this resulted in a gain of EUR 10.1 million.

Investments in production facilities

The Group's total investments in property, plant and equipment and intangible assets has decreased from EUR 76.2 million in 2014 and EUR 80.8 million in 2015 to EUR 70.8 million in 2016 and primarily related to maintenance investments. Due to substantial excess capacities in global refractories production (particularly in China), the Group's investments in production facilities relate to growth investments only to a small degree. This is in line with the Group's strategy to focus in particular on technological leadership and outstanding service in strategically important segments, which does not require substantial growth investments. Although the Group made significant investments in the Raw Materials Division in the past, particularly during 2011 and 2012, in order to increase its own supply of magnesia raw materials, it considers its target of strategic raw material integration to be accomplished and consequently does not anticipate significant growth investments in this segment in the foreseeable future (other than the Acquisition).

Research and development

The Group acknowledges that innovative power is one of the key prerequisites to remain competitive in the contested global refractories market. The Group considers itself to be a global technological leader in the refractories business and relies on the innovative power of its employees and structured innovation management, which is designed to ensure that ideas can be converted to marketable products, services and new business models.

In 2016, the Group's total research and development ("**R&D**") costs before subsidies and capitalization amounted to EUR 23.9 million, of which EUR 4.8 million were capitalized. Subsidies for R&D amounted to EUR 4.0 million in 2016. R&D costs net of subsidies and capitalization in the amount of EUR 15.1 million were reported as an expense in the RHI Group's profit and loss statement.

Acquisitions

Other than the Acquisition, the Group did not conduct significant acquisitions between 2014 and 2017. In the future, management intends to focus on the integration of Magnesita and the generation of synergies from the Acquisition (see "*Description of the Acquisition and the Restructuring*").

Seasonality

While the Group's overall business is not a particularly seasonal business, some of the Group's business divisions and units are subject to seasonal demand fluctuations.

In the Steel Division, in Europe demand for the Group's products is typically lower in the third quarter of the calendar year due to scheduled shutdowns of plants in Southern Europe during the summer months.

In the cement/lime business unit of the Industrial Division the second and the third quarters of the calendar year are typically those with the lowest revenues. This is due to the peak in construction activities during the summer months, leading to high demand for cement and lime. In order to meet such peak in demands, cement plants hardly carry out any maintenance work during this season. Demand for the Group's products peaks in the first and fourth quarters of the calendar year, when cement plants carry out maintenance works, leading also to demand in refractories products.

Critical accounting policies

In the preparation of the RHI Financial Statements, management selects and applies certain accounting policies that it believes are important to the portrayal of the Group's financial condition and results of operations. As a result of the uncertainties inherent in the Group's business activities, management needs to make estimates and assumptions that require subjective and complex judgments. Different but equally reasonable judgments or estimates by management would have resulted in different results of operations. For a discussion of these and other accounting policies, please see the notes to the RHI Financial Statements.

Period-by-period comparison for the RHI Group

Overview

This operating and financial review is presented (i) at the Group level, at which the most detailed discussion is presented on the basis of the Group's consolidated results and changes in all line items in the consolidated statement of profit or loss, as well as Operating EBIT and EBIT are discussed; and (ii) at the segment level, which includes a period-by-period discussion and analysis of the segment's revenues, Operating EBIT and EBIT.

Explanation of certain line items used in the Group's income statement and other financial data

"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, this item also contains the costs of services provided and overhead costs, including depreciation charges on production equipment, amortization charges of intangible assets and impairment losses to inventories. In 2016, approximately 50% of the total cost of sales relate to raw materials, 20% to personnel, 10% to energy, 6% to shipping, 5% to depreciation and amortization charges and the remainder to other cost items.

"EBIT" (earnings before interest and tax) equals the operating results and is profit before income taxes and net finance costs.

"General and administrative expenses" consist primarily of personnel expenses for administrative functions as well as expenses for research and non-capitalizable development costs and expenses relating to the Acquisition.

"Gross profit" is revenues less cost of sales.

"Impairment losses" include impairment charges recognized to non-current assets of cash generating units.

"Income from restructuring" means income from the reversal of restructuring provisions booked in previous years.

"Income tax" includes income taxes paid and owed by Group companies as well as provisions for deferred taxes of the Group. The disclosed Group tax rate is calculated on the basis of total income tax expenses as percentage of profit before tax, each as reported in the Group's consolidated statement of profit or loss.

"Interest expenses" includes interest and similar expenses.

"Interest income" includes income from securities and non-current receivables as well as other interest and similar income.

"Net finance cost" is interest income less interest expenses and other net financial expenses.

"Net income from US Chapter 11 proceedings" means income from the reversal of provisions booked in connection with US Chapter 11 proceedings. These proceedings relate to the insolvency of RHI's U.S. subsidiaries in 2002 following asbestos and silica-related damage claims. These proceedings were completed in 2013 and certain provisions booked in connection with Chapter 11 proceedings were released.

"Operating EBIT" is EBIT before result from derivatives from supply contracts, restructuring costs and impairment losses.

"Other expenses" include (i) losses from the disposal of property, plant and equipment and intangible assets, (ii) foreign exchange losses, (iii) miscellaneous expenses, and (iv) income from the release of provisions.

"Other net financial expenses" means (i) the net interest expenses on provisions for pensions and termination benefits, (ii) gains or losses from the measurement of a put option granted to the non-controlling interests of a subsidiary in India and (iii) gains or losses from the measurement as well as the disposal of securities.

"Other income" includes (i) gains from the disposal of property, plant and equipment and intangible assets, (ii) foreign exchange gains, (iii) gains from the valuation of derivative forward exchange contracts, and (iv) miscellaneous income.

"Restructuring costs" result exclusively from personnel expenses and expenses incurred in connection with plant closures or the demolition of industrial assets.

"Result from derivatives from supply contracts" refers to the mark-to-market valuation of long-term energy supply contracts.

"Revenues" means all turnover generated by the Group in connection with the sale of refractory products, raw materials, refractory machineries and the rendering of services. The Raw Materials Division generates internal as well as external revenues depending on whether its products are used by any of the Steel Division and the Industrial Division or sold to third parties. Revenues generated by sales to the Steel Division or the Industrial Division are not included in the Group's consolidated revenues.

"Selling and marketing expenses" means personnel expenses for sales staff, commissions as well as depreciation charges and other operating expenses related to the market and sales processes.

"Share of profit of joint ventures" is the profits made by joint ventures attributable to the Group. The only joint venture reflected in this line item is the Group's 50% interest in MAGNIFIN Magnesiaprodukte GmbH & Co. KG, which produces and sells halogen-free flame retardants for plastics.

Comparison of Group results

Group results for the six-month period ended June 30, 2017 compared with the six-month period ended June 30, 2016.

	Six-month period ended June 30, 2017	% Change	Six-months period ended June 30, 2016
	(in EUR million, except percentages)		
	(audited)	(unaudited)	(unaudited)
Consolidated statement of profit or loss			
Revenues	855.8	3.1	830.2
Cost of sales	(657.2)	1.2	(649.6)
Gross profit	**198.6**	**10.0**	**180.6**
Selling and marketing expenses	(54.2)	4.0	(52.1)
General and administrative expenses	(76.8)	23.1	(62.4)
Other income	37.0	(34.9)	56.8
Other expenses	(45.6)	(13.5)	(52.7)
Operating EBIT	**59.0**	**(16.0)**	**70.2**
Result from derivatives from supply contracts	(1.2)	-	3.0
Impairment losses	(7.2)	-	-
Restructuring costs	(1.0)	(78.3)	(4.6)
EBIT	**49.6**	**(27.7)**	**68.6**
Interest income	1.1	(21.4)	1.4
Interest expenses	(8.7)	(3.3)	(9.0)
Other net financial expenses	(2.5)	(28.6)	(3.5)
Net finance costs	**(10.1)**	**(9.0)**	**(11.1)**
Share of profit of joint ventures	6.4	18.5	5.4
Profit before income taxes	**45.9**	**(27.0)**	**62.9**
Income tax	(20.2)	(15.8)	(24.0)
Profit after income tax	**25.7**	**(33.9)**	**38.9**
attributable to shareholders of RHI AG	24.5	(35.2)	37.8
attributable to non-controlling interests	1.2	9.1	1.1
Earnings per share (basic and diluted, in EUR)	0.62	(34.7)	0.95

(Source: RHI Financial Statements.)

Revenues

Revenues for the six-month period ended June 30, 2017 were EUR 25.6 million, or 3.1%, higher at EUR 855.8 million compared to the six-month period ended June 30, 2016 (EUR 830.2 million). This increase was supported by a strong development in all of the Group's business segments as a result of a favorable market environment in most customer industries. Revenues in the Steel Division increased by 2.9%, particularly supported by a positive development in the United States. The 2.0% increase in revenues in the Industrial Division was primarily driven by higher project deliveries of the glass business unit and a satisfactory development of the repair business in the cement/lime business unit.

Cost of sales

Cost of sales for the six-month period ended June 30, 2017 were EUR 7.6 million, or 1.2%, higher at EUR 657.2 million compared to the six-month period ended June 30, 2016 (EUR 649.6 million). This increase is in line with the sales volume increase of 1.2% from 992,000 tons to 1,004,000 tons.

Selling and marketing expenses

Selling and marketing expenses for the six-month period ended June 30, 2017 were EUR 2.1 million, or 4.0%, higher at EUR 54.2 million compared to the six-month period ended June 30, 2016 (EUR 52.1 million). This increase slightly exceeded the increase in revenues and was, among other things, due to higher commissions to sales agents as a result of higher revenue and increased wages in line with revised collective bargaining agreements.

General and administrative expenses

General and administrative expenses for the six-month period ended June 30, 2017 were EUR 14.4 million, or 23.1%, higher at EUR 76.8 million compared to the six-month period ended June 30, 2016 (EUR 62.4 million). This increase was primarily due to costs incurred in connection with the Acquisition. From the total costs of EUR 15.0 million incurred in the six-month period ended June 30, 2017 in connection with the Acquisition, EUR 12.6 million (compared to EUR 0.2 million in the six-month period ended June 30, 2016), primarily related to legal advisory fees and the fee for the consulting investment banks, was recognized as general and administrative expenses. The remaining EUR 2.4 million was directly attributable to the planned issue of Ordinary Shares by the Issuer and will be accounted for as a deduction from equity after the completion of the issuance of Ordinary Shares.

Other income / expenses

Other income for the six-month period ended June 30, 2017 was EUR 19.8 million, or 34.9%, lower at EUR 37.0 million compared to the six-month period ended June 30, 2016 (EUR 56.8 million) while other expenses for the six-month period ended June 30, 2017 were EUR 7.1 million, or 13.5%, lower at EUR 45.6 million compared to the six-month period ended June 30, 2016 (EUR 52.7 million). Net foreign currency effects were a loss of EUR 15.7 million in the six-month period ended June 30, 2017 compared to a gain of EUR 2.5 million in the first half of 2016. The net result from derivative financial instruments was a gain of EUR 6.5 million in the six-month period ended June 30, 2017 compared to a gain of EUR 0.8 million in the first half of 2016.

Operating EBIT

Operating EBIT for the six-month period ended June 30, 2017 was EUR 11.2 million, or 16.0%, lower at EUR 59.0 million compared to the six-month period ended June 30, 2016 (EUR 70.2 million). This development was primarily due to costs in connection with the Acquisition in the amount of EUR 12.6 million and the negative effect from the valuation of balance sheet items in the amount of EUR 9.2 million (comprising a foreign currency valuation loss of EUR 15.7 million and a valuation gain from the valuation of derivative financial instruments in the amount of EUR 6.5 million).

Result from derivatives from supply contracts

Result from derivatives from supply contracts for the six-month period ended June 30, 2017 was a loss of EUR 1.2 million compared to a gain of EUR 3.0 million the six-month period ended June 30, 2016. The loss from derivatives from supply contracts in the amount of EUR 1.2 million incurred in the six-month period ended June 30, 2017 was related to the power supply contract in Norway as a negative non-cash effect on earnings had to be recognized due to lower electricity futures prices, which more than offset the reversal of financial liabilities through profit or loss due to own consumption and the sale of electricity at market prices. For details see "*Operating and Financial Review of RHI—Key factors affecting the Group's results of operations—Impact of restructuring and business alignment*".

Impairment losses

Impairment losses for the six-month period ended June 30, 2017 were EUR 7.2 million while there were no impairment losses in the six-month period ended June 30, 2016. Impairment losses in the six-month period ended June 30, 2017 were attributable to the impairment in the amount of EUR 5.5 million of a production site of the Steel Division following the interruption of production for an indefinite period of time and to impairments in the amount of EUR 1.7 million associated with the sale of the San Vito, Italy, and Sherbinska, Russia production plants of the Industrial Division (producing fused cast products).

Restructuring costs

Restructuring costs for the six-month period ended June 30, 2017 were EUR 3.6 million, or 78.3%, lower at EUR 1.0 million compared to the six-month period ended June 30, 2016 (EUR 4.6 million). Restructuring costs in the six-month period ended June 30, 2017 were entirely attributable to the Porsgrunn plant in Norway and related to a lower capacity utilization at this plant as a result of declining raw material prices.

EBIT

EBIT for the six-month period ended June 30, 2017 was EUR 19.0 million, or 27.7%, lower at EUR 49.6 million compared to the six-month period ended June 30, 2016 (EUR 68.6 million). This decrease was due to the factors described above, particularly lower Operating EBIT and impairment losses in the amount of EUR 7.2 million.

Interest income

Interest income for the six-month period ended June 30, 2017 was EUR 0.3 million, or 21.4%, lower at EUR 1.1 million compared to the six-month period ended June 30, 2016 (EUR 1.4 million), primarily due to one-off interest income on available-for-sale securities in the amount of EUR 0.6 million in the first half of 2016.

Interest expenses

Interest expenses for the six-month period ended June 30, 2017 were EUR 0.3 million, or 3.3%, lower at EUR 8.7 million compared to the six-month period ended June 30, 2016 (EUR 9.0 million), partly due to lower financial liabilities.

Other net financial expenses

Other net financial expenses for the six-month period ended June 30, 2017 were EUR 1.0 million, or 28.6%, lower at EUR 2.5 million compared to the six-month period ended June 30, 2016 (EUR 3.5 million), primarily due to lower expenses for personnel provisions.

Share of profit of joint ventures

Share of profit of joint ventures for the six-month period ended June 30, 2017 was EUR 1.0 million, or 18.5%, higher at EUR 6.4 million compared to the six-month period ended June 30, 2016 (EUR 5.4 million).

Income tax

Income tax for the six-month period ended June 30, 2017 was EUR 3.8 million lower at EUR 20.2 million compared to the six-month period ended June 30, 2016 (EUR 24.0 million), primarily due to lower profit before income tax, which decreased from EUR 62.9 million in the six-month period ended June 30, 2016 to EUR 45.9 million in the six-month period ended June 30, 2017. This effect was partly offset by a higher effective tax rate, which increased from 38.2% in the first half of 2016 to 44.0% in the first half of 2017.

Group results for 2016 compared with 2015, and for 2015 compared with 2014

	Year ended December 31, 2016	% Change	Year ended December 31, 2015	% Change	Year ended December 31, 2014
	(in EUR million, except sales volume and percentages) (audited, except sales volume and percentages)				
Sales volume (in thousand tons, unaudited)	1,979	4.6	1,892	1.3	1,868

	Year ended December 31, 2016	% Change	Year ended December 31, 2015	% Change	Year ended December 31, 2014
	(in EUR million, except sales volume and percentages) (audited, except sales volume and percentages)				
Consolidated statement of profit or loss					
Revenues	1,651.2	(5.8)	1,752.5	1.8	1,721.2
Cost of sales	(1,294.8)	(6.8)	(1,389.1)	2.9	(1,350.3)
Gross profit	**356.4**	**(1.9)**	**363.4**	**(2.0)**	**370.9**
Selling and marketing expenses	(105.2)	(6.2)	(112.1)	(2.3)	(114.7)
General and administrative expenses	(134.5)	10.0	(122.3)	6.4	(114.9)
Other income	92.3	21.4	76.0	49.3	50.9
Other expenses	(85.8)	6.1	(80.9)	60.8	(50.3)
Operating EBIT	**123.2**	**(0.7)**	**124.1**	**(12.5)**	**141.9**
Result from derivatives from supply contracts	10.1	-	(58.0)	-	-
Impairment losses	(8.6)	(72.4)	(31.2)	57.6	(19.8)
Income from restructuring	0.3	(94.9)	5.9	-	-
Restructuring costs	(8.9)	>100	(3.3)	(75.7)	(13.6)
Net income from US Chapter 11 proceedings	-	-	-	-	0.8
EBIT	**116.1**	**>100**	**37.5**	**(65.7)**	**109.3**
Interest income	4.1	(29.3)	5.8	>100	2.6
Interest expenses	(17.5)	(14.6)	(20.5)	(7.7)	(22.2)
Other net financial expenses	(7.8)	69.6	(4.6)	(64.9)	(13.1)
Net finance costs	**(21.2)**	**9.8**	**(19.3)**	**(41.0)**	**(32.7)**
Share of profit of joint ventures	10.9	18.5	9.2	12.2	8.2
Profit before income tax	**105.8**	**>100**	**27.4**	**(67.7)**	**84.8**
Income tax	(29.9)	>100	(9.8)	(69.7)	(32.3)
Profit after income tax	**75.9**	**>100**	**17.6**	**(66.5)**	**52.5**
attributable to shareholders of RHI AG	74.0	>100	16.0	(68.6)	51.0
attributable to non-controlling interests	1.9	18.8	1.6	6.7	1.5
in EUR					
Earnings per share (basic and diluted)	1.86	>100	0.40	(68.8)	1.28

(Source: RHI Financial Statements.)

Revenues

Revenues for the year ended December 31, 2016 were EUR 101.3 million or 5.8% lower at EUR 1,651.2 million compared to EUR 1,752.5 million in 2015. This decrease was primarily due to lower revenues in the Industrial Division, where revenues declined by 12.4%, from EUR 614.6 million in 2015 to EUR 538.6 million in 2016 as a result of lower project deliveries in the cement/lime, non-ferrous metals, and environment, energy, chemicals business units. In the Steel Division, revenues decreased by 2.6%, from EUR 1,099.9 million in 2015 to EUR 1,071.4 million in 2016. This development in the Steel Division resulted from RHI's weaker business development in South America, Europe and China as well as expanded business with basic mixes, which have a lower price level. External revenues in the Raw Materials Division increased by EUR 3.2 million, which could not offset the lower revenues in the Industrial Division and the Steel Division. The increase in total sales volumes by 4.6% did not translate into higher revenues as it was primarily attributable to the Raw Materials Division, which stepped up sales of raw dolomite, which makes a strong contribution in terms of sales volumes but due to its low price per ton barely affects revenues.

In 2015, revenues increased by EUR 31.3 million, or 1.8%, to EUR 1,752.5 million from EUR 1,721.2 million in 2014. This increase was entirely attributable to the strong performance of the Industrial Division, where revenues increased by 8.5% as a result of higher project deliveries in the glass and environment, energy, chemicals business units as well as a positive development of the construction industry in North America, which supported the cement/lime business unit. In the Steel Division, revenue decreased by 0.8% as a result of declining revenues in Europe, the Middle East and North Africa, which was only partially offset by a favourable business development and consequently higher revenues in India and South America as well as positive currency translation effects resulting from the devaluation of the euro against the U.S. dollar. In the Raw Materials Division sales volumes (in tons) increased by 63.2%, which was due to increases in the sale of raw dolomite in Italy. However, due to the lower price per ton, the revenue contribution was minor and external sales of the Raw Material Division actually decreased by 17%.

Cost of sales

Cost of sales for the year ended December 31, 2016 were EUR 94.3 million or 6.8% lower at EUR 1,294.8 million compared to EUR 1,389.1 million in 2015. This decrease was primarily due to lower raw material costs and energy prices and lower shipping expenses. While revenues decreased by 5.8% in 2016, cost of sales decreased by 6.8% in the same period.

In 2015, cost of sales increased by EUR 38.8 million, or 2.9%, to EUR 1,389.1 million from EUR 1,350.3 million in 2014. This increase was primarily due to higher sales volumes. Additionally, freight costs increased as a result of higher volumes and exports to customers in markets where the Group does not operate production facilities. Costs for services rendered by the Group also increased, primarily due to a specific project in the cement business unit in Canada.

Selling and marketing expenses

Selling and marketing expenses for the year ended December 31, 2016 were EUR 6.9 million, or 6.2%, lower at EUR 105.2 million compared to EUR 112.1 million in 2015. This decrease was primarily due to lower commissions paid to sales agents, which decreased as a result of lower turnover. Additionally, a reduction in the average number of employees (from 8,035 in 2015 to 7,678 in 2016) and decreased bonus payments to management supported the positive development of selling and marketing expenses.

In 2015, selling and marketing expenses decreased by EUR 2.6 million, or 2.3%, to EUR 112.1 million from EUR 114.7 million in 2014. This development was primarily due to lower commissions recognized in 2015 as well as expenses from the write-down of trade receivables in connection with the insolvency of a customer in Italy in 2014. These factors were partly offset by increased marketing expenses, which increased by 0.8 million in 2015 compared to 2014.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2016 were EUR 12.2 million or 10.0% higher at EUR 134.5 million compared to EUR 122.3 million in 2015. This increase is primarily attributable to costs incurred in connection with the Acquisition, which included external costs for legal advisory and investment bank fees in a total amount of EUR 12.1 million in 2016.

In 2015, general and administrative expenses increased by EUR 7.4 million, or 6.4%, to EUR 122.3 million from EUR 114.9 million in 2014. This increase was primarily due to higher expenses incurred in connection with external consulting services as well as remuneration of the management board, which increased by EUR 1.6 million, particularly due to higher performance-linked variable earnings. Additionally, income from research grants was below the level of 2014 while expenses for R&D remained stable.

Other income / expenses

Other income for the year ended December 31, 2016 was EUR 16.3 million, or 21.4%, higher at EUR 92.3 million compared to EUR 76.0 million in 2015. Other expenses for the year ended December 31, 2016 were EUR 4.9 million or 6.1% higher at EUR 85.8 million compared to EUR 80.9 million in 2015. Higher other income was primarily attributable to higher foreign exchange gains, which increased from EUR 67.7 million in 2015 to EUR 85.0 million in 2016 while gains from derivative financial instruments increased only from EUR 2.3 million in 2015 to EUR 2.7 million in 2016. However, this development was partly offset by an increase in foreign exchange losses, which are reported as other expenses, from EUR 64.3 million in 2015 to EUR 76.9 million in 2016. At the same time, losses from derivative financial instruments decreased from EUR 14.6 million to EUR 6.8

million. Therefore, the net effect from foreign currency movements was a gain of EUR 4.0 million in 2016 compared to a loss of EUR 8.9 million in 2015. The gain in 2016 was almost entirely attributable to the appreciation of the Brazilian real and the U.S. dollar.

In 2015, other income increased by EUR 25.1 million, or 49.3%, to EUR 76.0 million from EUR 50.9 million in 2014 and other expenses increased by EUR 30.6 million, or 60.8%, to EUR 80.9 million from EUR 50.3 million in 2014. Higher other income was primarily due to higher foreign exchange gains and gains from derivative financial instruments, which increased by EUR 23.3 million from EUR 46.7 million in 2014 to EUR 70.0 million in 2015. However, this development was more than offset by an increase in foreign exchange losses and losses from derivative financial instruments (reported as other expenses), which increased by EUR 32.8 million from EUR 46.1 million in 2014 to EUR 78.9 million in 2015. Therefore, the net effect from foreign currency movements was a gain of EUR 0.6 million in 2014 compared to a loss of EUR 8.9 million in 2015. The loss in 2015 was almost entirely attributable to the devaluation of the Brazilian real.

Operating EBIT

Operating EBIT for the year ended December 31, 2016 was EUR 0.9 million, or 0.7%, lower at EUR 123.2 million compared to EUR 124.1 million in 2015. This relatively stable development was positively affected by a strong contribution of the Steel Division, where Operating EBIT increased by 18.5% from EUR 64.3 million in 2015 to EUR 76.2 million in 2016. The Operating EBIT contribution of the Raw Materials Division improved as a result of a good utilization at the Austrian raw material plants, which predominantly produce basic mixes for the steel industry, especially for the use in electric arc furnaces. In contrast, the Operating EBIT of the Industrial Division was lower than in the previous year due to a decline in revenue. The strong operational development as well as positive exchange rate effects resulting from the appreciation of the U.S. dollar and the Brazilian real almost entirely offset external costs of EUR 12.1 million incurred in 2016 in connection with the Acquisition.

In 2015, Operating EBIT decreased by EUR 17.8 million, or 12.5%, to EUR 124.1 million from EUR 141.9 million in 2014. This decrease was primarily due to a weaker Operating EBIT in the Steel Division, which suffered from weaker margins in Europe and the Middle East as well as negative product mix effects due to declining volumes in the electric arc furnace segment, which is characterized by relatively higher margins. This development was partly offset by the Industrial Division's strong contribution to Operating EBIT, which benefited from higher revenues, improved utilization of fixed costs, better margins in the glass business unit and several major repairs in the non-ferrous metals business unit. The contribution to Operating EBIT of the Raw Materials Division was lower because of weaker utilization of the raw material plants as a result of declining volumes in the electric arc furnace segment. Operating EBIT was also adversely affected by the devaluation of the Brazilian real and resulting negative exchange rate effects.

Result from derivatives from supply contracts

The gain from derivatives from supply contracts in the amount of EUR 10.1 million in 2016 and the loss of EUR 58.0 million in 2015 related entirely to the accounting treatment of a long-term energy supply contract for the plant in Porsgrunn, Norway, entered into by the Group in 2011 for its anticipated energy requirements until the year 2023. For details see "*Operating and Financial Review of RHI—Key factors affecting the Group's results of operations—Impact of restructuring and business alignment*".

There was no gain or loss from derivatives from supply contracts in 2014.

Impairment loss

Impairment loss for the year ended December 31, 2016 was EUR 8.6 million. The loss primarily related to the plants San Vito, Italy and Sherbinska, Russia, both of which produce fused cast products and are since 2016 reported as a separate cash generating unit. Due to high fixed costs associated with the production of such fused cast products, the low capacity utilization in 2016 burdened achievable margins and has led management of the Group to initiate a structured selling process for these plants in 2017. Therefore, in 2016 an impairment loss on the existing property, plant and equipment and intangible assets was recognized in the amount of EUR 8.0 million. Additionally, with respect to the plant in Porsgrunn, Norway total investments made in 2016 in the amount of EUR 0.6 million were fully written off.

In 2015, impairment loss amounted to EUR 31.2 million. This related to the full impairment loss in the amount of EUR 23.2 million of property, plant and equipment of the site in Porsgrunn, Norway as a result of decreasing market prices for fused magnesia as well as an impairment of property, plant and equipment of the site in Falconer, New York, of EUR 8.0 million as a result of a difficult market environment for fused cast products.

In 2014, impairment losses amounted to EUR 19.8 million and related primarily to an impairment (in the amount of EUR 12.3 million) recognized on property, plant, equipment and intangible assets in the glass business unit as a result of low contract volumes and price pressure in that business segment. The remaining impairment loss of EUR 7.5 million was attributable to the plant in Porsgrunn, Norway and resulted from deteriorating prices for fused magnesia.

Income from restructuring

Income from restructuring for the year ended December 31, 2016 was EUR 0.3 million and was entirely attributable to the sale of the plant in Duisburg, Germany, in 2016, which resulted in the release of provisions booked in previous years in connection with the closure of this plant.

In 2015, income from restructuring was EUR 5.9 million. Thereof, EUR 4.3 million relates to the closure of the production site in Duisburg, Germany, where the remeasurement of previously booked provisions resulted in an income of EUR 4.3 million. An additional EUR 1.6 million was released from provisions booked in connection with the closure of a leased plant in Kretz, Germany, in 2014.

There was no income from restructuring in 2014.

Restructuring costs

Restructuring costs for the year ended December 31, 2016 were EUR 8.9 million and primarily relate to the sale and deconsolidation of RHI's former U.S. subsidiary Monofrax LLC (expenses of EUR 4.6 million were recognized in 2016) and the restriction of own production in the Group's plant in Porsgrunn, Norway following a drop in raw material prices and the Group's decision to increase external purchases instead of own production (expenses of EUR 4.2 million were recognized in 2016).

In 2015, restructuring costs amounted to EUR 3.3 million and related entirely to the closure of the Clydebank plant for isostatically pressed products, which the Group intended to concentrate at the site in Bonnybridge, Scotland.

In 2014, restructuring costs amounted to EUR 13.6 million and related to the closures of the sites in Kretz, Germany (EUR 9.7 million) and Duisburg, Germany (EUR 3.9 million).

Net income from U.S. Chapter 11 proceedings

In 2016 and 2015, there was no net income from U.S. Chapter 11 proceedings compared to an income of EUR 0.8 million in 2014, which was due to the reversal of provisions relating to the U.S. Chapter 11 proceedings, which were discontinued in 2013, after a reassessment of the scope of obligations.

EBIT

EBIT for the year ended December 31, 2016 was EUR 78.6 million higher at EUR 116.1 million compared to EUR 37.5 million in 2015. As operating EBIT remained relatively stable, this development was primarily due to the re-measurements of a long-term energy supply contract in relation to the plant in Porsgrunn, Norway, which had a negative effect of EUR 58.0 million in 2015 compared to a gain in the amount of EUR 10.1 million in 2016. Additionally, lower impairment losses (in 2015 an impairment loss in the amount of EUR 23.2 million was reported in relation to the plant in Porsgrunn, Norway) also had a positive impact on the EBIT development. In addition, there were slightly higher restructuring costs, which increased by EUR 5.6 million in 2016.

In 2015, EBIT decreased by EUR 71.8 million or 65.7% to EUR 37.5 million from EUR 109.3 million in 2014. This decrease was due to the factors described above, in particular a lower Operating EBIT, loss from derivatives from supply contracts in the amount of EUR 58.0 million and impairment losses in the amount of EUR 31.2 million.

Interest income

Interest income for the year ended December 31, 2016 was EUR 1.7 million or 29.3% lower at EUR 4.1 million compared to EUR 5.8 million in 2015. This development was primarily due to the sale of securities held in connection with provisions for pensions in 2015, which had still generated income in 2015. In contrast, interest on cash at banks and similar income increased from EUR 1.4 million in 2015 to EUR 2.9 million in 2016.

In 2015, interest income increased by EUR 3.2 million to EUR 5.8 million from EUR 2.6 million in 2014. This increase entirely related to interest income received from securities held in connection with provisions for pensions, which increased from EUR 0.8 million in 2014 to EUR 4.0 million in 2015.

Interest expenses

Interest expenses for the year ended December 31, 2016 were EUR 3.0 million or 14.6% lower at EUR 17.5 million compared to EUR 20.5 million in 2015. This development was primarily due to lower financial liabilities, which decreased from EUR 547.6 million as of December 31, 2015 to EUR 515.7 million as of December 31, 2016, as well as lower interest rates.

In 2015, interest expenses decreased by EUR 1.7 million or 7.7% to EUR 20.5 million from EUR 22.2 million in 2014. This development was primarily due to lower financial liabilities, which decreased from EUR 618.0 million as of December 31, 2014 to EUR 547.6 million as of December 31, 2015, as well as lower interest rates.

Other net financial expenses

Other net financial expenses for the year ended December 31, 2016 were EUR 3.2 million or 69.6% higher at EUR 7.8 million compared to EUR 4.6 million in 2015. This development was primarily due to the one-off gain in 2015 from the disposal of securities, which were held in connection with pension provisions for purposes of Austrian tax law and did not qualify as pension plan assets. As a result of this disposal, gains from the disposal of securities and shares decreased from EUR 4.6 million in 2015 to EUR 0.9 million in 2016.

In 2015, other net financial expenses decreased by EUR 8.5 million or 64.9% to EUR 4.6 million from EUR 13.1 million in 2014. This decrease was primarily due to the sale of a 2.6% share in a German residential property company as well as the sale of securities held in connection with provisions for pensions, which could be sold due to a surplus coverage. Additionally, net interest expense for personnel provisions decreased by EUR 3.0 million as a result of lower interest rates. Expenses relating to the measurement of a put option granted to non-controlling interests of an Indian subsidiary decreased by EUR 1.5 million compared to 2014.

Share of profit of joint ventures

Share of profit of joint ventures for the year ended December 31, 2016 was EUR 1.7 million or 18.5% higher at EUR 10.9 million compared to EUR 9.2 million in 2015, and EUR 8.2 million in 2014.

Income tax

Income tax for the year ended December 31, 2016 was EUR 20.1 million higher at EUR 29.9 million compared to EUR 9.8 million in 2015. This increase was primarily due to higher profit before tax, which increased from EUR 27.4 million in 2015 to EUR 105.8 million in 2016, while the effective tax rate decreased from 35.8% in 2015 to 28.3% in 2016.

In 2015, income tax decreased by EUR 22.5 million, or 69.7%, to EUR 9.8 million from EUR 32.3 million in 2014. This decrease was primarily due to lower profit before tax but also reflected a lower effective tax rate, which decreased from 38.1% in 2014 to 35.8% in 2015.

Period-by-period comparison for the Steel Division

Results for the Steel Division for the six-month periods ended June 30, 2017 and 2016 and for the financial years ended December 31, 2016, 2015 and 2014

% of Group in 2016		Six-month period ended June 30, 2017	% Change	Six-month period ended June 30, 2016	2016	% Change	2015	% Change	2014
		(in EUR million, except sales volume and percentages) (audited, except figures for the six-month period ended June 30, 2016, sales volume, percentages and as otherwise indicated)							
	Sales volume (in thousand tons, unaudited)	622	0.8	617	1,209	4.9	1,152	(7.5)	1,246
64.9	Revenues	558.2	2.9	542.3	1,071.4	(2.6)	1,099.9	(0.8)	1,108.8
61.9	Operating EBIT	36.2	(23.6)	47.4	76.2	18.5	64.3	(30.9)	93.1
65.7	EBIT	30.7	(35.2)	47.4	76.3	20.3	63.4	(30.6)	91.4

(Source: RHI Financial Statements and internal data.)

Revenues

In the Steel Division, revenues for the six-month period ended June 30, 2017 were EUR 15.9 million or 2.9% higher at EUR 558.2 million compared to the six-month period ended June 30, 2016 (EUR 542.3 million). This development was partly related to higher sales volumes, which increased by 0.8%, primarily in Europe, North America and the Middle East. A stronger increase was not possible because a major delivery in the Ukraine in the first half of 2016 could not be repeated in the first half of 2017. The revenue increase of 2.9% compared to the six-month period ended June 30, 2016, which exceeded the volume increase, was further supported by higher average sales prices.

Revenues for the year ended December 31, 2016 were EUR 28.5 million or 2.6% lower at EUR 1,071.4 million compared to EUR 1,099.9 million in 2015. This development came despite an increase in global steel production by 0.8% (according to Worldsteel) and an increase in the sales volume of the Group from 1,152,000 tons in 2015 to 1,209,000 tons in 2016, which was primarily attributable to a significant increase in sales of basic mixes, the most important product segment in terms of value. Despite these positive factors, revenues decreased due to product mix effects, including as a result of the extension of the product portfolio by lower-performance products, which are sold at lower prices.

In 2015, revenues decreased by EUR 8.9 million, or 0.8%, to EUR 1,099.9 million from EUR 1,108.8 million in 2014. This development was primarily driven by lower sales volumes, which decreased by 7.5% from 1,246,000 tons in 2014 to 1,152,000 tons in 2015. Lower sales volumes were primarily due to a lower world steel production, which decreased by 2.8% in 2015 compared to 2014. With the exception of India, steel production decreased in all important markets. In Europe steel production decreased by 1.8% and was less affected by higher Chinese exports (which increased by 19% compared to 2014) than U.S. steel production, which decreased by 10.5%. Despite higher Chinese exports, total Chinese steel production decreased by 2.3% as a result of a downturn in the construction industry and reduced investment activities (source: World Steel Association). In addition to decreasing global steel production, RHI's revenues were also adversely affected by increasing competitive pressure from Chinese refractories producers, which have caused RHI to increasingly focus on long-term full line supply contracts and package solutions consisting of refractory material, lining machines and services. Lower sales volumes were partly offset by positive currency translation effects resulting from the devaluation of the euro against the U.S. dollar.

Operating EBIT

Steel Division Operating EBIT for the six-month period ended June 30, 2017 was EUR 11.2 million, or 23.6%, lower at EUR 36.2 million compared to the six-month period ended June 30, 2016 (EUR 47.4 million). Operating EBIT in the six-month period ended June 30, 2017 was affected by external costs in the amount of EUR 8.8 million related to the Acquisition as well as negative currency effects of EUR 6.0 million resulting from the valuation of balance sheet items.

Operating EBIT for the year ended December 31, 2016 was EUR 11.9 million or 18.5% higher at EUR 76.2 million compared to EUR 64.3 million in 2015. This development was primarily due to the higher utilization of electric arc furnace for steel production, as the refractory products used for it generate higher margins than those used for steel production in the basic oxygen furnaces. Higher use of electric arc furnace steel production was primarily due to the fact that the prices for steel scrap (the primary raw material used in this production process) developed less dynamically than the prices for other raw materials for steel production, such as iron ore and coking coal, which are used for production in basic oxygen furnaces. Additionally, the Group benefitted from an improved utilization of its production capacities. This positive development was partly offset by costs incurred in connection with the Acquisition of Control of which EUR 7.8 million was allocated to the Steel Division.

In 2015, Operating EBIT decreased by EUR 28.8 million, or 30.9%, to EUR 64.3 million from EUR 93.1 million in 2014. This decrease was primarily due to a reduced utilization of the production capacities and a lower utilization of electric arc furnace production, which (as described above) generates higher margins than steel production in the basic oxygen furnaces.

EBIT

Steel Division EBIT for the six-month period ended June 30, 2017 was EUR 16.7 million, or 35.2%, lower at EUR 30.7 million compared to the six-month period ended June 30, 2016 (EUR 47.4 million). This development was due to the factors described above in relation to Operating EBIT but also reflects an impairment of EUR 5.5 million related to the shutdown of a production plant in Europe, which is expected to remain inactive for an extended period.

EBIT for the year ended December 31, 2016 was EUR 12.9 million, or 20.3%, higher at EUR 76.3 million compared to EUR 63.4 million in 2015. The increase was primarily the result of higher Operating EBIT but also includes net income from restructurings of EUR 0.1 million relating to adjustments of provisions for the plants in Duisburg, Germany and Clydebank, Scotland, which were closed in previous years.

In 2015, EBIT decreased by EUR 28.0 million, or 30.6%, to EUR 63.4 million from EUR 91.4 million in 2014. In addition to the factors described above in relation to Operating EBIT, restructuring costs of EUR 3.3 million relating to the closure of the plant in Clydebank, Scotland adversely affected EBIT compared to restructuring costs of EUR 2.2 million in 2014, which related to the sale of the premises of the plant in Duisburg, Germany. This increase in restructuring costs by EUR 1.1 million in 2015 and lower income from U.S. Chapter 11 proceedings (decreased by EUR 0.5 million) was more than offset by the reversal of provisions following the sale of the premises in Duisburg, resulting in a positive EBIT effect of EUR 2.4 million in 2015.

Period-by-period comparison for the Industrial Division

Results for the Industrial Division for each of the six-month periods ended June 30, 2017 and 2016 and for each of the financial years ended December 31, 2016, 2015 and 2014

% of Group in 2016		Six-month period ended June 30, 2017	% Change	Six-month period ended June 30, 2016	2016	% Change	2015	% Change	2014
		(in EUR million, except sales volume and percentages) (audited, except figures for the six-month period ended June 30, 2016, sales volume, percentages and as otherwise indicated)							
	Sales volume (in thousand tons, unaudited)	213	9.2	195	428	(3.4)	443	0.7	440
32.6	Revenues	270.6	2.0	265.4	538.6	(12.4)	614.6	8.5	566.6
36.1	Operating EBIT	21.7	6.9	20.3	44.5	(31.5)	65.0	33.7	48.6
27.6	EBIT	20.0	27.4	15.7	32.0	(45.7)	58.9	68.8	34.9

(Source: RHI Financial Statements and internal data.)

Revenues

In the Industrial Division, revenues for the six-month period ended June 30, 2017 were EUR 5.2 million, or 2.0%, higher at EUR 270.6 million compared to the six-month period ended June 30, 2016 (EUR 265.4 million). This development was primarily due to higher sales volumes, which increased by 9.2%, partly offset by adverse product mix effects, which means that the share of products with lower revenues per ton increased compared to products with higher revenue generation. Revenues increased in all business units of the Industrial Division, except for the environment, energy, chemicals, which reported a decline in revenues of more than 10.0%, primarily as a result of lower deliveries in Canada and in the Middle East. In the cement/lime business unit a positive development was recorded in the straight-line business as well as in the project business including installation, which is important for the utilization of production capacities. In the non-ferrous metals business unit the positive development was primarily driven by higher repair business in the copper and nickel segment, which has a share of roughly half of the business unit's total revenues. Revenues in the glass business unit were primarily driven by significant project deliveries in China, which more than offset the deconsolidation of the U.S. subsidiary RHI Monofrax LLC, which was sold in June 2016.

Revenues for the year ended December 31, 2016 were EUR 76.0 million or 12.4% lower at EUR 538.6 million compared to EUR 614.6 million in 2015. This development was partly related to lower sales volumes, which decreased by 3.4% from approximately 443,000 tons in 2015 to approximately 428,000 tons in 2016. This decrease was attributable to lower deliveries in the cement/lime, non-ferrous metals and environment, energy, chemicals business units. Weaker demand in the cement/lime business unit resulted from lower deliveries for new construction projects and a declining building industry in China, while in the glass business unit, the U.S. subsidiary RHI Monofrax, LLC was sold in June 2016. In the environment, energy, chemicals business unit, a major contract in the coal and petroleum coke gasifier segment in India, which was delivered in 2015 was not compensated by several smaller contracts. The decline in revenue in the non-ferrous metals business unit was based on weaker demand in the important copper and nickel segment.

In 2015, revenues increased by EUR 48.0 million, or 8.5%, to EUR 614.6 million from EUR 566.6 million in 2014. This development was partly driven by higher refractories sales volumes, which increased by less than 1% from 440,000 tons in 2014 to 443,000 tons in 2015. In addition to higher sales volumes, revenues were positively affected by a major contract carried out by the environment, energy, chemicals business unit in the petroleum coke gasifier sector in India, the performance by the glass and non-ferrous metals business units of some major repairs previously postponed by customers in 2014 and the positive development of the construction industry in North America, which led to increased revenues in the cement/lime business unit. The aforementioned increase in revenues from services provided by the Group in the environment, energy, chemicals and glass and non-ferrous metals business units led to a relatively higher revenue generation per ton of sold refractories. Additionally, revenues were positively affected by currency translation effects resulting from the devaluation of the euro against the U.S. dollar.

Operating EBIT

The Industrial Division's operating EBIT for the six-month period ended June 30, 2017 was EUR 1.4 million, or 6.9%, higher at EUR 21.7 million compared to the six-month period ended June 30, 2016 (EUR 20.3 million). Operating EBIT increased as a result of higher revenues and despite negative one-off effects in the amount of EUR 2.8 million related to external costs in connection with the Acquisition and in the amount of EUR 2.9 million related to negative currency effects resulting from the valuation of balance sheet items.

Operating EBIT for the year ended December 31, 2016 was EUR 20.5 million, or 31.5%, lower at EUR 44.5 million compared to EUR 65.0 million in 2015. This decrease was primarily due to lower revenues as a result of lower deliveries and the resulting weaker utilization of production capacities. Additionally, it was adversely affected by external expenses incurred in connection with the Acquisition of Control, of which EUR 4.1 million were allocated to the Industrial Division.

In 2015, Operating EBIT increased by EUR 16.4 million, or 33.7%, to EUR 65.0 million from EUR 48.6 million in 2014. This increase was primarily driven by higher revenues, better margins in the non-ferrous metals business unit and cost savings in the glass business unit.

EBIT

The Industrial Division's EBIT for the six-month period ended June 30, 2017 was EUR 4.3 million, or 27.4%, higher at EUR 20.0 million compared to the six-month period ended June 30, 2016 (EUR 15.7 million). This development was primarily driven by higher Operating EBIT and adversely affected by an impairment in the amount of EUR 1.7 million resulting from the sale of the Italian San Vito plant and the Russian Podolsk plant, which produce fused cast refractories for the glass industry.

EBIT for the year ended December 31, 2016 was EUR 26.9 million, or 45.7%, lower at EUR 32.0 million compared to EUR 58.9 million in 2015. In addition to the decrease in Operating EBIT described above, EBIT was adversely affected by impairments of EUR 8.0 million in the glass business unit (relating to the fused cast plants in San Vito, Italy and Sherbinska, Russia) and restructuring costs of EUR 4.6 million from the deconsolidation of RHI Monofrax, LLC following the sale in 2016. Income from restructuring in the amount of EUR 0.1 million resulting from the release of provisions for the plant in Duisburg, Germany, which was closed down in 2014 only had a minor offsetting effect.

In 2015, EBIT increased by EUR 24.0 million, or 68.8%, to EUR 58.9 million from EUR 34.9 million in 2014. In addition to the increase in Operating EBIT described above, the reversal of provisions related to the sale of the premises of the plant in Duisburg, Germany had positive effects on EBIT in the amount of EUR 1.9 million in 2015 (compared to an impairment loss of EUR 1.7 million due to restructuring costs in 2014). Additionally, impairment losses decreased from EUR 12.3 million in 2014 to EUR 8.0 million in 2015. Impairment losses in 2014 entirely related to the glass cash generating unit. In 2015, impairment losses in the amount of EUR 8.0 million entirely related to the Group's plant in Falconer, Monofrax, for which at the end of 2015 a structured selling process was initiated after the market in fused cast products suffered from aggressive pricing on the part of Asian competitors.

Period-by-period comparison for the Raw Materials Division

Results for the Raw Materials Division for the six-month periods ended June 30, 2017 and 2016 and for each of the financial years ended December 31, 2016, 2015 and 2014

% of Group in 2016		Six-month period ended June 30, 2017	% Change	Six-month period ended June 30, 2016	2016	% Change	2015	% Change	2014
		(in EUR million, except percentages) (audited, except figures for the six-month period ended June 30, 2016, sales volume, percentages and as otherwise indicated)							
	Sales volume (in thousand tons, unaudited)	169	(6.1)	180	342	15.2	297	63.2	182
2.5	External revenues	27.0	20.0	22.5	41.2	8.4	38.0	(17)	45.8
	Internal revenues	100.8	(16.9)	121.3	224.8	(4.2)	234.6	(8.9)	257.5
2.0	Operating EBIT	1.1	(56.0)	2.5	2.5	-	(5.2)	-	0.2
6.7	EBIT	(1.1)	-	5.5	7.8	-	(84.8)	>100	(17.0)

(Source: RHI Financial Statements and internal data.)

External revenues

In the Raw Materials Division, external revenues from sales to third parties for the six-month period ended June 30, 2017 were EUR 4.5 million, or 20%, higher at EUR 27.0 million compared to the six-month period ended June 30, 2016 (EUR 22.5 million). This development was primarily driven by higher raw material prices, which increased due to supply shortages caused, on the one hand, by the termination of the Chinese system of export quotas and export taxes on refractory raw materials and, on the other hand, by stricter requirements and stricter production controls implemented by the Chinese government in an effort to improve environmental and safety standards. A decline in sales volumes by 6.1% was mainly attributable to lower sales of raw dolomite in Italy, which due to the low price per ton only had a negligible effect on revenues.

External revenues for the year ended December 31, 2016 were EUR 3.2 million, or 8.4%, higher at EUR 41.2 million compared to EUR 38.0 million in 2015. This development was primarily due to higher sales activities and consequently higher sales of sintered magnesia by RHI's Premier Periclase Limited in Ireland in order to increase the plant's capacity utilization.

In 2015, external revenues decreased by EUR 7.8 million, or 17.0%, to EUR 38.0 million from EUR 45.8 million in 2014. This decrease was primarily due to the insolvency of a customer in Italy, as a result of which the Group discontinued deliveries. This could not be offset by a substantial increase of the sale in raw dolomite in Italy, as a result of which external sales volumes increased from 182,000 tons to 297,000 tons because of the low price per ton.

Internal revenues

In the Raw Materials Division, internal revenues for the six-month period ended June 30, 2017 were EUR 20.5 million, or 16.9%, lower at EUR 100.8 million compared to the six-month period ended June 30, 2016 (EUR 121.3 million). This decline was primarily due to lower production volumes at the site in Porsgrunn, Norway.

Internal revenues for the year ended December 31, 2016 were EUR 9.8 million or 4.2% lower at EUR 224.8 million compared to EUR 234.6 million in 2015. This decrease was due to lower demand from the Steel Division and particularly from the cement/lime business unit of the Industrial Division and generally lower prices for raw materials, which adversely affected transfer prices charged by the Raw Materials Division. Additionally and primarily also as a result of lower raw materials prices, the production of fused magnesia in the Group's plant in Porsgrunn, Norway was reduced and purchases from external suppliers were increased accordingly.

In 2015, internal revenues decreased by EUR 22.9 million, or 8.9%, to EUR 234.6 million from EUR 257.5 million in 2014. This decrease was primarily due to reduced demand from the Steel Division, which resulted from a decline in sales volume in the electric arc furnace segment by approximately 12%, among other factors. In the electric arc furnace segment, hearth and gunning mixes are important raw materials, which the Group sources from its Austrian mines in Breitenau and Hochfilzen. This development was not offset by the positive development in the Industrial Division, which sources only a relatively small portion of its raw material requirements from the Group (primarily in the cement/lime business unit).

Operating EBIT

In the Raw Materials Division, Operating EBIT for the six-month period ended June 30, 2017 was EUR 1.4 million, or 56.0%, lower at EUR 1.1 million compared to the six-month period ended June 30, 2016 (EUR 2.5 million). The decline was primarily related to external costs associated with the Acquisition in the amount of EUR 1.0 million and negative currency effects from the valuation of balance sheet items in the amount of EUR 0.3 million.

Operating EBIT for the year ended December 31, 2016 increased from a negative Operating EBIT of EUR 5.2 million in 2015 to a positive Operating EBIT of EUR 2.5 million. This development was primarily due to good capacity utilization at the two Austrian raw material plants in Breitenau and Hochfilzen, which predominantly produce basic mixes for the steel industry, especially for the use in electric arc furnaces. In this product segment the Steel Division increased sales volume by more than 9% to more than 500,000 tons.

In 2015, Operating EBIT decreased from a positive Operating EBIT of EUR 0.2 million in 2014 to a negative Operating EBIT of EUR 5.2 million. The decrease was due to lower sales volumes, resulting in lower revenues and a weak capacity utilization.

EBIT

In the Raw Materials Division, EBIT for the six-month period ended June 30, 2017 was negative at EUR -1.1 million compared to a positive EBIT contribution of EUR 5.5 million in the six-month period ended June 30, 2016. In addition to the factors described above under Operating EBIT, EBIT was adversely affected by a negative net effect of EUR 1.2 million from the power supply contract in Norway as a negative non-cash effect on earnings had to be recognized due to lower electricity futures prices, which more than offset the reversal of financial liabilities through profit or loss due to own consumption and the sale at market prices. Additionally and irrespective of the power supply contract, restructuring costs in the amount of EUR 1.0 million related to changes in the product portfolio at the site in Porsgrunn, Norway, were incurred in the six-month period ended June 30, 2017.

EBIT for the year ended December 31, 2016 increased from a negative EBIT of EUR 84.8 million in 2015 to a positive EBIT of EUR 7.8 million. In addition to the factors described above under Operating EBIT, EBIT was positively affected by the reversal of financial liabilities in the amount of EUR 10.1 million, which was booked in 2015 in relation to a long-term energy supply contract, while a plan for the staff reduction and a reorganization of the product portfolio at the site in Porsgrunn, Norway had a negative impact on EBIT in the amount of EUR 4.8 million.

In 2015, EBIT decreased by EUR 67.8 million from a negative EBIT of EUR 17.0 million in 2014 to a negative EBIT of EUR 84.8 million. This substantial decrease was primarily due to impairments relating to the fused magnesia production plant in Porsgrunn, Norway in the amount of EUR 23.2 million as a result of lower fused magnesia prices in China and two fire incidents at the Norwegian plant, which forced management to make more conservative estimates regarding production capacities. As a result of such lower estimates, the contract volume defined in the electricity supply contract relating to the plant in Porsgrunn concluded in 2011 will not be needed to the full extent and the change in valuation of this long-term energy supply contract (in force until the end of 2023) adversely affected EBIT by EUR 58.0 million. However, this non-cash effect was expected to have corresponding earnings improvements in subsequent periods.

Liquidity and capital resources

Working capital statement

The Issuer is of the opinion that the working capital available to the Combined Group is sufficient for its present requirements, that is, for at least 12 months following the date of this Prospectus.

Liquidity

The Group's financial policy is based on long-term planning and is managed centrally and monitored continuously. The liquidity requirements determined by the planning process are met through the conclusion of appropriate financing agreements. The Group's liquidity requirements arise primarily to fund working capital and capital expenditures, to meet the Group's debt service obligations, to pay dividends and to fund the cash portion of the purchase price for the Acquisition and any future acquisitions. The Group's primary sources of liquidity are provided by cash from operating activities and financings.

The main responsibility for raising funds for the Group lies with RHI's corporate treasury department at the holding company level. The Group's local operating companies are responsible for their day-to-day cash management with liquidity being largely centralized via cash pools. Treasury is also in charge of monitoring and managing the Group's foreign exchange exposure. It is expected that after the Acquisition of Control each of the Group and Magnesita will continue to be responsible for their own financing requirements for at least as long as Magnesita has minority shareholders. In the event that RHI becomes the sole shareholder of Magnesita, the Group may consider combining the financing activities of RHI and Magnesita into one entity, depending on the market environment and other factors.

As of June 30, 2017, the consolidated statement of financial position of the Group showed financial liabilities in the amount of EUR 493.3 million. The Group's unused, immediately available lines of credit totaled EUR 265.8 million (thereof EUR 100.7 million committed) as of June 30, 2017.

Investments (capital expenditure)

The Group's business is capital intensive. RHI's total investments relate both to growth investments and to replacement and maintenance investments.

In the six-month period ended June 30, 2017, the Group's investments (as recorded in the Group's statement of cash flows) totaled EUR 17.2 million and mainly related to maintenance, replacement and rationalization measures as well as to ensure legal and environmental compliance of the Group's plants. The largest individual project again related to the modification of the smelter in Radenthein, Austria.

In 2016, the Group's investments (as recorded in the Group's statement of cash flows) totaled EUR 70.8 million and mainly related to maintenance, repair and rationalization measures as well as other investments such as gunning machines for application at customer sites, IT systems, other intangible assets and prepayments. The largest individual investment project in 2016 was the modification of the smelter in Radenthein, Austria.

In 2015, the Group's investments (as recorded in the Group's statement of cash flows) totaled EUR 80.8 million and primarily related to maintenance, repair and rationalization measures as well as other investments such as gunning machines for sales, IT systems, other intangible assets and prepayments. Additionally, environmental investments and public authority requirements as well as the expansion of production capacities such as the construction of a third tunnel kiln at the site in Venkatapuram, India were also included in the Group's investments.

In 2014, the Group's investments (as recorded in the Group's statement of cash flows) totaled EUR 77.4 million. The largest investment project was the construction of a mixes plant at the site in Eskisehir, Turkey.

The following table sets out the Group's total investments (according to the statement of cash flows) in property, plant and equipment, intangible assets and non-controlling interests of RHI subsidiaries for the six-month period ended June 30, 2017 and 2016 and the financial years ended December 31, 2016, 2015 and 2014, broken down by geographical regions:

	Six-month period ended June 30, 2017	**% Change**	**Six-month period ended June 30, 2016**	**2016**	**% Change**	**2015**	**% Change**	**2014**
	(in EUR million, except percentages, unaudited)							
EMEA	13.3	(35.4)	20.6	59.0	(3.6)	61.2	(4.2)	63.9
Asia	2.4	20.0	2.0	8.0	(40.3)	13.4	67.5	8.0
NAFTA	1.2	50.0	0.8	3.3	(37.7)	5.3	3.9	5.1
South America	0.3	-	0.0	0.5	(44.4)	0.9	125.0	0.4
Total	**17.2**	**(26.5)**	**23.4**	**70.8**	**(12.4)**	**80.8**	**4.4**	**77.4**

The following table sets out the Group's total investments (the information presented is derived from the non-current assets statement, which differs from investments as presented in the statement of cash flows) in property, plant and equipment and intangible assets for the six-month period ended June 30, 2017 and 2016 and the financial years ended December 31, 2016, 2015 and 2014, broken down by segments:

	Six-month period ended June 30, 2017	**% Change**	**Six-month period ended June 30, 2016**	**2016**	**% Change**	**2015**	**% Change**	**2014**
	(in EUR million, except percentages)							
	(audited)	**(unaudited)**	**(unaudited)**	**(audited)**	**(unaudited)**	**(audited)**	**(unaudited)**	**(audited)**
Steel Division	7.6	4.1	7.3	28.7	(35.5)	44.5	37.3	32.4
Industrial Division	4.3	0.0	4.3	16.7	(23.0)	21.7	8.5	20.0
Raw Materials Division	2.6	(45.8)	4.8	20.9	27.4	16.4	(19.2)	20.3
Total	**14.5**	**(11.6)**	**16.4**	**66.3**	**(19.7)**	**82.6**	**13.6**	**72.7**

(Source: RHI Financial Statements.)

Other than the Acquisition and investments carried out in the ordinary course of its business (e.g. maintenance and repair), the Group currently does not carry out and in the near future does not anticipate to carry out principal investments.

Cash flow

	Six-month period ended June 30,		**Year ended December 31,**		
	2017	**2016**	**2016**	**2015**	**2014**
	(in EUR million, audited, except numbers for the six-month period ended June 30, 2016 and as otherwise noted)				
Profit after income tax	25.7	38.9	75.9	17.6	52.5
Adjustments for					
income taxes	20.2	24.0	29.9	9.8	32.3
depreciation and amortization charges	32.3	32.4	65.1	69.3	67.8
impairment losses of property, plant and equipment and intangible assets	7.7	-	8.9	34.1	23.0
income from the reversal of investment subsidies	(0.4)	(0.4)	(1.0)	(0.9)	(0.7)
reversals of impairment losses/impairment losses on securities	(0.1)	(0.5)	(0.5)	0.6	-
gains/losses from the disposal of property, plant and equipment	(0.1)	0.5	0.3	(3.4)	1.5

	Six-month period ended June 30, 2017	2016	Year ended December 31, 2016	2015	2014
	(in EUR million, audited, except numbers for the six-month period ended June 30, 2016 and as otherwise noted)				
losses from the disposal of subsidiaries	0.0	4.1	4.1	-	-
net income from US Chapter 11 proceedings	-	-	-	-	(0.8)
interest result	7.6	7.6	13.4	14.7	19.6
gains from the disposal of securities and shares	-	-	(0.9)	(4.6)	-
share of profit of joint ventures	(6.4)	(5.4)	(10.9)	(9.2)	(8.2)
other non-cash changes	7.0	(3.5)	(8.9)	63.7	17.5
Change in					
inventories	(35.5)	(2.2)	29.0	24.5	(31.0)
trade receivables	(0.3)	20.1	4.3	21.1	(39.6)
other receivables and assets	0.7	(5.1)	(10.0)	-	(4.2)
provisions	(12.4)	(13.8)	(25.2)	(24.4)	(29.7)
trade payables	4.1	4.2	26.9	0.2	6.6
prepayments received on orders[(1)]	2.7	1.6	1.4	(7.1)	(3.6)
other liabilities[(1)]	4.4	(7.8)	(1.5)	(2.2)	0.4
Cash flow from operating activities	**57.2**	**94.7**	**200.3**	**203.8**	**103.4**
Income taxes paid less refunds	(17.4)	(18.0)	(37.6)	(28.4)	(31.0)
Net cash flow from operating activities	**39.8**	**76.7**	**162.7**	**175.4**	**72.4**
Cash inflows from the sale of subsidiaries net of cash	0.0	(4.6)	(4.6)	-	-
Investments in property, plant and equipment and intangible assets	(17.2)	(23.4)	(70.8)	(80.8)	(76.2)
Cash inflows from the sale of property, plant and equipment and intangible assets	1.1	2.2	3.5	4.8	2.6
Cash inflows from/investments in non-current receivables	0.0	(0.1)	-	-	0.6
Cash inflows from the sale of securities and shares	-	-	6.1	14.1	-
Dividend payments and repayment of capital from joint ventures	10.2	7.5	9.5	8.2	7.6
Investment subsidies received	-	-	0.4	0.7	1.9
Interest received	1.1	1.3	3.0	5.8	2.4
Cash flow from investing activities	**(4.8)**	**(17.1)**	**(52.9)**	**(47.2)**	**(61.1)**
Capital expenses for the issue of shares	(0.9)	-	-	-	-
Investments in non-controlling interests	-	-	-	-	(1.2)
Dividend payments to shareholders of RHI AG	(29.9)	(29.9)	(29.9)	(29.9)	(29.9)
Dividend payments to non-controlling interests	(0.6)	-	(0.6)	(0.6)	(0.6)
Proceeds from non-current borrowings and loans	0.0	0.2	1.6	48.4	172.2
Repayments of non-current borrowings and loans	(18.0)	(13.4)	(29.0)	(118.6)	(43.7)
Changes in current borrowings	(4.2)	(4.1)	(5.8)	(3.4)	(52.4)
Interest payments	(5.5)	(7.2)	(17.0)	(20.3)	(19.8)
Net cash flow from financing activities	**(59.1)**	**(54.4)**	**(80.7)**	**(124.4)**	**24.6**
Total cash flow	**(24.1)**	**5.2**	**29.1**	**3.8**	**35.9**
Change in cash and cash equivalents	**(24.1)**	**5.2**	**29.1**	**3.8**	**35.9**
Cash and cash equivalents at beginning of year	182.9	149.7	149.7	151.1	112.4
Changes due to currency translation	(4.9)	1.2	4.1	(5.2)	2.8
Cash and cash equivalents at the end of the period	153.9	156.1	182.9	149.7	151.1
Total interest paid	5.5	7.4	17.5	20.8	20.9
Total interest received	1.1	1.4	3.2	5.8	2.6

(Source: RHI Financial Statements and internal data.)

(1) In the RHI Consolidated Annual Financial statements for the years 2014 and 2015 the change in prepayments received on orders was included in "other liabilities". The respective figures for the years 2014 and 2015 have been adapted to reflect the current separate reporting of prepayments received on orders and are unaudited.

Net cash flow from operating activities

Net cash flow from operating activities for the six-month period ended June 30, 2017 was EUR 36.9 million, or 48.1%, lower at EUR 39.8 million compared to the six-month period ended June 30, 2016 (EUR 76.7 million). This development was primarily attributable to higher working capital requirements and lower profit before tax.

In 2016, net cash flow from operating activities was EUR 12.7 million or 7.2% lower at EUR 162.7 million compared to EUR 175.4 million in 2015. As the cash flow from operating activities decreased only slightly (by EUR 3.5 million or 1.7%) compared to 2015, the decrease in the net cash flow from operating activities was primarily due to higher income taxes as a result of higher profit before tax.

In 2015, net cash flow from operating activities increased by EUR 103.0 million, to EUR 175.4 million compared to EUR 72.4 million in 2014. This development was due to significant improvements in working capital. Working capital had been adversely affected in 2014 as a result of a high proportion of working capital intensive deliveries to regions where RHI does not maintain production facilities, as well as strong revenues towards the end of 2014, combined with a deteriorating payment discipline of some customers in the CIS region and in China.

Cash flow from investing activities

Cash outflow from investing activities for the six-month period ended June 30, 2017 was EUR 12.3 million, or 71.9%, lower at EUR 4.8 million compared to the six-month period ended June 30, 2016 (EUR 17.1 million). This development was primarily due to lower investments, which decreased from EUR 23.4 million in the first half of 2016 to EUR 17.2 million in the first half of 2017, but was also affected by higher share of profit of joint ventures.

In 2016, cash outflow from investing activities was EUR 52.9 million compared to EUR 47.2 million in 2015 and EUR 61.1 million in 2014. In this period investments in property, plant and equipment and intangible assets remained relatively stable at EUR 70.8 million in 2016, EUR 80.8 million in 2015 and EUR 76.2 million in 2014. For details see "*Investments (Capital Expenditure)*". In 2015, the sale of securities after determination of a surplus coverage of the legally required provisions for pensions of two companies amounting to EUR 11.0 million as well as payments related to the sale of a share in a German residential property company amounting to EUR 3.0 million had a positive impact on cash flow from investing activities.

Cash flow from financing activities

Cash outflow from financing activities for the six-month period ended June 30, 2017 was EUR 4.7 million, or 8.6%, higher at EUR 59.1 million compared to the six-month period ended June 30, 2016 (EUR 54.4 million). This development was primarily due to slightly higher repayments of non-current borrowings.

In 2016, cash outflow from financing activities was EUR 43.7 million or 35.1% lower at EUR 80.7 million compared to EUR 124.4 million in 2015. This development was primarily due to the repayment in 2015 of the three-year tranche of the *Schuldscheindarlehen* issued in 2012, which was only partly financed by new borrowings and therefore led to a significant cash outflow in 2015.

In 2015, cash outflow from financing activities was EUR 124.4 million compared to a positive cash flow from financing activities of EUR 24.6 million in 2014. Cash outflow from financing activities in 2015 was primarily related to the repayment of the three-year tranche of the *Schuldscheindarlehen* issued in 2012. Additionally, in 2014 non-current borrowings were incurred in the amount of EUR 172.2 million compared to EUR 48.4 million in 2015.

Debt

Interest bearing indebtedness (including financial liabilities)

As of June 30, 2017, the Group's interest bearing indebtedness (including financial leases) totaled EUR 493.3 million.

As of June 30, 2017, 68.0% of the financial liabilities had a term between one and five years; the remaining 32.0% was due in less than one year. Taking into account interest swaps, an amount of 61% of financial liabilities carried a fixed average interest rate of 2.6%; the remaining 39% carried a variable interest rate with an average rate of 1.5%.

Description of the Group's main financing contracts as of June 30, 2017

<u>Debenture Bonds</u>

As of June 30, 2017, the Group had a number of debenture bonds (*Schuldscheindarlehen*), which had been placed with institutional lenders, outstanding in an aggregate principal amount of EUR 253.5 million. The debenture bonds had variable maturities and carried fixed and variable interest rates.

After the Refinancing (as described below), debenture bonds in the total principal amount of EUR 52.5 million remained outstanding. These consist of four tranches, each of which carries a fixed interest rate. The major tranche, which amounts to EUR 35.5 million, is due in 2024 and carries a 3.1% p.a. interest rate. The interest rate on the outstanding debenture bonds increases by 50 basis points if the Group's leverage ratio (defined as net financial indebtedness to EBITDA) exceeds 3.0x.

The outstanding EUR 52.5 million debenture bonds provide for customary termination rights and change of control provisions (in case a third party or a group acting in concert acquires more than 50% of RHI's share capital or voting rights entitled to vote in RHI's shareholders' meeting) and cross default clauses in case the defaulted amount exceeds EUR 10.0 million. The debenture bonds also include customary restrictive covenants, including a negative pledge, restrictions on the incurrence of subsidiary indebtedness and limitations on the disposal of assets. Some covenants, such as the negative pledge covenant, were waived by bondholders in connection with the Refinancing, as a pledge over Magnesita shares acquired by RHI is granted to secure the Syndicated Loan (as described below).

<u>Export credits and one-time financing</u>

As of June 30, 2017, the Group had outstanding export credits and one-time financing arrangements in the total principal amount of EUR 141.1 million.

All of the facilities were refinanced in connection with the Refinancing (as described below) with the effect that no significant amounts remained outstanding following the Refinancing.

<u>Other credit lines</u>

As of June 30, 2017, the Group had outstanding borrowings under other credit lines in the total principal amount of EUR 60.5 million. Such other credit lines relate to short-term financing arrangements without a repayment schedule. The most significant facility reported in this category is an asset-backed facility made available by Oesterreichische Kontrollbank AG, the Austrian export credit financing agency, in the amount of EUR 34.0 million at an interest rate of 0.27% as of June 30, 2017.

These other credit lines were not subject to the Refinancing.

Financing of the Acquisition and Refinancing

RHI entered into

- the New Debenture Bond in the amount of EUR 178.0 million in July 2017, which was placed with institutional lenders, to refinance existing debenture bonds in a corresponding principal amount. The New Debenture Bond consists of three tranches:

  – a EUR 63.0 million tranche with a term of five years and a fixed interest rate of 1.739%;

  – a EUR 89.0 million tranche with a term of five years and a variable interest rate consisting of the six-month Euribor and a 1.6% margin; and

  – a EUR 26.0 million tranche with a term of seven years and a variable interest rate consisting of the six-month Euribor and a 1.9% margin.

  The New Debenture Bond includes an interest step-down by 50 basis points (applicable for each of the tranches) in case the Acquisition of Control is not effected and an interest step-up by 10 basis points in case the leverage ratio (defined as net financial indebtedness to EBITDA) of the RHI Group exceeds 3.5x.

- the EUR 88.0 million Equity Bridge financing agreement in September 2017 with Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft and Raiffeisen International Bank AG as lenders to finance the share component of the Mandatory Offer. The Equity Bridge is intended to be refinanced partly with the proceeds from the sale on the market of the Ordinary Shares which are not being taken up by Magnesita shareholders in connection with the Mandatory Offer; and

- the EUR 477.2 million Syndicated Loan in August 2017, a syndicated term and revolving loan agreement arranged by UniCredit Bank Austria AG for RHI AG as original borrower (to be transferred to RHI Feuerfest GmbH) and guaranteed by the Issuer to refinance OeKB financings (approximately EUR 85.6 million) and to refinance other existing liabilities (approximately EUR 70 million in total, thereof approximately EUR 30 million relating to debenture bonds and approximately EUR 40 million relating to one-time financing arrangements), to finance the Acquisition of Control and the Mandatory Offer (approximately EUR 220.4 million), to establish a revolving credit facility in the principal amount of EUR 100 million (not intended to be drawn down upon the Acquisition of Control) and to cover a potential market risk in relation to the equity bridge financing (EUR 50 million). The Syndicated Loan, which matures in June 2022, is ring fenced, which means that it applies (with respect to covenants, representations and calculation of interest margins) to the RHI Group excluding Magnesita until such ring fencing falls away (such date being in the discretion of the borrower). The syndicated loan is secured by a pledge of Magnesita shares acquired by RHI. Interest payable on the Syndicated Loan consists of a base rate and an applicable margin. For a principal amount of approximately EUR 306 million the interest rate consists of the OeKB financing rate and a margin between 0.6% (in case of RHI Group leverage being less than 1.25) and 2.0% (in case of RHI Group leverage being more than 2.75). For the remaining facility amount the interest rate consists of the OeKB financing rate and a margin between 1.25% (in case of RHI Group leverage being less than 1.25) and 2.75% (in case of RHI Group leverage being more than 2.75). For all facilities the interest rate will decrease by 0.2% in case Group leverage (including Magnesita) is below 2.5.

<u>Covenants</u>

The Syndicated Loan includes a number of covenants, including the following financial maintenance covenants:

- RHI Group leverage: consolidated total net debt of the RHI Group to consolidated EBITDA of the RHI Group may not be greater than 3.5 stepping down to 3.3 by June 30, 2020.

- Combined Group leverage: consolidated total net debt of the Combined Group to consolidated EBITDA of the Combined Group may not be greater than 4.0 stepping down to 3.8 by June 30, 2020 and 3.5 by June 30, 2021 or an earlier date on which the ring fencing falls away.

- Equity ratio: consolidated shareholder's equity as a percentage of consolidated total assets may not be less than 25% for the RHI Group as long as the ring fencing is in place and may not be less than 20% for the Combined Group once ring fencing is no longer in place.

The RHI Group would as of the date of this Prospectus be in compliance with the covenants set out above and management believes that the covenants included in the Syndicated Loan provide for sufficient headroom for the Group to carry on its operations and implement its strategy.

Net gearing

The Group's net gearing is defined as net financial liabilities divided by equity. The management of the Group uses net gearing as a measure of overall indebtedness and leverage.

On June 30, 2017, the Group's net gearing was 68.5% compared to 63.5% on December 31, 2016.

Other financial obligations

The following table shows the nominal value of other financial obligations not included in RHI's statement of financial position as of June 30, 2017:

	Total	**Remaining term**		
		Up to 1 year	**2 to 5 years**	**Over 5 years**
Obligations from rental and leasing contracts	58.6	12.1	29.9	16.6
Capital commitments	14.8	14.8	0.0	0.0
Other financial obligations	**73.4**	**26.9**	**29.9**	**16.6**

(Source: RHI Financial Statements.)

Other financial obligations are exclusively due to third parties.

The most important operating rental and leasing agreements relate to RHI's head office in Vienna (lease term until 2020), other offices (lease term until 2020) and a production site (lease term until 2062). The Group also rents equipment for terms ranging from two to seven years.

In addition to the aforementioned financial obligations, the Group also has long-term purchase obligations related to the supply with raw materials, especially for electricity, natural gas, strategic basic and non-basic raw materials as well as for the transport of raw materials within the Group. This resulted in other financial obligations of the nominal value of EUR 154.6 million as of June 30, 2017 (compared to EUR 193.3 million as of December 31, 2016 and EUR 255.0 million as of December 31, 2015). The remaining terms of the contracts amount to up to eight years. Purchases from these arrangements are recognized in accordance with the usual course of business. Purchase contracts are regularly reviewed for imminent losses, which may occur, for example, when requirements fall below the agreed minimum purchase volume, as was the case with a power supply contract relating to the Group's plant in Porsgrunn, Norway, or when contractually agreed prices deviate from the current market price level. The power supply contract relating to the Porsgrunn, Norway, plant, which is accounted for in accordance with IAS 39 (see "*Comparison of Group results—Group results for 2016 compared with 2015, and for 2015 compared with 2014—Result from derivatives from supply contracts*") represented EUR 94.9 million of the nominal value as of June 30, 2017.

Contingent liabilities and guarantees

The following table summarizes contingent liabilities as of June 30, 2017 and December 31, 2016, 2015 and 2014:

	As of June 30 2017	As of December 31, 2016	2015	2014
	(audited, except otherwise noted, in EUR million)			
Contingent liabilities from sureties	0.5	0.7	0.9	0.9
Liabilities from warranties, performance guarantees and other guarantees	32.8	32.0	34.3	28.5
Contingent liabilities and guarantees (unaudited)	**33.3**	**32.7**	**35.2**	**29.4**

(Source: RHI Financial Statements and internal data.)

The Group's contingent liabilities relate primarily to bid bonds, performance bonds, advance payment guarantees and warranty bonds which have to be provided in connection with operating business.

Provisions

General

RHI establishes various types of provisions. The Group's non-current provisions defined as liabilities not expected to mature within one year relate mainly to personnel provisions. As of June 30, 2017, the Group's non-current provisions amounted to EUR 313.0 million, EUR 310.0 million of which related to personnel provisions. Personnel provisions comprise in particular provisions for pensions in the amount of EUR 233.4 million and provisions for terminations in the amount of EUR 55.0 million. Current provisions with an expected maturity of one year or less or with unknown maturity were EUR 26.5 million as of June 30, 2017, primarily relating to provisions for warranties, guarantees provided, claims for compensation, demolition and disposal costs and environmental damages.

Pension obligations

The Group's pension obligations primarily relate to its Austrian and German operations. Defined benefit pension plans are closed for new entrants in both jurisdictions and a defined contribution pension model exists in Austria and other jurisdictions, but not in Germany.

The following table summarizes the net debt from pension obligations as of June 30, 2017 and December 31, 2016, 2015 and 2014:

	As of June 30, 2017	As of December 31, 2016	2015	2014
	(audited, in EUR million)			
Present value of pension obligations	285.7	289.2	304.9	353.1
Fair value of plan assets	(56.2)	(56.4)	(63.8)	(87.9)
Funded status	229.5	**232.8**	**241.1**	**265.2**
Asset ceiling	1.7	1.9	2.8	1.6
Net debt from pension obligations	**231.2**	**234.7**	**243.9**	**266.8**
thereof assets from overfunded pension plans	2.2	2.1	2.1	1.9
thereof provisions for pensions	**233.4**	**236.8**	**246.1**	**268.7**

(Source: RHI Financial Statements.)

As of June 30, 2017, the Austrian companies of the Group accounted for EUR 121.8 million of the present value of pension obligations and for EUR 25.8 million of the plan assets. The agreed benefits include pensions, invalidity benefits and benefits for surviving dependents. Commitments in the form of company or individual agreements depend on the length of service and the salary at the time of retirement. Pensions are predominantly paid in the form of annuities and are partially indexed. There are commitments based on the deferred compensation principle, which are fully covered by pension reinsurance policies, and commitments for pre-retirement benefits for employees in mining operations.

As of June 30, 2017, the pension plans of the German companies of the Group accounted for EUR 120.8 million of the present value of pension obligations and for EUR 0.7 million of plan assets. The benefits included in company agreements comprise pensions, invalidity benefits and benefits for surviving dependents. The amount of the pension depends on the length of service for the majority of the commitments and is calculated as a percentage of the average monthly wage/salary of the last 12 months prior to retirement. In some cases commitments to fixed benefits per year of service have been made. Individual commitments have been made, primarily with retired beneficiaries.

Recent Developments

On June 28, 2017, the European Commission approved the Acquisition of Control, subject to the divestment of (i) the entire dolomite business (including production and sale) of the RHI Group in the European Economic Area ("**EEA**"), which concerned the production sites in Marone (Italy) and Lugones (Spain) and (ii) Magnesita's entire Oberhausen business, which included Magnesita's production, sale, and related activities of magnesia-carbon bricks and basic mixes in the EEA, all to one buyer. On September 8, 2017, RHI and Magnesita agreed to sell these plants to a European refractories supplier and entered into a supply contract with the buyer for sintered magnesia amounting to a maximum of roughly 32,500 tons per year. The disposal is subject to buyer approval by the European Commission, i.e. the signed purchase agreement concerning that disposed dolomite business is subject to a further administrative step where the European Commission has to approve the buyer. Completion of the disposal can therefore only take place following such approval, which is expected to be granted shortly after Admission.

In connection with these required divestments (i) RHI expects to incur an unrecognized gain in the amount of up to EUR 5.0 million and (ii) Magnesita has impaired its Oberhausen assets by BRL 164.3 million in anticipation of sales proceeds falling short of the book value of the Oberhausen assets.

Additionally, and independent from the decision of the European Commission, RHI's management decided in the first half of 2017 to terminate the production of fused cast bricks. Accordingly, the plants in San Vito, Italy, and Sherbinska in Russia were sold on October 12, 2017.

SELECTED CONSOLIDATED FINANCIAL DATA OF MAGNESITA

The selected historical financial information of the Magnesita Group as at and for the years ended December 31, 2016, 2015 and 2014 set out below has been extracted or derived from the Magnesita Consolidated Historical Financial Information, which is included on pages F-397 *et seq.* in this Prospectus. The financial information as of and for the six-month periods ended June 30, 2017 (audited) and 2016 (unaudited) has been extracted from the Magnesita Special Purpose Consolidated Interim Financial Information or has been calculated based on the data in the Magnesita Interim Financial Information and certain other information of the Magnesita Group. The Magnesita Financial Information was prepared in accordance with EU-IFRS and is presented in Brazilian real.

The Magnesita Financial Information included in this Prospectus was prepared for the special purpose of this Prospectus in order to conform the financial reporting standards and accounting policies of Magnesita to those of RHI.

The following selected consolidated financial data of Magnesita should be read in conjunction with, and are qualified by reference to, the Operating and Financial Review of Magnesita and the Magnesita Financial Information contained in this Prospectus.

	Six-month period ended June 30, 2017	2016	Year ended December 31, 2016	2015	2014
	(in BRL million, except as otherwise noted)				
	(audited)	(unaudited)	(audited, except as otherwise noted)		
Consolidated Statement of profit and loss					
Net revenues from sales and services	1,755.1	1,799.5	3,393.1	3,380.8	2,872.0
Cost of sales	(1,170.8)	(1,186.6)	(2,233.2)	(2,341.3)	(1,989.5)
Gross profit	584.2	612.9	1,159.9	1,039.5	882.5
Operating profit (loss)					
Selling expenses	(239.1)	(252.6)	(487.9)	(456.4)	(408.5)
General and administrative expenses	(130,6)	(141.0)	(288.6)	(274.0)	(229.0)
Stock options	-	(0.7)	(1.6)	(3.3)	(6.1)
Share of profit (loss) of investees	0.9	(0.2)	(0.6)	0.4	1.1
Other operating income (expenses), net	(217.0)	(10.6)	83.3	(547.0)	(102.9)
Operating profit (loss) before financial income (expenses)	(1.5)	207.7	464.5	(240.8)	137.2
Financial (expenses) income					
Financial income	70.0	264.7	245.8	309.5	183.4
Financial expenses	(215.5)	(224.4)	(332.1)	(807.4)	(448.0)
Income (loss) before income tax and social contribution	(147.0)	248.1	378.2	(738.7)	(127.4)
Income tax and social contribution	(19.7)	(86.9)	75.8	(309.1)	37.1
Net income (loss) for the period/year	(166.6)	161.1	453.9	(1,047.8)	(90.4)
Attributable to:					
Controlling shareholders	(166.4)	157.7	449.5	(1,048.6)	(89.2)
Noncontrolling shareholders	(0.2)	3.4	4.4	0.8	(1.2)
Earnings/(loss) per share attributable to Company's shareholders for the period/year (in BRL per share)					
Basic earnings/(loss) per share	(3.3)	3.0	8.6	(19.0)	(1.6)
Diluted earnings/(loss) per share	(3.3)	2.8	8,2	(19.0)	(1.6)
Consolidated Cash Flow Data					
Net cash flow from operating activities	130.7	143.0	436.2	462.5	353.0
Net cash flow used in investing activities	(161.1)	(88.9)	(36.4)	(213.7)	(192.6)
Net cash flow used in financing activities	(238.1)	(45.3)	(150.4)	(583.4)	(240.2)
Increase (decrease) in cash and cash equivalents	(268.5)	8.8	249.4	(334.5)	(79.8)
Effect of exchange rate changes on cash	(22.7)	(62.5)	(85.2)	243.3	18.1
Cash and cash equivalents at end of period	669.1	742.5	960.3	796.2	887.4
Consolidated Statement of Financial Position Data					
Non-current assets	3,647.2		3,702.7	4,011.4	4,033.2
Current assets	2,252.3		2,437.7	2,494.2	2,545.7
Total assets	5,980.6		6,140.5	6,505.6	6,578.8
Equity	1,913.6		1,977.9	1,886.8	2,863.6
Non-current liabilities	2,785.7		2,578.0	3,202.1	2,568.7
Current liabilities	1,276.8		1,584.6	1,416.8	1,146.7

	Six-month period ended June 30,		Year ended December 31,		
	2017	2016	2016	2015	2014
	(in BRL million, except as otherwise noted)				
	(audited)	(unaudited)	(audited, except as otherwise noted)		
Total liabilities and equity	5,980.6		6,140.5	6,505.6	6,578.8
Non-IFRS Measures and Other Financial Data					
EBITDA (unaudited) [(1)]	77.9	286.5	632.3	(62.4)	283.9
EBITDA margin (%, unaudited)	4.4	15.9	18.6	(1.8)	9.9
Adjusted EBITDA (unaudited) [(1)]	289.6	297.1	528.6	484.6	386.8
Adjusted EBITDA margin (%,unaudited)	16.5.0	16.5	15.6	14.3	13.5
Declared/paid dividend and interest on equity (net of income tax withheld at source) per share for the period/year (in BRL, unaudited)	-	-	1.65	-	-

(1) The following table shows the calculation of EBIT, EBITDA and Adjusted EBITDA from operating profit/loss before financial income/expenses in accordance with IFRS:

	Six-month period ended June 30,		Year ended December 31,		
	2017	2016	2016	2015	2014
	(in BRL million, except as otherwise noted)				
	(audited)	(unaudited)	(audited, except as otherwise noted)		
EBIT (corresponds to operating profit (loss) before financial income (expenses))	**(1.5)**	**207.7**	**464.5**	**(240.8)**	**137.2**
Depreciation and amortization	79.4	78.8	167.8	178.4	146.7
EBITDA (unaudited)	**77.9**	**286.5**	**632.3**	**(62.4)**	**283.9**
Other operating income/expenses, net	211.7[(*)]	10.6	(103.7)[(*)]	547.0	102.9
Adjusted EBITDA (unaudited)	**289.6**	**297.1**	**528.6**	**484.6**	**386.7**

* Other operating income of BRL 83.3 million as reported in the consolidated statement of profit and loss for 2016 and other operating expense of BRL 217.0 million as reported in the consolidated statement of profit and loss for the six months ended June 30, 2017 each include depreciation expenses in respect of the Chizhou plant, where production was suspended in 2015, in the amount of BRL 20.4 million for 2016 and BRL 5.3 million for the six months ended June 30, 2017. In order to calculate Adjusted EBITDA from EBITDA, other operating income excluding such depreciation must be applied, since EBITDA excludes depreciation. Therefore, for purposes of this calculation, other operating income as reported in the consolidated statement of profit and loss in the amount of BRL 83.3 million (for 2016) and BRL 217.0 million (for the six months ended June 30, 2017) must be adjusted by subtracting the depreciation of BRL 20.4 million and BRL 5.3 million, respectively, resulting in other operating income (excluding depreciation) of BRL 103.7 million for 2016 and other operating expense (excluding depreciation) of BRL 211.7 million for the six months ended June 30, 2017.

(Source: Magnesita Financial Information and internal data.)

The following table sets forth certain income statement data broken down according to the segments of Magnesita:

	Six months ended June 30,		Year ended December 31,		
	2017	2016	2016	2015	2014
	(in BRL million)				
	(audited)	(unaudited)	(audited)		
Refractory Products					
Net revenue from sales and services	1,545.8	1,591.8	2,971.3	2,945.6	2,547.3
Cost of sales	(1,005.3)	(1,028.5)	(1,887.6)	(2,027.7)	(1,748.7)
Gross profit	540.4	563.3	1,083.7	917.9	798.6
Minerals					
Net revenue from sales and services	106.9	99.6	196.6	224.4	159.4
Cost of sales	(75.8)	(63.9)	(143.6)	(139.3)	(108.0)
Gross profit	31.1	35.7	53.0	85.0	51.4
Services					
Net revenue from sales and services	102.4	108.1	225.2	210.8	165.4
Cost of sales	(89.7)	(94.2)	(202.0)	(174.3)	(132.8)
Gross profit	12.7	13.9	23.2	36.5	32.5
Total					
Net revenue from sales and services	1,755.1	1,799.5	3,393.1	3,380.8	2,872.0

	Six months ended June 30,		Year ended December 31,		
	2017	2016	2016	2015	2014
	(in BRL million)				
	(audited)	(unaudited)	(audited)		
Cost of sales	(1,170.8)	(1,186.6)	(2,233.2)	(2,341.3)	(1,989.5)
Gross profit	584.2	612.9	1,159.9	1,039.5	882.6

(Source: Magnesita Financial Information.)

OPERATING AND FINANCIAL REVIEW OF MAGNESITA

This operating and financial review is based on the Magnesita Consolidated Historical Financial Information as of and for the years ended December 31, 2016, December 31, 2015 and December 31, 2014, as well as the Magnesita Special Purpose Consolidated Interim Financial Information as of and for the six-month period ended June 30, 2017. This Magnesita Financial Information is included on pages F-397 et seq. in this Prospectus. The Magnesita Financial Information has been prepared in accordance with EU-IFRS. The following operating and financial review contains certain forward-looking statements that are based on assumptions about Magnesita and its business. Magnesita's actual results could differ materially from those anticipated in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly under "Risk Factors". For a description of non-IFRS measures to evaluate Magnesita's operations see "Presentation of Financial Information—Non-IFRS Measures".

Overview

Magnesita is a global company dedicated to the production and sale of an extensive line of refractory materials and industrial minerals, and distinguishes itself through its vertically integrated operations, by offering integrated solutions in a wide range of refractory products and services. Magnesita's products are used mainly by the steel, cement, glass and non-ferrous metals industries. As of June 30, 2017, Magnesita operated 27 industrial facilities in eight countries (Brazil, the United States, Germany, France, China, Belgium, Argentina and Taiwan) with a refractory production capacity of more than 1.4 million tons per year. Magnesita maintains long-standing relationships with the leading global steel and cement producers and in 2016 its products were sold to approximately 1,000 customers spread throughout 100 countries in the Americas, Europe, Asia, Oceania and Africa.

In 2016, Magnesita generated revenue of BRL 3,393.1 million with an Adjusted EBITDA of BRL 528.6 million (a 15.6% margin), an EBIT of BRL 464.5 million and income before taxes of BRL 378.2 million. In the six-month period ended June 30, 2017, the Magnesita Group generated revenue of BRL 1,755.1 million, Adjusted EBITDA of BRL 289.6 million, negative EBIT of BRL 1.5 million and a loss after income tax and social contribution of BRL 166.6 million. Magnesita had a total of 7,165 employees as of December 31, 2016.

Magnesita owns a large magnesite mine in Brumado, Brazil and a large dolomite mine in York, Pennsylvania, in the United States. Magnesita also extracts other minerals from its quarries in Brazil, including chromite, clays and other minerals and holds a 70% interest in Sinterco in Belgium, which is dedicated to the production of sintered doloma. Altogether, Magnesita sources approximately 75% on a per ton basis of its raw material needs internally.

Segment reporting

Magnesita's operations are divided into three reporting segments: (i) Refractory Products; (ii) Minerals; and (iii) Services. In addition, Magnesita also provides selected information by certain geographical regions.

Refractory Products

Magnesita produces and markets a diverse line of refractory products for a wide range of industries, including non-molded products (such as cement or monolithic materials), molded products (such as refractory bricks), and specially shaped refractories for steelmaking and other refractories for general industrial purposes. Net revenue from sales and services from the Refractory Products segment represented 87.6% of Magnesita's consolidated net revenue from sales and services in 2016. Of this amount, 83.1% was generated from sales to the steel industry and the remaining 16.9% was attributable to the industrial sector, comprising mainly the cement, glass and non-ferrous metals industries.

Minerals

Magnesita produces and sells industrial minerals that are used as raw materials, inputs or additives in the products or processes of various industries. Among the industrial minerals produced and sold to third parties, the most relevant are its excess of magnesite and doloma sinter, in addition to caustic magnesia. The Minerals segment, which includes only sales to third parties, accounted for 5.8% of Magnesita's consolidated net revenue from sales and services in 2016.

Services

In its Services segment, Magnesita provides services to its customers relating to refractory assembly and removal, repairs, recycling, monitoring of customer production processes and handling of post mortem tests at Magnesita's research and development center. This segment accounted for 6.6% of Magnesita's consolidated net revenue from sales and services in 2016.

Geographic allocation of revenues

The following table sets forth Magnesita's consolidated net revenue from sales and services by geographic area in the six-month periods ended June 30, 2017 and 2016 and for the years ended December 31, 2016, 2015 and 2014. It should be noted that the below breakdown by geographic area is based on where revenues are booked, which does not necessarily correspond to sales in an area.

	Six-month period ended June 30, 2017	**Six-month period ended June 30, 2016**	**2016**	**2015**	**2014**
	(in BRL million; audited, except otherwise noted)				
	(unaudited)				
South America	962.6	898.9	1,859.0	1,788.4	1,596.8
Europe	438.8	506.0	897.3	867.8	778.7
North America	562.6	598.0	1,072.1	1,049.1	771.0
Asia	79.8	75.2	120.8	203.4	143.8
Eliminations	(288.7)	(278.6)	(556.1)	(527.9)	(418.2)
Magnesita	**1,755.1**	**1,799.5**	**3,393.1**	**3,380.8**	**2,872.0**

(Source: Magnesita Financial Information.)

Key factors affecting Magnesita's results of operations

In management's view, the following factors have been the key drivers affecting Magnesita's business, results of operations and financial condition over the past three years, and will continue to be the key drivers of that business going forward.

Steel and cement production

The steel industry is the largest consumer of Magnesita's refractory products. Therefore, Magnesita's results of operation have been, and will continue to be, highly correlated with levels of steel production, particularly in Magnesita's key markets in South America, North America and Western Europe.

In South America, steel production decreased by 8.4% from 43.9 million tons in 2015 to 40.2 million tons in 2016. In North America, steel production remained nearly flat year-over-year, at 109.9 million tons while in Western Europe, it decreased by 2.3%, from 144.0 million tons to 140.6 million tons.

For details regarding the development of global steel production and the relationship between steel production and refractory demand, see "*Operating and Financial Review of RHI—Key factors affecting the Group's results of operations*".

To a lesser extent, Magnesita's results of operations are also affected by developments in the cement industry, particularly in Brazil, and the glass and non-ferrous metals industries. Declining cement production levels in Brazil in recent years also had a negative impact on Magnesita's results, particularly in 2015 and 2016, due to the near-complete stoppage of real estate development in Brazil during those years.

Global and Brazilian economic conditions

The demand for steel and cement products is highly cyclical and is affected by macroeconomic fluctuations in the global markets and in the domestic economies of steel- and cement-consuming countries, including trends in the automotive, construction, home appliances, packaging and distribution industries. Therefore, Magnesita's results of operations depend largely on global and domestic economic conditions, particularly as they affect global and domestic steel and cement production, which correlate highly to demand for Magnesita's products and services. For details, see "*Operating and Financial Review of RHI—Key factors affecting the Group's results of operations—Economic environment*" and "*Risk Factors —Risks relating to the Group's markets and industry—The Group faces risks related to its operations and interests in emerging markets, including in Brazil, where the Group has substantial operations*".

Impairments and tax write-offs

In the year ended December 31, 2015, management of Magnesita decided to shut down Magnesita's industrial activities at the Chizhou plant in China. This decision came after market evaluation and consideration of the projections for the coming periods. Following this decision and also reflecting management's estimates for future business in Europe, Magnesita recorded an impairment loss in the amount of BRL 345.0 million. BRL 291.4 million of this amount was attributable to goodwill (BRL 272.2 million in Europe and BRL 19.2 million in China) and a further BRL 53.6 million was attributable to property, plant and equipment in China.

The following table shows the calculation of Magnesita's impairments in 2015:

	Consolidated		
	Net accounting value	**Net recoverable adjustment**	**Net impairment adjustment**
		(in BRL million) (audited)	
Impairment of goodwill			
thereof in Europe	586.9	314.7	272.2
thereof in China	19.2	-	19.2
total	606.1	314.7	291.4
Impairment of PP&E in China	152.5	98.9	53.6
Total impairments	**758.6**	**413.6**	**345.0**

(Source: Magnesita Financial Information.)

Additionally, in 2015, based on a more challenging environment and future projections of utilization of tax losses and tax credits on temporary provisions, management of Magnesita recognized that such deferred income tax assets may not be fully recoverable. Therefore, the balance of tax assets was adjusted and write-offs in the amount of BRL 290.8 million (BRL 265.7 million of which was in Brazil and BRL 25.1 million of which was in Europe) were recognized. However, due to a change in the long-term outlook and a review of the recoverability of these assets, in addition to the talc business divesture which helped to offset part of the losses, there was another evaluation of the recoverability of tax assets in 2016 which resulted in the value of tax assets to increase (write-up) by BRL 189.0 million.

The approval of the Acquisition by the European Commission was subject to certain conditions, including the divestment of Magnesita's entire business in relation to the production and supply of magnesia carbon bricks and other products sold to magnesium carbon bricks customers (or affiliated undertakings) at Magnesita's Oberhausen facility, in Germany, together with all essential assets and personnel necessary to ensure the viability and competitiveness of the business, as well as a commitment to enter into an offtake agreement to provide the respective purchaser with the right to acquire up to a specified maximum volume per annum of sintered magnesia from Magnesita's raw material business in Brazil on specified terms for a period of 12 years. As a result, all the assets related to Magnesita's Oberhausen facility were classified as assets held for sale. As of June 30, 2017, the book value of these assets was higher than the estimated fair value of such assets. Accordingly, Magnesita recognized an impairment of its Oberhausen assets in the amount of BRL 164.3 million, recorded as other operating expenses.

Effects of fluctuations in raw materials and fuel prices

In 2016, Magnesita sourced approximately 75% of its raw material needs on a per ton basis internally, which limits its exposure to the price volatility of certain key raw materials. The remainder of its raw materials, primarily consisting of high-alumina raw materials and graphite, are purchased from third parties on the commodities market and directly from producers. Additionally, Magnesita's operations depend largely on fuel sources (particularly certain heavy grades of oil and gas), which represent about one tenth of Magnesita's total production costs. Magnesita relies on third parties for fuel supply and does not currently hedge its fuel costs.

Efficiency measures

Over the past few years, Magnesita has implemented initiatives to reduce costs and improve efficiency in its operations. Such initiatives included strict cost controls, procurement and supply chain optimization, raw material rationalization and focus on businesses with adequate and sustainable margins. These initiatives have contributed to the improvement of Magnesita's gross margin (34.2% in 2016 compared to 30.7% in 2015 and 2014), despite lower sales driven by the drop in steel and cement production in Magnesita's key markets. Likewise, Magnesita's working capital requirements have decreased as a consequence of management's effort to improve efficiency across Magnesita's global operations.

Effects of fluctuations in exchange rates

Magnesita's operations have three functional currencies: the Brazilian real, the U.S. dollar and the euro. Therefore, its performance has been and will continue to be affected by the fluctuations among such currencies.

As Magnesita incurs costs and expenses denominated in Brazilian real at disproportionally higher levels (approximately one third) than the level of revenues generated in Brazilian real (slightly more than one-fourth), an appreciation in the Brazilian real against the U.S. dollar and the euro results in a decrease of its consolidated operating margin (or EBIT margin). Conversely, if the Brazilian real declines in value against the U.S. dollar or the euro, Magnesita's consolidated operating margin (or EBIT margin) increases.

In addition to indebtedness denominated in Brazilian reals, Magnesita also has indebtedness outstanding in U.S. dollars and euros. Therefore, due to the fact that Magnesita publishes its financial statements in Brazilian real, fluctuations in the exchange rate of the Brazilian real relative to the U.S. dollar or the euro results in an increase or decrease of Magnesita's foreign currency indebtedness as a consequence of the currency translation effect. Such exchange rate fluctuations, and consequently changes in the value of indebtedness also have an effect on the Magnesita Group's statement of profit and loss in case such debt is denominated in a currency other than the currency of the legal entity that incurred such indebtedness: a devaluation of the Brazilian real against another currency results in an increase of the amount of indebtedness denominated in that other currency when translated into Brazilian real, increases indebtedness expressed in Brazilian real and a corresponding loss is reflected as financial expenses in the statement of profit and loss.

Exchange rate fluctuations can also affect the calculation of certain financial ratios. As the statement of financial position data is translated using the exchange rate at the end of the relevant period while statement of profit and loss data is translated by the average rate of the period, this mismatch of the average and closing exchange rate may have an additional impact on Magnesita's financial leverage ratio. For instance, when the Brazilian real at the end of the period has declined in value relatively more than the period's average rate, the financial leverage ratios (expressed in Brazilian real) will increase.

Inflation in Brazil

Brazil has historically experienced high rates of inflation. Inflation, as well as government efforts to combat inflation, has had significant negative effects on the Brazilian economy. Magnesita has a relevant part of its operations in Brazil and the costs of these operations are denominated in Brazilian real. Certain costs such as labor tend to be adjusted according to inflation. In addition, high inflation generally leads to higher domestic interest rates and, as a result, higher interest expenses of real-denominated debt.

Critical Accounting Policies

In the preparation of the Magnesita Financial Information, management selects and applies certain accounting policies that it believes are important to the portrayal of Magnesita's financial condition and results of operations. As a result of the uncertainties inherent in Magnesita's business activities, management needs to make estimates and assumptions that require subjective and complex judgments. Different but equally reasonable judgments or estimates by management would have resulted in different results of operations. For a discussion of these and other accounting policies, please see the notes to the respective Magnesita Financial Information.

Period by period comparison for the Magnesita Group

Overview

This operating and financial review is presented (i) at the group level of Magnesita and (ii) at the segment level.

Explanation of certain line items used in Magnesita's income statement and other financial data

"Cost of sales" means all direct costs attributable to the production of refractories and minerals sold by Magnesita, or to the services rendered to customers.

"General and administrative expenses" consist primarily of personnel expenses for administrative functions, indirect taxes, and expenses for research and non-capitalizable development costs. Other G&A expenses include consultancy fees, depreciation of office equipment and insurance.

"Gross profit" means net revenue from sales and services less cost of sales.

"Income tax and social contribution" includes income taxes and social contribution taxes owed by Group companies as well as provisions for deferred taxes of the Group.

"Financial expenses" includes interest and similar expenses and foreign exchange variations.

"Financial income" includes income from securities and non-current receivables as well as other interest and similar income and foreign exchange variations.

"Net revenue from sales and services" means all turnover generated by the Group in connection with the sale of refractory products, raw materials, refractory machineries and the rendering of services, net of any sales taxes.

"Operating profit (loss) before financial income (expenses)" means Gross Profit less SG&A expenses, other operating income and other operating expenses.

"Other operating income (expenses), net" means non-recurring items such as labor indemnities, restructuring costs, gains/losses on sale of non-core assets.

"Selling expenses" means expenses for sales staff, marketing, commissions and outbound freight, as well as depreciation charges and other operating expenses related to the marketing and sales processes.

"Share of profit (loss) of investees" means the share of the profits (losses) made by minority investments in other companies.

"Stock options" means non-cash expenses related to the stock option program of Magnesita.

Comparison of Magnesita's results

Magnesita's results for the six-month period ended June 30, 2017 compared with the six-month period ended June 30, 2016.

	Six-month period ended June 30, 2017	% Change	Six-month period ended June 30, 2016
	(audited)	(unaudited)	(unaudited)
	(in BRL million, except percentages or otherwise noted)		
Consolidated Statement of Operations			
Net revenue from sales and services	1,755.1	(2.5)	1,799.5
Cost of products and services sold	(1,170.8)	(1.3)	(1,186.6)
Gross profit	584.2	(4.7)	612.9
Operating profit (loss)			
Selling expenses	(239.1)	(5.3)	(252.6)
General and administrative expenses	(130.6)	(7.4)	(141.0)
Stock Options	-	(100)	(0.7)
Share of profit (loss) of investees	0.9	-	(0.2)
Other operating income (expenses), net	(217.0)	>100	(10.6)
Operating profit (loss) before financial income/expenses	(1.5)	-	207.7
Financial income (expenses)			
Financial income	**70.0**	**(73.6)**	264.7
Financial expenses	(215.5)	(4.0)	(224.4)
Income (loss) before income tax and social contribution	(147.0)	-	248.1
Income tax and social contribution	(19.7)	(77.3)	(86.9)
Net income (loss) for the period	(166.6)	-	161.1

(Source: Magnesita Financial Information.)

Net revenue from sales and services

Net revenue from sales and services for the six-month period ended June 30, 2017 were BRL 44.4 million or 2.5% lower at BRL 1,755.1 million compared to the six-month period ended June 30, 2016 (BRL 1,799.5 million). During the six-month period ended June 30, 2017, refractory deliveries increased by 6.8% in terms of volume, with a 10.3% increase in sales to the steel industry more than offsetting the 11.1% decrease on deliveries to the industrial segment. The positive performance on sales to the steel industry was supported by the steel production growth in Magnesita's underlying markets, in addition to market share gains in MEA-CIS and Asia excluding China. In the Minerals segment, the revenue increase was supported by the positive development of sales of sintered magnesite, which more than offset the decline of prices of such products. Despite higher refractory deliveries and higher sintered magnesia sales in the six-month period ended June 30, 2017, compared to the six-month period ended June 30, 2016, net revenue decreased by 2.5% primarily due to the currency translation effect on foreign currency sales due to the strengthening of the Brazilian real against the U.S. dollar and the euro. To a lesser extent, lower revenue from the service segment due to the still modest activity in most of Magnesita's client industries in Brazil also adversely affected revenues.

Cost of sales

Cost of sales for the six-month period ended June 30, 2017 were BRL 15.8 million or 1.3% lower at BRL 1,170.8 million compared to the six-month period ended June 30, 2016 (BRL 1,186.6 million). Lower cost of sales was primarily driven by the currency translation effect on foreign currency costs due to the strengthening of the Brazilian real against the U.S. dollar. The currency effect has more than compensated for the increase of fuel prices in Brazil and the increase of certain raw material prices, especially electrofused magnesia, as stricter environmental controls in China caused temporary and permanent closures of raw material facilities.

Selling expenses

Selling expenses for the six-month period ended June 30, 2017 were BRL 13.5 million or 5.3% lower at BRL 239.1 million compared to the six-month period ended June 30, 2016 (BRL 252.6 million). In addition to the currency translation effect on foreign currency expenses due to the strengthening of the Brazilian real against the U.S. dollar, selling expenses declined in the six-month period ended June 30, 2017, compared to the six-month period ended June 30, 2016 primarily due to a greater use of rail (rather than trucks) in Brazil and a higher proportion of sales in established markets (with Magnesita production facilities) compared to shipments to locations where Magnesita has no local production.

General and administrative expenses

General and administrative expenses for the six-month period ended June 30, 2017 were BRL 10.4 million or 7.4% lower at BRL 130.6 million compared to the six-month period ended June 30, 2016 (BRL 141.0 million). Lower general and administrative expenses in the period were primarily driven by the currency translation effect on foreign currency expenses due to the strengthening of the Brazilian real against the U.S. dollar, as a disproportional amount of these expenses is in Brazilian real.

Stock options

There were no expenses for stock options in the six-month period ended June 30, 2017 and an expense of BRL 0.7 million in the six-month period ended June 30, 2016.

Share of profit (loss) of investees

There was a profit of investees in the six-month period ended June 30, 2017 in the amount of BRL 0.9 million and a loss of BRL 0.2 million in the six-month period ended June 30, 2016.

Other operating income (expenses), net

Other operating income (expenses), net for the six-month period ended June 30, 2017 was a loss of BRL 217.0 million compared to a loss of BRL 10.6 million in the six-month period ended June 30, 2016. Other operating expenses in the six-month period ended June 30, 2017 were primarily due to an impairment in the amount of BRL 164.3 million related to Magnesita's operations in Oberhausen. This impairment was required as a result of the decision of the European Commission, that a sale of the Oberhausen facility was a condition for approval of the Acquisition of Control. As a result of this decision, all the assets related to the Oberhausen facility were classified as assets held for sale, which resulted in the impairment of Oberhausen assets in the amount of BRL 164.3 million.

Additionally, in the six-month period ended June 30, 2017, Magnesita incurred expenses in the amount of BRL 32.3 million related to the Acquisition, in particular for consultants, legal advice, travel and other expenses.

Financial income

Financial income for the six-month period ended June 30, 2017 was BRL 194.7 million or 73.6% lower at BRL 70.0 million compared to the six-month period ended June 30, 2016 (BRL 264.7 million). This decrease was primarily due to lower non-cash monetary and foreign exchange valuation gains on assets in the six-month period ended June 30, 2017. In the six-month period ended June 30, 2016, there was a sharp appreciation of the Brazilian real against the U.S. dollar which explains the higher financial income in that period.

Financial expenses

Financial expenses for the six-month period ended June 30, 2017 were BRL 8.9 million or 4.0% lower at BRL 215.5 million compared to the six-month period ended June 30, 2016 (BRL 224.4 million). Such decline was mainly due to lower expenses linked to foreign exchange valuation losses on liabilities.

Income tax and social contribution

Income tax and social contribution for the six-month period ended June 30, 2017 was BRL 67.2 million or 77.3% lower at BRL 19.7 million compared to the six-month period ended June 30, 2016 (BRL 86.9 million) due to a loss before income tax and social contribution of BRL 147.0 million in the six-month period ended June 30, 2017 compared to a profit before income tax and social contribution of BRL 248.1 million in the six-month period ended June 30, 2016.

Group results for 2016 compared with 2015, and for 2015 compared with 2014.

	Year ended December 31, 2016	% Change	Year ended December 31, 2015	% Change	Year ended December 31, 2014
	(in BRL million, except percentages)				
	(audited, except percentages)				
Consolidated Statement of Operations					
Net revenue from sales and services	3,393.1	0.4	3,380.8	17.7	2,872.0
Cost of sales	(2,233.2)	(4.6)	(2,341.3)	17.7	(1,989.5)
Gross profit	1,159.9	11.6	1,039.5	17.8	882.6
Operating income/expenses					
Selling expenses	(487.9)	6.9	(456.4)	11.7	(408.5)
General and administrative expenses	(288.6)	5.3	(274.0)	19.7	(229.0)
Stock options	(1.6)	(51.5)	(3.3)	(45.9)	(6.1)
Share of profit (loss) of investees	(0.6)	-	0.4	(63.6)	1.1
Other operating income (expenses), net	83.3	-	(547.0)	>100	(102.9)
Operating profit (loss) before financial income/expenses	464.5	-	(240.8)	-	137.2
Financial income (expenses)					
Financial income	245.8	(20.6)	309.5	68.8	183.4
Financial expenses	(332.1)	(58.9)	(807.4)	80.2	(448.1)
Income (loss) before income tax and social contribution	378.2	-	(738.7)	>100	(127.4)
Income tax and social contribution	75.8	-	(309.1)	-	37.1
Net income (loss) for the period	453.9	-	(1,047.8)	>100	(90.4)

(Source: Magnesita Financial Information)

Net revenue from sales and services

Net revenue from sales and services for the year ended December 31, 2016 were BRL 12.3 million, or less than 1%, higher at BRL 3,393.1 million compared to BRL 3,380.8 million in 2015. This increase was primarily driven by the currency translation effect on foreign currency sales due to the depreciation of the Brazilian real against the U.S. dollar. Additionally, there was a positive development in sales to the industrial sector, which increased by 10.2% in terms of volume as a result of Magnesita's geographic expansion to the Middle East and Africa, and which more than offset the weak performance of Magnesita's established market industries, especially in the cement sector in Brazil. Consequently, sales to the industrial sector increased from BRL 464.6 million in 2015 to BRL 485.7 million in 2016. Sales to the steel industry decreased by 9.3% in terms of volume, which was mainly driven by the lower steel production in South America and Europe, as well as Magnesita's selective exit from certain under-performing businesses. Revenues from sales to the steel industry remained relatively stable in 2016, at BRL 2,485.5 million, with the currency effect on sales in Brazilian real offsetting lower deliveries. Sales to the mineral sector decreased by BRL 27.8 million, while revenues from services increased by BRL 14.4 million.

In 2015, net revenue from sales and services increased by BRL 508.8 million, or 18%, to BRL 3,380.8 million from BRL 2,872.0 million in 2014. This increase was primarily due to currency translation effects on foreign currency sales. Sales to the steel industry decreased by 6.0% in terms of volume, but increased by 16.7% in terms of revenues. Similarly, sales to the industrial segment decreased by 11.7% in terms of volume, but increased by 10.2% in terms of revenues. Mineral sales increased significantly by 40.8%, particularly due to increased sales of dead burned magnesia as a result of increased productivity in the operation in Brumado and the decrease in the volume of refractories produced by Magnesita, generating higher dead burned magnesia surplus for external sales. Revenues from services increased by 27.5% to BRL 210.8 million due to the expansion of this segment in South America and North America as well as the growth in the cement industry.

Cost of sales

Cost of sales for the year ended December 31, 2016 were BRL 108.1 million, or 5% lower, at BRL 2,233.2 million compared to BRL 2,341.3 million in 2015. This decrease occurred despite a small increase in revenues and was due to cost-control and efficiency measures implemented in Magnesita's refractory segment in recent years, including optimization in procurement and supply chain areas, greater efficiency in raw materials consumption and a focus on markets and businesses with adequate and sustainable margins. The drop in energy prices in North America and Europe also contributed to the decrease in cost of sales in this period.

In 2015, cost of sales increased by BRL 351.8 million, or 18%, to BRL 2,341.3 million from BRL 1,989.5 million in 2014. This increase was primarily due to currency translation effects and was in line with the 18% increase in revenues. In the refractory segment the gross margin was impacted by a temporary interruption of dolomite production in Sinterco following an accident that forced Magnesita to purchase raw materials from third parties, restructuring costs in Europe with a readjustment of staff, and sales of remaining inventory of the Chizhou plant (China) at lower margins. Additionally, a downward adjustment in the production of raw materials and refractories was required due to the drop in sales and consequently fixed cost items adversely affected the gross margin.

Selling expenses

Selling expenses for the year ended December 31, 2016 were BRL 31.5 million, or 7%, higher at BRL 487.9 million compared to BRL 456.4 million in 2015. This increase was partially due to the currency translation effect on expenses in foreign currencies. Moreover, the increase was driven by higher costs associated with international freight and an increase in the volume of shipments of products to destinations where Magnesita had no local production.

In 2015, selling expenses increased by BRL 47.9 million, or 12%, to BRL 456.4 million from BRL 408.5 million in 2014. This increase was due to the exchange rate effect on expenses in foreign currencies due to the devaluation of the Brazilian real in the period.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2016 were BRL 14.6 million, or 5%, higher at BRL 288.6 million compared to BRL 274.0 million in 2015. This increase was mainly due to higher fees for consulting firms and legal advisors related to a contemplate listing of Magnesita on the London Stock Exchange, which was not further pursued due to the Acquisition of Control. Additionally, the exchange rate effect on expenses in foreign currencies also contributed to the increase.

In 2015, general and administrative expenses increased by BRL 45.0 million, or 20%, to BRL 274.0 million from BRL 229.0 million in 2014. This increase was mainly driven by the exchange rate effect on expenses in foreign currency.

Stock options

Stock options for the year ended December 31, 2016 were BRL 1.7 million, or 52%, lower at BRL 1.6 million compared to BRL 3.3 million in 2015.

In 2015, stock options decreased by BRL 2.8 million, or 46%, to BRL 3.3 million from BRL 6.1 million in 2014.

Share of profit (loss) of investees

Share of loss of investees was BRL 0.6 million for the year ended December 31, 2016 compared to a profit of BRL 0.4 million in 2015 and BRL 1.1 million in 2014.

Other operating income (expenses), net

Other operating income (expenses), net, for the year ended December 31, 2016 was BRL 83.3 million, compared to other operating expense, net, of BRL 547.0 million in 2015 and other operating expense, net, of BRL 102.9 million in 2014. The income in 2016 was primarily due to a capital gain in the amount of BRL 129.4 million from the divesture of Magnesita's non-core talc business. The expenses in 2015 were primarily due to impairments in Europe and China in the amount of BRL 345.0 million (for details see "*—Key factors affecting Magnesita's results of operations—Impairments and tax write off*"). Additionally, provisions in the amount of BRL 62.0 million were recognized in relation to investments in a graphite mining project, which was not further pursued due to insufficient resources of graphite being identified in a geological survey. With respect to the closure of the Chizhou factory in China, Magnesita booked further provisions in the amount of BRL 109.5 million. Other operating expenses in 2014 primarily related to the derecognition of goodwill in respect of Metal Data S/A and Magnesita Finance Ltd. (together in an amount of BRL 41.1 million) and non-recurring losses on assets (BRL 34.6 million).

Financial income

Financial income for the year ended December 31, 2016 was BRL 63.7 million or 21% lower at BRL 245.8 million compared to BRL 309.5 million in 2015. This decrease was primarily due to lower non-cash monetary and foreign exchange gains.

In 2015, financial income increased by BRL 126.1 million, or 69%, to BRL 309.5 million from BRL 183.4 million in 2014. This increase was primarily due to non-cash monetary and financial exchange gains as a result of the devaluation of the Brazilian real resulting in gains from the valuation of foreign currency assets.

Financial expenses

Financial expenses for the year ended December 31, 2016 were BRL 475.3 million, or 59%, lower at BRL 332.1 million (compared to BRL 807.4 million in 2015). This decrease was partly due to lower interest expenses on loans as a result of a refinancing of bonds in 2015, but primarily the result of the significant foreign exchange losses that had been incurred in 2015 due to the devaluation of the Brazilian real, as a result of which foreign currency denominated debt significantly increased in Brazilian real. The respective monetary and foreign exchange losses amounted to BRL 508.5 million in 2015.

In 2015, financial expenses increased by BRL 359.3 million or 80% to BRL 807.4 million from BRL 448.1 million in 2014. This increase was primarily due to the factors described above in relation to the devaluation of the Brazilian real in 2015.

Income tax and social contribution

Income tax and social contribution generated an income of BRL 75.8 million for the year ended December 31, 2016, compared to an expense of BRL 309.1 million in 2015 and an income of BRL 37.1 million in 2014. The expense in 2015 was due to an impairment recorded on deferred tax assets in the amount of BRL 290.8 million as a result of the challenging environment and future projections of utilization of tax losses and tax credits on temporary provisions, which caused management to resolve that such deferred income tax assets may not be fully recoverable. However, following positive developments in 2016, this impairment was partly reversed, resulting in tax income in the amount of BRL 189.0 million in 2016. Without the aforementioned impairment in 2015 and reversal in 2016, Magnesita's effective tax rate would have been 31% in 2016, compared to 30% in 2015. In 2014, tax income was primarily attributable to the loss before income tax and social contribution in the amount of BRL 127.4 million. For 2014, Magnesita's effective tax rate was 28%.

Period by period comparison for the Refractory Products segment

Results for the Refractory Products segment for the six month-periods ended June 30, 2017 and 2016 and for the financial years ended December 31, 2016, 2015 and 2014.

% of Group in 2016		Six month-period ended June 30, 2017	% Change	Six month-period ended June 30, 2016	2016	% Change	2015	% Change	2014
		(in BRL million, except percentages)							
		(audited, except for the six month-period ended June 30, 2016 and percentages)							
87.6	Net revenue from sales and services	1,545.8	(2.9)	1,591.8	2,971.3	0.9	2,945.6	15.6	2,547.3
84.5	Cost of sales	(1,005.3)	(2.3)	(1,028.5)	(1,887.6)	(6.9)	(2,027.7)	15.9	(1,748.7)
93.4	Gross profit	540.4	(4.1)	563.3	1,083.7	18.1	917.9	14.9	798.6

(Source: Magnesita Financial Information and internal data.)

Net revenue from sales and services

In the Refractory Products segment, net revenue from sales and services for the six months ended June 30, 2017 were BRL 46 million, or 2.9%, lower at BRL 1,545.8 million compared to the six month-period ended June 30, 2016 (BRL 1,591.8 million). During the six-month period ended June 30, 2017, refractory deliveries increased by 6.8% in terms of volume, with a 10.3% increase in sales to the steel industry more than offsetting the 11.1% decrease on deliveries to the industrial segment. The positive performance on sales to the steel industry was supported by the steel production growth in Magnesita's underlying markets, in addition to market share gains in MEA-CIS and Asia excluding China. Despite higher refractory deliveries, net revenue decreased by 2.9% primarily due to the currency translation effect on foreign currency sales due to the strengthening of the Brazilian real against the U.S. dollar. Net revenue from sales and services for the year ended December 31, 2016 were BRL 25.7 million, or 1%, higher at BRL 2,971.3 million compared to BRL 2,945.6 million in 2015. This increase in sales revenues from 2015 to 2016 was primarily due to currency translation effects on sales denominated in foreign currencies (primarily U.S. dollar and euro), due to the depreciation of the Brazilian real against those currencies in 2015 and the subsequent appreciation of the Brazilian real against such foreign currencies in 2016. In addition to currency translation effects, there were increased sales to the industrial sector. In connection with sales to the industrial sector, which in terms of volume increased by 10.2% in 2016, Magnesita's strategy of geographic expansion (particularly in the Middle East, Africa and CIS countries and to a lower extent, South America) more than offset weaker performance in its established markets, especially in the cement sector in Brazil. However, Magnesita experienced significant growth in other cement markets such as the Middle East, Africa, Asia and, to a lesser extent, South America (excluding Brazil). Revenues from sales to the industrial segment in 2016 amounted to BRL 485.7 million, 4.5% above the previous year, driven by higher deliveries and partially offset by currency effects. Sales volumes to the steel industry decreased by 9.3% mainly driven by lower steel production in South America and Europe, in addition to Magnesita's decision to exit from under-performing businesses. Revenues from sales to the steel industry remained relatively stable in 2016, at BRL 2,485.5 million, with the currency effect on sales in foreign currencies offsetting the lower deliveries.

In 2015, net revenue from sales and services increased by BRL 398.3 million, or 16%, to BRL 2,945.6 million from BRL 2,547.3 million in 2014. This increase was mostly driven by the devaluation of the Brazilian real as a result of which foreign currency denominated sales led to an increase in revenues expressed in Brazilian real. However, sales volumes decreased by 6.0% in respect of deliveries to the steel industry and by 11.7% to the industrial sector. Deliveries to the steel industry particularly decreased in China, where Magnesita intentionally reduced its exposure. This effect was partially offset by increased sales to integrated steel mills in the US and Canada where sales increased by 73%, and Mexico, where sales increased by 33%. A 17% growth was also recorded in the Middle East and Africa region. The decrease in deliveries to the industrial segment was mainly due to the drop in sales to the cement industry in Brazil and the cement and nickel industries in Venezuela. This was partly offset by increased sales in the Middle East and Africa region where sales volumes increased by 15%, particularly in the cement industry in Saudi Arabia and Egypt.

Cost of sales

In the Refractory Products segment, cost of sales for the six month-period ended June 30, 2017 were BRL 23.2 million, or 2.3%, lower at BRL 1,005.3 million compared to the six month-period ended June 30, 2016 (BRL 1,028.5 million). Lower cost of sales was primarily driven by the currency translation effect on foreign currency costs due to the strengthening of the Brazilian real against the U.S. dollar. The currency effect more than compensated for the increase of fuel prices in Brazil and the increase of certain raw material prices, especially electrofused magnesia as stricter environmental controls in China caused temporary and permanent closures of raw material facilities.

Cost of sales for the year ended December 31, 2016 were BRL 140.1 million or 7% lower at BRL 1,887.6 million compared to BRL 2,027.7 million in 2015. This decrease was primarily due to measures implemented in recent years, such as strict cost control, optimization in procurement and supply chain areas and greater streamlining of raw materials consumption. The drop in energy prices in North America and Europe also positively affected the cost development, albeit on a smaller scale.

In 2015, cost of sales increased by BRL 279.0 million, or 16%, to BRL 2,027.7 million from BRL 1,748.7 million in 2014. This increase was primarily due to the devaluation of the Brazilian real and also adversely affected by fixed costs, which could not be reduced proportionately with lower sales volumes. Additionally, costs were adversely affected by a temporary interruption of dolomite production in Sinterco following a fire accident as well as restructuring costs in Europe incurred in connection with a readjustment of staff.

Period by period comparison for the Minerals segment

Results for the Minerals segment for the six month-periods ended June 30, 2017 and 2016 and for the financial years ended December 31, 2016, 2015 and 2014.

% of Group in 2016		Six month-period ended June 30, 2017	% Change	Six month-period ended June 30, 2016	2016	% Change	2015	% Change	2014
		(in BRL million, except percentages)							
		(audited, except for the six month-period ended June 30, 2016 and percentages)							
5.8	Net revenue from sales and services	106.9	7.3	99.6	196.6	(12.4)	224.4	40.8	159.4
6.4	Cost of sales	(75.8)	18.6	(63.9)	(143.6)	3.1	(139.3)	29.0	(108.0)
4.6	Gross profit	31.1	(12.9)	35.7	53.0	(37.7)	85.0	65.4	51.4

(Source: Magnesita Financial Information and internal data.)

Net revenue from sales and services

In the Minerals segment, net revenue from sales and services for the six month-period ended June 30, 2017 were BRL 7.3 million, or 7.3%, higher at BRL 106.9 million compared to the six month-period ended June 30, 2016 (BRL 99.6 million). The increase in revenue from sales of minerals was mainly driven by record sales of sintered magnesia, which increased by 153% compared to the six month-period ended June 30, 2016. As a result of this development the share of total revenues of dead burned magnesia within the Minerals segment increased to 45%. These effects were partly offset by adverse currency translation effects as minerals sales in foreign currencies, primarily in the U.S. dollar, accounted for approximately three quarters of sales of the Minerals segment and consequently the stronger Brazilian real adversely affected foreign currency revenues translated into Brazilian reals.

Net revenue from sales and services for the year ended December 31, 2016 were BRL 27.8 million, or 12%, lower at BRL 196.6 million compared to BRL 224.4 million in 2015. This decrease was primarily due to lower sales and prices for dead burned magnesia.

In 2015, net revenue from sales and services increased by BRL 65.0 million, or 41%, to BRL 224.4 million from BRL 159.4 million in 2014. This expansion reflected productivity gains in Brumado, as well as lower usage of the Group's own raw material supply by the Refractory Products segment and a corresponding increase in sales to third parties by the Minerals segment, leading to higher surplus. The currency effect on sales in U.S. dollar also contributed to the increase of minerals revenues in the period.

Cost of sales

In the Minerals segment, cost of sales for the six month-period ended June 30, 2017 were BRL 11.9 million, or 18.6%, higher at BRL 75.8 million compared to the six-month period ended June 30, 2016 (BRL 63.9 million). This increase was partly due to higher sales of sintered magnesia in the six month-period ended June 30, 2017. Moreover, higher costs were also due to fuel price increases in Brazil, as fuel is used for the production of sintered magnesia.

Cost of sales for the year ended December 31, 2016 were BRL 4.3 million, or 3%, higher at BRL 143.6 million compared to BRL 139.3 million in 2015). This slight increase was due to currency translation effects on minerals produced outside of Brazil. Additionally, inflation in Brazil also contributed to this increase.

In 2015, cost of sales increased by BRL 31.3 million, or 29%, to BRL 139.3 million from BRL 108.0 million in 2014. This increase was partly due to higher volumes sold in 2015, but was also attributable to foreign exchange effects, due to the currency translation effect on costs in foreign currencies.

Period-by-period comparison for the Services segment

Results for the Services segment for the six-month period ended June 30, 2017 and 2016 and for the financial years ended December 31, 2016, 2015 and 2014.

% of Group in 2016		Six-month period ended June 30, 2017	% Change	Six-month period ended June 30, 2016	2016	% Change	2015	% Change	2014
		(in BRL million, except percentages)							
		(audited, except for the six-month period ended June 30, 2016 and percentages)							
6.6	Net revenue from sales and services	102.4	(5.3)	108.1	225.2	6.8	210.8	27.4	165.4
9.0	Cost of sales	(89.7)	(4.8)	(94.2)	(202.0)	15.8	(174.3)	31.2	(132.8)
2.0	Gross profit	12.7	(9.3)	14.0	23.2	(36.4)	36.5	12.3	32.5

(Source: Magnesita Financial Information and internal data.)

Net revenue from sales and services

In Magnesita's Services segment, net revenue from sales and services for the six-month period ended June 30, 2017 were BRL 5.7 million, or 5.3%, lower at BRL 102.4 million compared to the six-month period ended June 30, 2016 (BRL 108.1 million). The decrease was primarily due to lower production levels in most of Magnesita's client industries in Brazil during the period.

Net revenue from sales and services for the year ended December 31, 2016 were BRL 14.4 million, or 7%, higher at BRL 225.2 million compared to BRL 210.8 million in 2015. This increase was attributable to a new service agreement with CSP, a major steel customer in the Northeast of Brazil, which was partly offset by the low activity of the majority of Magnesita's customers in Brazil, which account for the largest share of this segment.

In 2015, net revenue from sales and services increased by BRL 45.4 million, or 27%, to BRL 210.8 million from BRL 165.4 million in 2014. This increase was due to the expansion of this segment in South and North America, as well as the growth in services provided to the cement industry in Brazil.

Cost of sales

In Magnesita's Services segment, cost of sales for the six-month period ended June 30, 2017 were BRL 4.5 million, or 4.8%, lower at BRL 89.7 million compared to the six-month period ended June 30, 2016 (BRL 94.2 million). This decrease resulted primarily the provision of fewer services to customers in the period, as explained above.

Cost of sales for the year ended December 31, 2016 were BRL 27.7 million, or 16%, higher at BRL 202.0 million compared to BRL 174.3 million in 2015. This increase was mainly due to layoff costs, including restructuring costs and social charges, following the termination of two major contracts in Brazil as a result of the shutdown and slowdown of clients' activities.

In 2015, cost of sales increased by BRL 41.5 million, or 31%, to BRL 174.3 million from BRL 132.8 million in 2014. This increase was primarily due to the devaluation of the Brazilian real in 2015.

Liquidity and capital resources

Management of capital structure

Magnesita manages its capital structure with a focus on five pillars:

(i) Liquidity: Magnesita's primary sources of liquidity have historically been cash flows from operating activities and short-term and long-term borrowings. As of June 30, 2017, cash, cash equivalents and marketable securities were BRL 757.6 million, of which BRL 365.8million was denominated in Brazilian reals and BRL 391.8 million was denominated in foreign currencies (U.S. dollars and euros);

(ii) Duration: Magnesita has endeavored to keep an adequate duration for its indebtedness over the years. As of June 30, 2017, the volume-weighted average duration was six years;

(iii) Leverage: Magnesita manages its level of indebtedness by monitoring a net leverage ratio, which is calculated by dividing net debt (defined as total loans and financing net of cash and cash equivalents) by its Adjusted EBITDA;

(iv) Exchange rate risk: Magnesita manages the exchange rate risks of its capital structure by maintaining its net debt per currency in the same proportion as its EBITDA per currency; to achieve this Magnesita enters into currency hedges; and

(v) Covenants: Magnesita aims to maintain and as of the date of this Prospectus maintains sufficient flexibility and headroom in the covenants included in its financing agreements to carry on its operations and implement its strategy.

The following table sets forth the composition of Magnesita's financial leverage ratio as of June 30, 2017:

	(in BRL million, except percentages, audited)
Loans and financing	2,496.5
Less: cash and cash equivalents and short-term marketable securities	(757.6)
Total	1,738.9
Total equity	1,913.6
Total capital	3,652.5
Financial leverage ratio	47.6%

(Source: Magnesita Special Purpose Consolidated Interim Financial Information.)

Liquidity

Magnesita's financial policy is based on long-term planning and is managed centrally and monitored continuously. The liquidity requirements determined by the planning process are met through the conclusion of appropriate financing agreements. Magnesita's liquidity requirements arise primarily to fund working capital and capital expenditures, to meet Magnesita's debt service obligations and to pay dividends. Magnesita's primary sources of liquidity are provided by cash from operating activities and financings.

As of June 30, 2017, Magnesita's loans and financing totaled BRL 2,496.5 million.

As of June 30, 2017, Magnesita did not have unused, immediately available lines of credit available. However, the treasury department monitors, on a daily basis, the projections contained in Magnesita's cash flow to ensure it has enough cash to meet its operational needs, investments, as well as payments of its obligations. The treasury department invests the cash surplus in interest-bearing bank accounts, time deposits, short-term deposits and marketable securities, choosing instruments with adequate maturities to provide sufficient liquidity as determined by the above-mentioned forecasts.

Investments

Magnesita invests in both growth and the maintenance of its assets. In this context, investments refers to cash outflow on purchases of property, plant and equipment and intangible asset purchases, net of credits due to sale of property, plant and equipment.

In the six-month period ended June 30, 2017, Magnesita's investments totaled BRL 69.5 million. These investments primarily related to maintenance, legal, mining, commercial investments and IT.

In 2016, Magnesita's total investments decreased by BRL 24.8 million, or 11%, to BRL 207.2 million compared to BRL 232.0 million in 2015. This decrease was mainly due to a reduction in investments in IT following the completion of the implementation of a global enterprise resource planning platform. In 2016, investments in maintenance accounted for 52%, expansion and productivity gains 13%, information technology 12% and the remaining investments related to other growth investments, including environmental, safety and mining 24%.

In 2014 and 2015, Magnesita's total investments were BRL 178.4 million and BRL 232.0 million, respectively. The increase in investments from 2014 to 2015 was mainly due to the impact of currency translation effects from investments in operations in the United States, Europe and China. In addition, there were increased investments in safety and environmental measures at production sites in 2015. On the other hand, there was a decrease in investments in expansion and productivity gains and mining. In 2015, investments in maintenance accounted for 53%, investments in information technology for 18%, and investments in safety and environment for 11%, respectively, of total investments, while the remaining 18% of expenditures on investments related to other investments, including environmental, safety and mining.

The following table sets out Magnesita's investments in property, plant and equipment for each of the six-month periods ended June 30, 2017 and 2016 and the financial years ended December 31, 2016, 2015 and 2014:

	Six-month period ended June 30, 2017	% Change	Six-month period ended June 30, 2016	2016	% Change	2015	% Change	2014
	(in BRL million, except percentages)							
	(audited)	(unaudited)	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(unaudited)
Investments in property, plant and equipment	70.5	(16.8)	84.7	207.2	(10.7)	232.0	30.0	178.4
Investments in intangible assets	0	0	0	15.2	81.0	8.4	68.0	5.0

(Source: Magnesita Financial Information and internal data.)

Other than the investments carried out in the ordinary course of its business (e.g. maintenance and repair), Magnesita currently does not carry out and in the near future does not anticipate to carry out principal investments.

Cash flow

Magnesita's business is capital-intensive, requires a high initial investment and generates stable cash flows over time.

	Six-month period ended June 30, 2017	2016	Year ended December 31, 2016	2015	2014
	(in BRL million, audited, except otherwise noted)				
	(unaudited)				
Cash flow from operating activities					
Net income (loss)	(166.6)	161.1	453.9	(1,047.8)	(90.4)
Adjustments for					
Monetary and foreign exchange gains, net	11.3	(154.4)	(90.3)	313.6	125.0
Interest charges	113.9	114.1	219.3	233.4	174.4
Depreciation and depletion	70.6	71.1	151.5	169.6	139.9
Amortization of intangible assets	8.9	7.6	16.3	8.8	6.7
Impairment losses	164.3	-	-	-	-
Share of profit (loss) of investees	(0.9)	0.2	0.6	(0.4)	(1.1)
Deferred income tax and social contribution	(4.6)	60.0	(129.9)	276.3	(70.3)
Derivative instruments – fair value swap	20.3	(12.9)	(42.8)	(49.1)	(34.8)
Stock options	-	0.7	1.6	3.3	6.1
Write-up (write-down) of inventories	(3.1)	(17.4)	(1.6)	31.4	3.2
Impairment losses (reversals) on non-current non-financial assets	(3.4)	7.7	(18.9)	407.6	41.1
Income from sale of investments	-	-	(136.8)	-	-
Allowance for doubtful accounts	5.4	(5.8)	6.4	9.2	15.5
	216.1	232.0	429.4	355.9	315.4
Increase (decrease) in assets					
Trade account receivables	(39.5)	(62.6)	27.1	1.1	110.3
Inventories	(12.8)	(6.6)	(32.1)	120.8	(192.9)
Taxes recoverable	15.2	8.5	(15.0)	30.5	20.9
Other	78.8	37.2	(42.3)	20.8	(56.4)
	41.6	(23.5)	(62.2)	173.2	(118.2)
Increase (decrease) in liabilities					
Trade account payables	(42.3)	2.62	76.3	85.1	1.9
Financial liabilities arising from the purchase of raw materials	24.1	(29.3)	(26.3)	(125.6)	166.5
Taxes payable	5.6	2.3	31.7	(6.4)	11.4
Dividends	-	-	-	0.5	(13.1)

	Six-month period ended June 30, 2017	2016	Year ended December 31, 2016	2015	2014
	(in BRL million, audited, except otherwise noted)				
	(unaudited)				
Other	(108.4)	(27.9)	15.0	19.8	22.8
	(121.0)	(52.2)	96.7	(26.6)	189.5
Income tax and social contribution paid	(6.0)	(13.2)	(27.7)	(40.0)	(33.7)
Net cash flow from operating activities	130.7	143.0	436.2	462.5	353.0
Cash flow used in investing activities					
Marketable securities	(89.7)	(1.5)	(1.1)	17.9	(14.5)
PP&E, investments and intangible assets disposals	-	(3.3)	187.7	8.6	18.3
PP&E and intangible assets purchases	(70.5)	(84.7)	(207.8)	(240.4)	(183.4)
Paid-in capital in subsidiary	(1.9)	-	(12.4)	-	-
Credits due to sale of PP&E	1.0	(0.5)	-	1.7	3.0
Interest on capitalized loans	-	1.0	(2.7)	(1.4)	(16.0)
Net cash used in investing activities	(161.1)	(88.9)	(36.4)	(213.7)	(192.6)
Cash flow used in financing activities					
Loans and financing	576.8	102.8	362.6	854.3	72.3
Loans and financing repayments	(572.6)	(61.9)	(340.9)	(1,184.5)	(90.7)
Payment of interest on loans and financing	(96.8)	(87.0)	(177.2)	(253.7)	(229.4)
Derivative instruments	(20.3)	12.9	42.8	49.1	34.8
Dividends paid	(86.8)	-	-	-	-
Treasury share purchase	(38.3)	(12.2)	(37.7)	(48.6)	(27.3)
Net cash flow used in financing activities	(238.1)	(45.3)	(150.4)	(583.4)	(240.2)
Cash and cash equivalents at beginning of period	960.3	796.2	796.2	887.4	949.1
Effect of exchange rate changes on cash	(22.7)	(62.5)	(85.2)	243.3	18.1
Cash and cash equivalents at end of period	669.1	742.5	960.3	796.2	887.4
Increase (decrease) in cash and cash equivalents	(268.5)	8.8	249.4	(334.5)	(79.8)

(Source: Magnesita Financial Information.)

Net cash from operating activities

Net cash from operating activities for the first six-month period 2017 was BRL 12.3 million, or 8.6%, lower at BRL 130.7 million compared to the six-month period ended June 30, 2016 (BRL 143.0 million). The decrease was primarily driven by the currency translation effect on cash generated by operating activities in foreign currency due to the strengthening of the Brazilian real against the U.S. dollar.

In 2016, net cash from operating activities was BRL 26.3 million, or 5.7%, lower at BRL 436.2 million compared to BRL 462.5 million in 2015. This decrease was mainly due to lower working capital monetarization in 2016, as working capital had already been reduced significantly in 2015.

In 2015, net cash from operating activities increased by BRL 109.5 million or 31% to BRL 462.5 million compared to BRL 353.0 million in 2014. This development was mainly attributable to the higher operating result and, to a lower extent, working capital improvements.

Cash flow used in investing activities

Cash outflow used in investing activities for the six-month period ended June 30, 2017, was BRL 72.2 million, or 81.2%, higher at BRL 161.1 million compared to the six-month period ended June 30, 2016 (BRL 88.9 million). The increase was primarily driven by the investment of BRL 89.7 million in marketable securities during the six-month period ended June 30, 2017.

In 2016, cash flow used in investing activities was BRL 177.3 million or 83.0% lower at BRL 36.4 million compared to BRL 213.7 million in 2015. This development was due to the sale of non-core talc assets in 2016 as well as lower investments in property, plant and equipment and intangible assets.

In 2015, cash flow used in investing activities increased by BRL 21.0 million or 10.9% to BRL 213.7 million compared to BRL 192.6 million in 2014. This development was primarily due to higher investments in property, plant and equipment.

Cash flow used in financing activities

Cash flow used in financing activities for the six month-period ended June 30, 2017 was BRL 192.8 million, or more than 100%, higher at BRL 238.1 million compared to the six month-period ended June 30, 2016 (BRL 45.3 million). The increase was primarily due to the dividend paid in the six month-period ended June 30, 2017, related to the 2016 fiscal year, in the amount of BRL 86.8 million (there was no dividend payment in the six month-period ended June 30, 2016) as well as the repurchase of shares in the amount of BRL 38.3 million in the six month-period ended June 30, compared to BRL 12.2 million in the six month-period ended June 30, 2016.

In 2016, cash flow used in financing activities was BRL 433.0 million or 74% lower at BRL 150.4 million (compared to BRL 583.4 million in 2015). This development was mainly attributable to the prepayment by Magnesita of the majority in principal amount of its 2020 bonds in 2015, in addition to the decrease in interest expenses in 2016 because of such prepayment.

In 2015, cash flow used in financing activities increased by BRL 343.2 million to BRL 583.4 million compared to BRL 240.2 million in 2014. This development was driven by the prepayment of the majority in principal amount of the 2020 bonds, as explained above, and to a lesser extent, to an increase of share buybacks in 2015.

Debt

Interest bearing indebtedness (including financial leases)

As of June 30, 2017, Magnesita's loans and financing totaled BRL 2,496.5 million.

As of June 30, 2017, 52.0% of the loans and financing had a term of between one and five years; 15.8% was due in less than one year and the remaining 32.2% related to a perpetual bond without maturity. 75% of loans and financing carried a fixed average interest rate; the remaining 25% carried a variable interest rate.

Description of Magnesita's main financing contracts

Perpetual bonds

In 2012, Magnesita issued USD 250 million in perpetual bonds denominated in U.S. dollars through its wholly-owned subsidiary Magnesita Finance Ltd. These bonds are fully and unconditionally guaranteed by Magnesita and its major subsidiaries. The bonds do not have a final maturity date and carry interest, payable quarterly, at a fixed rate of 8.625% per annum. The bonds do not include financial covenants or interest-adjustment provisions. At December 31, 2016, the total principal amount of perpetual bonds outstanding amounted to BRL 831.9 million. The perpetual bonds may be redeemed by Magnesita in whole or in part at any time at their principal amount, plus accrued and unpaid interest, provided, however, that no less than USD 150 million in aggregate principal amount must remain outstanding immediately following any partial redemption.

Debentures

In December 2013, Magnesita issued unsecured debentures in an aggregate principal amount of BRL 400 million, bearing interest, payable semi-annually, at a rate of 112% of accumulated average daily rates of interbank deposits (the Brazilian Interbank Deposit Rate). On March 8, 2017 the debentures were prepaid in full with available cash and no amounts were outstanding as of June 30, 2017.

Long-term loans

In the third quarter of 2015, Magnesita entered into a long-term syndicated loan in the amount of USD 85 million and a bilateral loan in the amount of USD 75 million, totaling USD 160 million. Both facilities are fully drawn, have a final maturity in October 2020 and the first installment is due in January 2018. Interest corresponds to LIBOR plus a margin of 3.26% per annum, payable semi-annually. Each of the loans requires Magnesita to comply with a net debt/Adjusted EBITDA ratio (excluding the perpetual bond from net debt) of 3.75x. In addition, the long-term term syndicated loan (but not the bilateral facility) requires Magnesita to comply with an Adjusted EBITDA/interest charges ratio of at least 1.50x and a current assets/current liabilities ratio of at least 1.00x.

Export Credit Notes

In the first quarter of 2017, Magnesita raised BRL 534.0 million through an export credit note. The facility is fully drawn, has a final maturity in 2022 and the first installment is due in January 2019. Interest corresponds to 122.7% of the Brazilian Interbank Deposit Rate (which stood at 10.14% as of June 30, 2017) and is paid on a quarterly basis. The export credit notes require Magnesita to either maintain a rating of at least B+ or comply with a maximum net debt/Adjusted EBITDA ratio (excluding the perpetual bond) of 3.75x, measured at the end of each fiscal year.

Long-term bonds

In 2010, Magnesita issued USD 400 million in long-term debt securities with a final maturity in 2020. Interest is fixed and corresponds to 7.875% per annum, paid semi-annually. The bonds do not include financial covenants. In August 2015, Magnesita, through its US subsidiary Magnesita Refractories Company, repurchased an aggregate principal amount of USD 335.7 million of these long-term bonds at their nominal value. As of December 31, 2016, the total outstanding amount was USD 64.8 million.

Other credit lines

Magnesita's other credit lines include mostly short-term export finance facilities and credit lines subsidized by Brazilian government agencies for the purpose of financing of property, plant and equipment and research and development in an aggregate principal amount of BRL 309.2 million as of June 30, 2017.

Maturity profile of Magnesita's interest bearing loans

The following table shows the maturity profile of Magnesita's debt as of June 30, 2017 broken down by debt instruments:

	As of June 30, 2017 (unaudited, in BRL million)					
	Perpetual bonds	**Long-term loans**	**Export Credit Notes**	**Long-term bonds**	**Other**	**Total**
Repayments fall due as follows:						
2017	-	11.4	22.3	4.2	154.7	192.5
2018	-	175.3	-	-	152.2	327.5
2019	-	175.3	149.2	-	35.3	359.8
From 2020 onwards	-	175.3	374.8	212.6	27.1	789.7
Total with maturity	**-**	**537.1**	**546.3**	**216.8**	**369.4**	**1,669.5**
No maturity	**827.1**	**-**	**-**	**-**	**-**	**827.1**
Total	**827.1**	**537.1**	**546.3**	**216.8**	**369.4**	**2,496.5**

(Source: Magnesita Financial Information and internal data)

Net debt

As of June 30, 2017, net debt was BRL 1,749.0 million (loans and financing of BRL 2,496.5 million less cash equivalents and short-term marketable securities of BRL 747.7 million). This represented an increase of BRL 256.4 million or 17.2% (December 31, 2016: BRL 1,492.4 million). Net debt increased primarily due to the dividends paid in May 2017, working capital investments as a result of higher sales during the six-month period ended June 30, 2017, and the share repurchase program described above. Moreover, the currency translation effect also increased the foreign currency denominated debt due to the devaluation of the Brazilian real against the U.S. dollar as of June 30, 2017.

As of December 31, 2016, net debt was BRL 1,492.4 million (loans and financing of BRL 2,491.1 million less cash and cash equivalents and short-term of BRL 998.7 million). This represented a decrease of BRL 566.6 million or 27.5% compared to BRL 2,059.0 million as of December 31, 2015, which was due to the improvement in operating cash flow, as well as the proceeds from disposal of the talc business in December. The currency translation effect also contributed to the decrease of net debt.

Other contractual obligations

The following table shows the nominal value of other contractual obligations not included in Magnesita's statement of financial position as of June 30, 2017:

	Total	**Remaining term**		
		Up to 1 year	**1 to 4 years**	**Over 4 years**
Input supply agreements	103.3	27.4	66.3	9.6
Operating lease liabilities	14.1	10.5	3.7	0
Other contractual obligations	**117.4**	**37.9**	**70.0**	**9.6**

(Source: Magnesita Financial Information.)

Magnesita's contractual obligations relating to input supply agreements are associated with energy supply contacts concluded with the Brazil utility company Companhia Energética de Minas Gerais S.A. to meet Magnesita's energy requirements until 2021 in accordance with its consumption estimates. The figures set out in the table above refer to minimum payments under such energy supply contracts measured at nominal value.

Magnesita's contractual obligations relating to operating lease liabilities are associated with Magnesita's commitments arising from the lease of the properties in which it carries out product storage and shipment activities, as well as from the lease of machinery and equipment. Lease agreement terms vary from one to six years and do not include a purchase option at the end of the lease term, but allow timely renewal under market conditions prevailing at the time they are executed.

Contingent liabilities

The following table summarizes contingent liabilities as of June 30, 2017, and as of December 31, 2016, 2015 and 2014:

	As of June 30, 2017	**As of December 31,**		
		2016	**2015**	**2014**
	(in BRL million)			
Contingent liabilities for which provisions were booked (audited)	59.3	50.3	45.7	39.3
Contingent liabilities classified as possible likelihood of loss for which no provisions were booked (unaudited)	749.1	676.1	285.0	233.4
Total (unaudited)	808.4	726.4	330.7	272.7

(Source: Magnesita Financial Information and internal data.)

Contingent liabilities relate to tax and other legal disputes to which Magnesita is subject. Magnesita's management, based on information provided by its legal advisors, recorded provisions at amounts considered sufficient to cover probable unfavorable outcomes for the lawsuits in progress.

Pension obligations

Magnesita maintains defined benefit plans and defined contribution plans for its employees in certain jurisdictions. The defined benefit plans are closed to new entrants, although existing participants still accrue benefits under these plans. The defined contribution plans are open for new participants.

Defined contribution plans

Expenses are booked as personnel expenses. No provisions are required in connection with the defined contribution plans.

Defined benefit plans

Defined benefit plans are in place in Brazil, the United States and Europe.

The following table sets out the calculation of the actuarial liabilities related to Magnesita's defined benefit plan as of June 30, 2017:

	Brazil	**United States**	**Europe**	**Consolidated**
	(in BRL million, audited)			
Present value of actuarial liability	(263.6)	(524.8)	(166.5)	(954.9)
Fair value of assets	153.4	461.4	-	614.8
Bonus for length of service	0	0	(0.2)	(0.2)
Actuarial liabilities	(110.2)	(63.3)	(166.7)	(340.2)

(Source: Magnesita Financial Information.)

Recent Developments

For a description of the divestment of Magnesita's entire Oberhausen business as part of the conditions imposed by the EU merger control authorities in connection with their approval of the Acquisition of Control, see "*Operating and Financial Review of RHI—Recent developments*".

RATIONALE FOR THE ACQUISITION AND STRATEGY FOR THE COMBINED GROUP

RHI considers the following factors to be the main drivers for its decision to pursue the Acquisition:

Enabling Strategic Growth

Creating a global, leading refractory company: The strategic rationale for the Acquisition is for the RHI Group and the Magnesita Group to join forces to complement one another's footprints and become a more competitive, vertically integrated global provider of products, systems and services in the refractory industry. As a result of its extended geographical reach and product and services portfolio, the Combined Group will have access to the core markets, customer base and geographical regions of each of RHI and Magnesita. RHI management also considers the Acquisition of Control to be a unique opportunity to complement its existing offering, in particular by adding more dolomite products to its product portfolio, increasing its distribution opportunities of flow control products and enabling it to better service customers through a significantly expanded network of production and sales locations. RHI management believes that, upon completion of the Acquisition, the Combined Group will be the leading player in the global refractory market in terms of revenue, which is otherwise characterized by high fragmentation and intense competition, and that this leading role will position the Combined Group for further strategic growth around the world.

Addressing market consolidation trends and improving the Group's competitive position: With more than 2,000 competitors worldwide, the refractories market is highly fragmented. RHI's management believes that RHI and Magnesita are currently the second- and third-largest players, respectively, worldwide based on refractories revenue. Both companies, however, are subject to competition from a large number of market players in the refractory industry, as well as being under pressure from market consolidation trends, in particular in the Chinese refractory and steel industry, which is likely to yield new, larger competitors going forward. In September 2016, the Chinese authorities approved the merger of Baosteel and Wuhan Iron and Steel, which created the world's second largest steel producer after ArcelorMittal. The Chinese government plans to further consolidate Chinese steel production, having set a target for the ten largest Chinese steel producers to account for approximately 60% of Chinese steel production by 2025 (compared with approximately 34% as of 2016) (source: "Beijing approves steel merger", *Wirtschaftsvereinigung Stahl,* September 24, 2016). Such larger players are likely to be more capable of selling low-cost steel outside China, which would enable them to compete directly with those steel producers that currently constitute the largest steel refractory customers of RHI and Magnesita by revenue. Upon completion of the Acquisition, the Combined Group will, according to RHI management's estimates, be the largest market player globally in terms of refractories revenues. RHI's management believes that the greater scale, wider global distribution network and resulting cost synergies arising from the Acquisition position the Combined Group well to compete and grow further in this consolidating industry.

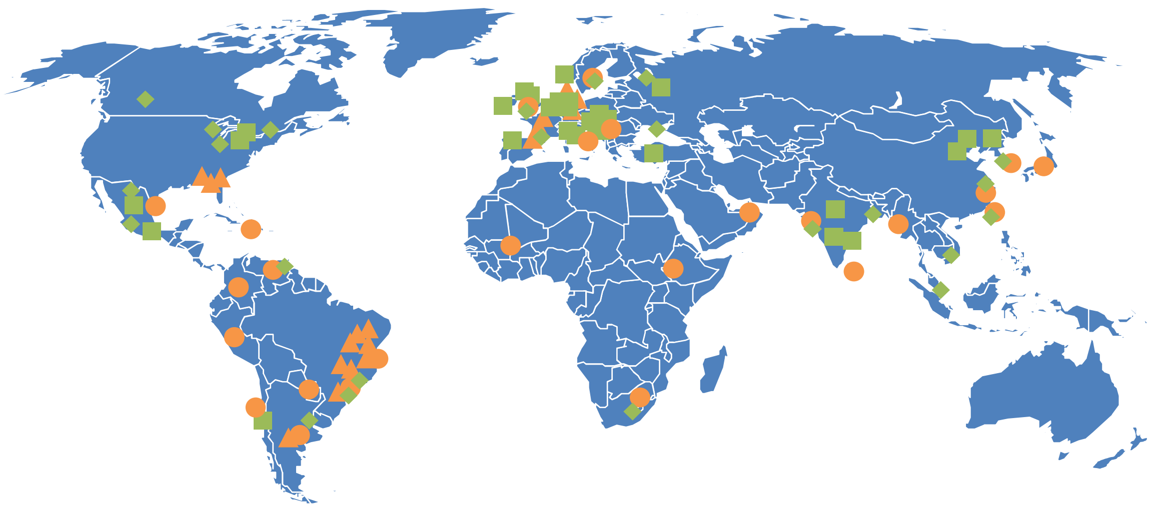
In addition, opportunities for either RHI or Magnesita on a combined basis will be enhanced following the Acquisition, to increase its respective market share through organic growth. RHI management further believes that the Combined Group will be geographically better diversified and able to address these developments by providing a more extensive product portfolio on both a regional and global basis.

Achieving Synergies

Complementary markets and enhanced customer service: The geographical footprints of RHI and Magnesita are highly complementary. Almost three quarters of RHI's revenues come from EMEA (including CIS) and Asia (51% and 22% of the RHI Group's 2016 revenues, respectively), with only limited revenues generated in the United States (less than 10% of the RHI Group's 2016 revenues) and South America (less than 6% of RHI Group's 2016 revenues). By contrast, Magnesita has a strong presence in its home market of the Americas (70% of revenues in 2016), compared to relatively limited revenues in EMEA and Asia (less than 23% and 7% (including Oceania). RHI management estimates that, as a result of the Acquisition, the Combined Group will not only become the leading refractory company by revenue globally, but also a leading global refractory supplier by revenue in each of EMEA, Asia and the Americas.

In addition, as refractory customers grow and increase their global presence, they are often centralizing their procurement functions and seeking to build global supply relationships. RHI management believes that greater scale and the global footprint of the Combined Group will allow it to take advantage of this development. As a result of the Acquisition, the Combined Group will be in closer proximity to its customers in terms of both production facilities, leading to shorter lead times, faster delivery and shorter transport distances, as well as ready access to on-site functional support.

The following map shows the global presence of the combined Group:



■ RHI production locations ◆ RHI sales locations

▲Magnesita production locations ● Magnesita sales locations

Balancing of production capacities and results: RHI management believes that the Combined Group's extended geographical footprint will bring about a more diversified composition of revenues across geographies with a balancing effect on the Combined Group's results and create a natural hedge of foreign exchange rate risks to the extent that the locations of the Combined Group's production facilities are better aligned with the distribution of the Combined Group's sales across geographies.

Complementary product and services portfolios: RHI and Magnesita's product and service portfolios are also complementary. RHI's product portfolio has traditionally focused on developed magnesite products, while Magnesita has focused on dolomite-based products. The Combined Group intends to offer all products of both companies in each of the individual companies' existing markets, and plans to develop and offer bespoke packages integrating products from both companies to the Combined Group's expanded customer base. In particular, RHI management expects the Acquisition to enhance its competitive position as a supplier to the steel industry by adding more dolomite products to its product offering, as well as to improve its distribution of functional products (particularly flow control products) by leveraging the existing sales and service support networks of Magnesita, which currently does not distribute or offer services in respect of flow control products.

Optimization of cost structure: RHI management believes that the Acquisition will result in economies of scale and meaningful synergies in a number of key areas, such as sourcing and operations, general and administrative functions, freight, sales & marketing, research and development, and raw material supply and purchasing. The operational set-up of the Combined Group is expected to benefit from the implementation of common standards of operational excellence, enhanced flexibility in production and an improved production cost basis. Some of the key areas of targeted improvements are as follows:

- Capex and working capital optimization: Based on the complementary regional footprint of RHI's and Magnesita's operations and customer bases, and in particular Magnesita's presence in the Americas, the Combined Group intends to implement improvements in supply chain management, and optimize the plant network of the combined companies in order to achieve working capital improvements and reduced capital expenditure requirements.

- Integration of raw materials sourcing: Access to and availability of high-quality raw materials are decisive for refractory products because they have a significant influence on refractories' performance characteristics. Roughly 70% of the global magnesite deposits are located in China, North Korea and Russia. The RHI Group therefore regards access to its own raw materials as a strategic advantage, and both RHI and Magnesita have invested in increasing the level of self-supply with magnesia raw materials in recent years. Nonetheless, RHI and Magnesita each source some of their respective raw materials from third party suppliers as well, when market prices are favorable. The Acquisition of Control will provide RHI access to Magnesita's mining network in the Americas and Magnesita access to RHI's mining network in Europe. RHI believes that combining the mining capacities of RHI and Magnesita will enable the Combined Group to source a wider range of raw materials locally, and thereby maintain or even increase the proportion of raw materials it sources from its own mines and to reduce transport and logistics costs.

- Cost synergy effects: As a result of the Acquisition, RHI management expects considerable net run-rate synergies. RHI management envisages net run rate synergies from the Acquisition of the Combined Group of approximately EUR 70 million on EBIT by 2020, if and when the Combined Group is able to achieve the delisting of Magnesita from the Novo Mercado in Brazil, but only approximately half of these synergies if Magnesita remains a listed company. RHI's management's estimation of synergies is based on numerous estimates and assumptions, which are inherently uncertain, and the Group's ability to achieve these synergies is subject to a number of uncertainties. See "*Risk Factors—Risks relating to the Acquisition—The Group may be unable to realize the targeted synergies and other anticipated benefits of the Acquisition, which could adversely affect the value of the Ordinary Shares*").

Sharing and Securing Technology and know-how

The Acquisition of Control will enable the Combined Group to gain access to technologies and know-how that are currently held either by RHI or by Magnesita, but not by both. For example, the Combined Group will have the benefit of RHI's market leading flow control technology, and each company's R&D will be available for the benefit the Combined Group. Furthermore, the Acquisition of Control will lead to a combination of the management and R&D teams of the two companies. The Combined Group will also benefit from the market and product specific skills, know-how and experience of both RHI and Magnesita management and employees. The integration of RHI and Magnesita should lead, for example, to a more diverse workforce, fostering the sharing of management best practices and management skills, and better training. RHI management therefore believes that the Acquisition of Control will allow the Combined Group to maintain or improve its ability to compete successfully and to retain the most talented managers and experts in the industry, which should further improve the Combined Group's competitive position in respect of innovation, technology and growth.

Global Capital Market Presence

RHI management believes that the listing of the Issuer in the premium listing segment of the Official List of the UK Financial Conduct Authority and admission of the Ordinary Shares to trading on the Main Market of the London Stock Exchange will not only reflect and underline the international scope of the Combined Group following the Acquisition of Control, but will also increase the visibility of the Combined Group for global investors and improve funding opportunities of the Combined Group through better access to international capital.

Business strategy

In addition to integrating Magnesita and achieving the targeted synergies, the Issuer intends to pursue a strategy addressing the challenges in the global refractories industry based on increasing its market presence in growth markets, differentiation through technology and innovation, continued self-sufficiency with respect to magnesia raw materials and further optimization of the Group's cost structure. Accordingly, RHI management has defined the following strategic cornerstones:

Selective focus on growth regions and attractive market niches

In accordance with the forecasts of the International Monetary Fund published in January 2017, economic growth will amount to roughly 2% in the advanced economies in the coming years and range between 4% and 5% in the emerging markets. However, there are considerable regional differences in the IMF's forecast. The most dynamic growth in the advanced economies is predicted for the U.S., at roughly 2.5%, and in the emerging markets such as India, at roughly 7.5%.

India and the United States were the two largest individual markets for RHI in 2016, with revenue totaling approximately EUR 170 million in India and approximately EUR 150 million in the United States, and RHI management intends for the Combined Group to leverage its strong position and the favorable growth trends in both countries to increase its share of their refractories markets there. More generally, RHI management intends to use the Combined Group's global leadership position in terms of revenue, greater scale, complementary product portfolio and diversified geographic presence around the world to target opportunistically those countries and regions benefitting from more dynamic economic growth prospects.

In addition, RHI's management intends to focus on certain attractive market niches, such as non-basic mixes and its flow control business, in which the Group has developed particular know-how and expertise.

Technology leadership and comprehensive service in strategically important segments

The Group intends to target different customer segments by focusing on technology leadership and strong customer service in certain strategically important segments on the one hand, while also offering a competitively priced product portfolio in the remaining segments, on the other hand. In the former category, a key goal of the Combined Group will be to further develop and improve its capabilities as a complete system supplier by, among other things, offering:

- a comprehensive bundle of refractory products used in the steel production chain (called "ladle-to-mold" packages); and
- extended automation options using robots, manipulators and sensors and includes a connection of customer processes with the Combined Group's systems in line with the Industry 4.0 approach (where, for example, sensors installed in the customers' aggregates autonomously report their status on the need for replacement) which also incorporates accelerated digitalization across the value chain to create additional value for the Combined Group and its customers.

A cornerstone of this strategy will be continued investment in R&D and innovation technology, such as the use of 3D-printers to produce refractory brick prototypes, as well as strategic partnerships with noted universities as scientific partners such as McGill University in Canada and technology leaders such as Böhler Edelstahl in Austria. The Group may also seek to pursue selective acquisitions to complement its existing product and technology portfolio.

For price-sensitive customers, the Combined Group plans to adapt its offering to customer expectations at competitive costs based on the use of lower-priced raw materials and a higher degree of standardization in its product and service offerings.

Alignment of operations to reflect structural changes in the refractories market and in the industries of RHI and Magnesita's customers

The current market environment is characterized by excess capacity in many of the industries in which the Combined Group's customers are active, as well as by an aggressive export strategy by Chinese steel producers as a result of the currently weak demand for steel in China. These developments have led to greater pressure on market prices and on the profitability of manufacturers, and subsequently also on suppliers of refractories. To address these challenges, the Group intends to focus on cost reduction and efficiency improvements, including by aligning production capacity with local demand by producing more locally and reducing shipment costs. For example, RHI management has already decided to end the production of fused cast bricks in the medium term, due to high fixed costs, volatile demand and global excess capacity. Consequently, the U.S. subsidiary RHI Monofrax, LLC was divested in 2016. Other examples are the disposals of the plants in San Vito, Italy, and Podolsk, Russia completed in October 2017. RHI's management is currently reviewing the production footprint of the Combined Group with the goal of further optimizing the Group's plant structure and adjusting production capacities where necessary.

Balance between in-house production and external raw material purchases

Raw materials account for more than half of the total production costs at the RHI Group. Following the Acquisition of Control, the Combined Group will be endowed with strategic raw material resources enhancing supply flexibility due to lower logistics costs, which can help it to become more cost-competitive. RHI management also plans for the Combined Group to shift towards further optimizing existing deposits and increasing operating flexibility through more focused balancing of the strategic use of the internal magnesia supply and external purchasing and selling options.

Exploring opportunities in China

China is a very large market where both RHI and Magnesita are underrepresented. In 2016, RHI's revenue attributable to China, RHI's sixth largest single market, was approximately EUR 89 million (first half year 2017: EUR 50 million). Magnesita had decided in 2015 to suspend operations at its Chizhou plant, which catered mostly to Chinese customers. Due to that decision, Magnesita's revenue in China only amounted to approximately EUR 2.5 million in 2016 (first half of 2017: zero). The Combined Group plans to set up Chinese operations as a separate business unit that focuses on China as a separate regional market, with a focus on growing locally as the market there consolidates with the goal to achieve sustainable and profitable revenue growth.

Aspirational financial targets

In the medium term, the Issuer's aspiration for the Combined Group is:

- to have organic revenue growth in line with the volume growth in its customers' industries;
- an Operating EBIT margin of more than 12% after capturing the Combined Group's envisaged net synergies of approximately EUR 70 million in case of a delisting of Magnesita; and
- to pay stable dividends in respect of the financial years 2017 and 2018, in line with RHI's previous years' payment levels. In the mid- to long-term, however, the Issuer's aspiration is to increase dividend payments from the Combined Group, as a result of stronger cash flow generation resulting from synergies, organic growth and de-leveraging of the Combined Group's capital structure.

Management's financial targets are not forecasts and there can be no guarantee that the actual results will resemble the targets in the medium term or mid- to long-term. The Issuer has not defined, and does not intend to define, "medium term" and "mid- to long-term", and these financial targets should not be read as indicating that the issuer is targeting such metrics for any particular fiscal year. The targets have been determined based on trends, data, assumptions and estimates that the Issuer considers reasonable as of the date of this Prospectus but which may change as a result of uncertainties related to its economic, financial or competitive environment and as a result of future business decisions, as well as the occurrence of certain factors, including but not limited to, those described in "*Important Information —Forward-Looking Statements*" and "*Risk Factors*". Many of these circumstances are outside of the control of the Issuer and the assumptions underlying the targets may change or may not materialise at all. In addition, unanticipated events may adversely affect the actual results that the Combined Group achieves in future periods whether or not its assumptions relating to the medium-term and mid- to long-term targets otherwise prove to be correct. As a result, the Combined Group's actual results may vary materially from these medium-term and mid- to long-term targets and investors should not place undue reliance on them.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma statement of net assets set out below has been prepared to illustrate the effect of the acquisition 100% of the issued share capital of of Magnesita Refratários (the "**Magnesita Acquisition**") as if it had taken place on June 30, 2017. The unaudited consolidated pro forma income statements for the year ended December 31, 2016 and for the six months ended June 30, 2017 have been prepared to illustrate the impact of the Magnesita Acquisition as if it had taken place on January 1, 2016 and January 1, 2017, respectively (together the "**Unaudited Pro Forma Financial Information**").

The Unaudited Pro Forma Financial Information, which has been produced for illustrative purposes only, by its nature addresses a hypothetical situation and, therefore, does not represent the actual financial position or results of RHI or RHI Magnesita. The Unaudited Pro Forma Financial Information has been prepared on the basis set out in the notes below and in accordance with the requirements of item 20.2 of Annex I and items 1 to 6 of Annex II of Commission Regulation (EC) 809/2004.

The Unaudited Pro Forma Financial Information of RHI Magnesita has been prepared consistently with the accounting policies of RHI, which will merge with and into RHI Magnesita, as those have been described in the "*Principles of accounting and measurement*" of RHI's consolidated financial statements for the year ended December 31, 2016.

The pro forma statement of net assets set out below does not reflect the fair value adjustments to the acquired assets and liabilities as the purchase price allocation exercise can not be commenced before the Acquisition of Control is completed. As Magnesita is publicly listed in Brazil, before the Acquisition of Control is completed the Issuer does not have sufficient access to commercially sensitive information, such as customer contracts and intellectual property, required to conduct a purchase price allocation.

The Group expects that upon completion of the purchase price allocation exercise, for which IFRS 3.45 allows a period of twelve months, fair value adjustments will be recognized in respect of Magnesita's assets and liabilities, in particular in respect of intangible assets and property, plant and equipment. However, due to the complementary nature of the businesses, potentially all line items (other than cash and cash equivalents) could be affected.

Unaudited Pro Forma Statement of Net Assets

(All figures are in EUR million and before the impact of the purchase price allocation)	**RHI Group at June 30, 2017**	**Magnesita Group at June 30, 2017 (reclassified)**		**Adjustments** Draw down of new facilities	**Adjustments** Acquisition adjustments	**Unaudited pro forma at June 30, 2017 after Acquisition of Control**	**Adjustments** Draw down of new facilities	**Adjustments** Integrated Offer	**Unaudited pro forma at June 30, 2017 assuming full take up of Integrated Offer**
	Note 1	*Note 2*		*Note 3*	*Note 4*	*Note 5*	*Note 3*	*Note 6*	
Property, plant and equipment	474.0	380.1	a)	-	-	**854.1**	-	-	**854.1**
Goodwill	37.0	520.3	b)	-	(212.8)	**344.5**	-	-	**344.5**
Other intangible assets	65.2	30.7	b)	-	-	**95.9**	-	-	**95.9**
Investments in joint ventures	16.7	2.7		-	-	**19.4**	-	-	**19.4**
Other non-current financial assets	19.3	7.2	c)	-	-	**26.5**	-	-	**26.5**
Other non-current assets	17.4	20.4	d)	-	-	**37.8**	-	-	**37.8**
Deferred tax assets	134.7	6.1		-	-	**140.8**	-	-	**140.8**
Non-current assets	**764.3**	**967.5**		**-**	**(212.8)**	**1,519.0**	**-**	**-**	**1,519.0**
Inventories	373.0	215.3		-	-	**588.3**	-	-	**588.3**
Trade and other current receivables	386.5	144.9	f)	-	-	**531.4**	-	-	**531.4**
Income tax receivables	10.7	9.6		-	-	**20.3**	-	-	**20.3**
Other current financial assets	10.4	50.2		-	-	**60.6**	-	-	**60.6**

(All figures are in EUR million and before the impact of the purchase price allocation)	RHI Group at June 30, 2017	Magnesita Group at June 30, 2017 (reclassified)	Adjustments: Draw down of new facilities	Adjustments: Acquisition adjustments	Unaudited pro forma at June 30, 2017 after Acquisition of Control	Adjustments: Draw down of new facilities	Adjustments: Integrated Offer	Unaudited pro forma at June 30, 2017 assuming full take up of Integrated Offer
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 3*	*Note 6*	
Cash and cash equivalents	149.4	177.5	118.0	(130.7)	**314.2**	110.0	(117.3)	**307.0**
Assets held for sale	45.4	21.5	-	-	**66.9**	-	-	**66.9**
Current assets	**975.4**	**619.0**	**118.0**	**(130.7)**	**1,581.7**	**110.0**	**(117.3)**	**1,574.5**
Total assets	**1,739.7**	**1,586.5**	**118.0**	**(343.5)**	**3,100.7**	**110.0**	**(117.3)**	**3,093.5**
Non-current financial liabilities	335.2	557.6	118.0	-	**1,010.8**	110.0	-	**1,120.8**
Other non-current financial liabilities	41.2	-	-	-	**41.2**	-	-	**41.2**
Deferred tax liabilities	12.3	65.8	-	-	**78.1**	-	-	**78.1**
Personnel provisions	310.0	90.2	-	-	**400.2**	-	-	**400.2**
Other non-current provisions	3.0	19.9 g)	-	-	**22.9**	-	-	**22.9**
Other non-current liabilities	5.8	5.4 g)	-	-	**11.2**	-	-	**11.2**
Non-current liabilities	**707.5**	**738.9**	**118.0**	**-**	**1,564.4**	**110.0**	**-**	**1,674.4**
Current financial liabilities	158.1	104.6	-	-	**262.7**	-	-	**262.7**
Other current financial liabilities	8.0	1.0 h)	-	-	**9.0**	-	-	**9.0**
Trade payables and other current liabilities	301.3	227.3 i)	-	22.1	**550.7**	-	-	**550.7**
Income tax payables	16.2	5.8	-	-	**22.0**	-	-	**22.0**
Current provisions	26.5	-	-	-	**26.5**	-	-	**26.5**
Liabilities in connection with assets held for sale	19.7	1.2	-	-	**20.9**	-	-	**20.9**
Current liabilities	**529.8**	**339.9**	**-**	**22.1**	**891.8**	**-**	**-**	**891.8**
Net assets/ (liabilities)	**502.4**	**507.7**	**-**	**(365.6)**	**644.5**	**-**	**(117.3)**	**527.3**

Notes

1. The financial information for RHI has been extracted without material adjustment from the RHI Consolidated Interim Financial Statements, included on pages F-2 - F-89 in this Prospectus.

2. The Magnesita net assets have been extracted without material adjustment from the Magnesita Special Purpose Consolidated Interim Financial Statements as of and for the six months ended June 30, 2017, included on pages F-339 - F-396 in this Prospectus. The Magnesita consolidated statement of net assets has been translated from Brazilian Reals into euros at 3.77 being the exchange rate prevailing at June 30, 2017.

   The following reclassifications have been made to align Magnesita's historical statement of financial position as of June 30, 2017 with RHI's statement of financial position presentation as of June 30, 2017:

   a) Reclassification of EUR 3.5 million from investment property to property, plant and equipment.

   b) Reclassification of EUR 520.3 million from intangible assets to goodwill, which is required as RHI shows goodwill as a separate line item, while it is included in intangible assets in Magnesita's historical statement of financial position.

   c) Reclassification of EUR 2.6 million from marketable securities, of EUR 4.5 million from trade accounts receivable and EUR 0.1 million from receivables from sale of property to other non-current financial assets.

d) Reclassification of EUR 15.5 million from other taxes recoverable and EUR 4.9 million from judicial deposits to other non-current assets.

e) Reclassification of EUR 2.6 million from receivables from sale of property to trade and other current receivables.

f) Reclassification of EUR 20.8 million from marketable securities, EUR 15.0 million from other taxes recoverable and EUR 14.3 million from other to other current financial assets.

g) Reclassification of EUR 4.2 million from other liabilities to other non-current provisions.

h) Reclassification of EUR 0.1 million from dividends and EUR 0.9 million from accounts payable for investment acquisition to other current financial liabilities.

i) Reclassification of EUR 33.2 million from liabilities arising from the purchase of raw materials, EUR 8.3 million from other taxes payable, EUR 17.9 million from liabilities and EUR 32.4 million from salaries, provisions and social charges to trade payables and other current liabilities.

3. In order to refinance existing indebtedness and finance the Magnesita Acquisition, RHI entered into a EUR 477.2 million syndicated term and revolving loan agreement. Of the total facilities, the EUR 100 million revolving credit facility is intended to remain available for general corporate purposes, EUR 149.2 million will be used to refinance existing non-current indebtedness, and EUR 228.0 million will be drawn down to finance the Magnesita Acquisition (of which EUR 118 million for the Acquisition of Control and the remainder for the Integrated Offer, as defined in the financing agreements):

Syndicated loan and revolving credit facility	**(EUR million)**
Revolving credit facility (not drawn down)	100.0
Amount drawn down to refinance existing indebtedness	149.2
Amount drawn down to finance the Magnesita Acquisition	228.0
Total	**477.2**

As the refinancing was undertaken specifically in connection with the Acquisition of Control, this is a one-off transaction and is non-recurring, however the interest expenses (as set out in Note 3 to the pro forma income statement) will have a continuing impact.

4. The adjustments arising as a result of the Magnesita Acquisition are as follows:

The pro forma information has been prepared on the basis that the group will apply acquisition accounting in accordance with IFRS 3. The purchase consideration to acquire Magnesita consists of cash and share consideration.

The pro forma purchase consideration has been calculated based on the following assumptions:

a) The total number of outstanding Magnesita shares at June 30, 2017 was 50.0 million.

b) The Acquisition of Control will comprise of the acquisition of 50% plus one share of the outstanding Magnesita shares at June 30, 2017.

c) The price per Magnesita share per the SPA is set at EUR 8.19.

d) Accordingly, the purchase price for the Acquisition of Control is EUR 204.8 million.

e) The SPA states that the consideration for the Acquisition of Control will comprise:

a) 5 million newly issued Ordinary Shares, with a price set at EUR 17.50 per share (which price has been based on the volume weighted average price of RHI Shares during the period from January to August 2016.

b) The balance to be paid in cash.

For the purposes of the pro forma statement of net assets, the excess purchase consideration over the carrying amount of the net liabilities acquired has been attributed to the line item goodwill.

Acquisition Consideration

	(EUR million)
The SPA states that the consideration will be paid in the form of:	
5m newly issued Ordinary Shares with a fixed pre-agreed value of EUR 17.50 per share	87.5
The balance to be paid in cash	117.3
Total consideration	**204.8**

In accordance with IFRS 3, the acquisition consideration should be valued at fair value. Although the shares of RHI Magnesita are not publicly traded as of the date of the Prospectus, the shares of RHI are. Given that the operations of RHI Magnesita as of the date of the Acquisition of Control represent those of RHI, and the merger of RHI into RHI Magnesita was performed through a share for share exchange, the latest practicable share price of RHI can be used as a proxy for the fair value of the Ordinary Shares issued as consideration.

The RHI share price on October 13, 2017 was EUR 36.78.

Fair Value of Magnesita Acquisition Consideration

Fair value of acquisition consideration	**(EUR million)**
5m shares at the latest practicable share price of RHI (EUR 36.78 per share)	183.9
Cash	117.3
Total fair value of acquisition consideration	**301.2**

The calculation of the Magnesita net liabilities acquired and the calculation of the pro forma non-controlling interest ("**NCI**") and pro forma goodwill arising on the Acquisition of Control has been calculated as follows:

Calculation of Magnesita net liabilities acquired	**(EUR million)**
Book value of net assets acquired	507.7
Less: elimination of previously recognised goodwill	(520.3)
Pro forma net liabilities acquired	**(12.6)**
Calculation of Non-controlling Interest	
The value of the NCI is based on the proportionate value of the net liabilities acquired	
Valuation of NCI at 50% of pro forma net liabilities acquired	**(6.3)**
Calculation of Goodwill	
Fair value of consideration	301.2
Non-controlling interest	(6.3)
Plus Magnesita pro forma net liabilities acquired	12.6
Goodwill	**307.5**
Goodwill adjustment	
Removal of previously recognised Magnesita goodwill	(520.3)
Plus recognition of goodwill arising on the Magnesita Acquisition	307.5
Total adjustment	**(212.8)**

IFRS 3 provides preparers of financial statements with an option on how to value non-controlling interests in the context of an acquisition of those interests for the purposes of calculating goodwill. Non-controlling interests can either be measured at (a) fair value or (b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets (Proportionate share).

The non-controlling interests of Magnesita acquired in the Acquisition of Control have been measured using the Proportionate share method, in accordance with the accounting policies applied by RHI. These accounting policies, including the Proportionate Share method, were consistently applied in the past such as in 2013 when the Issuer acquired a 69.9% stake in the Indian listed Orient Refractories Ltd.

According to IFRS 3 goodwill can be recognized only in connection with the Acquisition of Control and as a result any further acquisitions of Magnesita shares can not and have not been taken into account. IFRS 10 requires all subsequent acquisitions of Magnesita shares from minority shareholders to be accounted without additional goodwill recognition.

The total cash outflow is as follows:

	(EUR million)
Cash outflow for Acquisition of Control	117.3
Transaction costs, net of tax impact	13.4
Total cash outflow	**130.7**

The transaction cost of EUR 17.9 million were adjusted by tax impact EUR 4.5 million. These transaction costs are one-off costs in relation to the transaction itself and are not expected to be recurring in nature. For further details on the transaction costs, net of tax impact, refer to note 3 to the pro forma income statements.

Trade payables and other current liabilities has been adjusted by EUR 22.1 million to reflect the accrual of additional transaction costs which would have been incurred had the transactions taken place on June 30, 2017. For further details on transaction costs, refer to footnote 3 to the pro forma income statements.

5) The subtotal column "Unaudited pro forma at June 30, 2017 assuming no take up of Integrated Offer" presents the pro forma statement of net assets assuming there is no take-up on part of the Magnesita free float shareholders of the Mandatory Offer (further discussed below).

6) In accordance with the SPA, Brazilian law and the provisions of the Novo Mercado a public mandatory offer ("**Mandatory Offer**") is to be addressed to all remaining Magnesita shareholders to acquire all remaining Magnesita Shares at the same conditions as those under the SPA. Under applicable Brazilian law and stock exchange rules, the Company may combine the Mandatory Offer with a so-called "delisting tender offer" pursuant to which the Issuer offers consideration reflecting the fair value per share to the remaining Magnesita shareholders, excluding controlling shareholders and certain insiders, for their shares (the "**Delisting Offer**" and, if the Delisting Offer is combined with the Mandatory Offer, the "**Integrated Offer**").

Accordingly, the remaining Magnesita shareholders will be offered a mix of cash and Ordinary Shares in the same proportions as paid to the Sellers under the Acquisition of Control. They will also be offered a cash-only alternative equal to EUR 8.19 per Magnesita share. The Integrated Offer is expected to be made in 2018.

For the purposes of the Unaudited Pro Forma Financial Information, the Integrated Offer is assumed to take place on June 30, 2017 and all remaining Magnesita shareholders are assumed to accept the shares in RHI Magnesita offered to them.

The calculation of the Integrated Offer consideration is set forth below:

a) The total number of outstanding Magnesita shares at June 30, 2017 was 50.0 million.

b) The Integrated Offer will comprise of the acquisition of 50% minus one share of the outstanding Magnesita shares at June 30, 2017.

c) The price per Magnesita share per the SPA is set at EUR 8.19.

d) Accordingly, the purchase price for the Integrated Offer is EUR 204.8 million.

	(EUR million)
Management assume that 5m newly issued Ordinary Shares will be taken up in the Integrated Offer (each with a pre-agreed price of EUR 17.5 per share)	87.5
The balance of the Integrated Offer will be settled in cash	117.3
Total Integrated Offer Consideration	**204.8**

<u>Fair Value of Integrated Offer Consideration</u>

Fair value of Integrated Offer consideration	**(EUR million)**
5m Ordinary Shares at the latest practicable share price of RHI Magnesita (EUR 36.78 per share)	183.9
Cash	117.3
Total fair value of acquisition consideration	**301.1**

In accordance with IFRS 10.23, as the acquisition of the non-controlling interest does not result in a change in control, the transaction is accounted for as equity transaction. Accordingly, this transaction will not give rise to any additional goodwill, instead, the carrying amount of the non-controlling interest (recognized in the Acquisition of Control) is derecognized to reflect the acquisition of the remaining interest in Magnesita.

The difference between the book value of non-controlling interests and the fair value of the consideration paid is recognized in equity and attributed to the shareholders' equity.

	(EUR million)
Fair value of consideration (Cr)	301.1
Value of non-controlling interest derecognised (Cr)	6.3
Total adjustment to shareholders' equity (Dr)	**307.4**

If all remaining Magnesita shareholders opted to take cash instead of the mix share and cash consideration, the total cash outflow would be EUR 204.8 million.

The Mandatory Offer is legally required after the Acquisition of Control and the associated cost will be a non-recurring transaction, however the impact on the interest expenses (as set out in Note 3 to the pro forma income statement) will have a continuing impact.

Unaudited Pro Forma Income Statement for the Year ended December 31, 2016

		Adjustments					**Adjustments**	
(All figures are in EUR million and before the impact of the purchase price allocation)	**RHI Group year ended December 31, 2016**	**Magnesita Group year ended December 31, 2016**		**Transaction Costs**	**New finance facilities**	**Unaudited pro forma for the year ended December 31, 2016 after Acquisition of Control**	**New finance facilities**	**Unaudited pro forma for the year ended December 31, 2016 assuming full take up of Integrated Offer**
	Note 1	*Note 2*		*Note 3*	*Note 4*	*Note 5*	*Note 4*	*Note 5*
Revenue	1,651.2	870.0		-	-	2,521.2	-	2,521.2
Cost of sales	(1,294.8)	(625.0)	f)	-	-	(1,919.8)	-	(1,919.8)
Gross profit	**356.4**	**245.0**		-	-	**601.4**	-	**601.4**
Selling and marketing expenses	(105.2)	(72.7)	g)	-	-	(177.9)	-	(177.9)
General and administrative expenses	(134.5)	(74.4)	a)	-	-	(208.9)	-	(208.9)
Other income	92.3	74.3	b) h)	-	-	166.6	-	166.6
Other expenses	(85.8)	(12.8)	b)	**(40.0)**	**-**	(138.6)	**-**	(138.6)

(All figures are in EUR million and before the impact of the purchase price allocation)	RHI Group year ended December 31, 2016	Adjustments Magnesita Group year ended December 31, 2016		Adjustments Transaction Costs	Adjustments New finance facilities	Unaudited pro forma for the year ended December 31, 2016 after Acquisition of Control	Adjustments New finance facilities	Unaudited pro forma for the year ended December 31, 2016 assuming full take up of Integrated Offer
	Note 1	*Note 2*		*Note 3*	*Note 4*	*Note 5*	*Note 4*	*Note 5*
Operating EBIT	**123.2**	**159.4**		(40.0)	-	**242.6**	-	**242.6**
Gain from derivatives from supply contracts	10.1	-		-	-	10.1	-	10.1
Loss from derivatives from supply contracts	-	-	-	-	-	-	-	-
Impairment losses	(8.6)	(0.1)	b)	-	-	(8.7)	-	(8.7)
Income from restructuring	0.3	-		-	-	0.3	-	0.3
Restructuring costs	(8.9)	(4.2)	b)	-	-	(13.1)	-	(13.1)
EBIT	**116.1**	**155.1**		**(40.0)**	**-**	**231.2**	-	**231.2**
Interest income	4.1	8.3	c)	-	-	12.4	(0.1)	12.3
Interest expenses	(17.5)	(53.5)	b) d)	-	(2.9)	(73.9)	(2.6)	(76.5)
Other net financial expenses	(7.8)	12.7	e) h)	-	-	(20.5)	**-**	(20.5)
Net finance costs	**(21.2)**	**(57.9)**		-	(2.9)	**(82.0)**	(2.7)	**(84.7)**
Share of profit of joint ventures	10.9	(0.2)	f)	-	-	10.7	-	10.7
Profit before income tax	**105.8**	**97.0**		**(40.0)**	**(2.9)**	**159.9**	**(2.7)**	**157.2**
Income tax	(29.9)	19.4		11.1	0.7	1.3	-	1.3
Profit after income tax	**75.9**	**116.4**		(28.9)	(2.2)	**161.2**	(2.7)	**185.5**

Unaudited Pro Forma Income Statement for the six months ended June 30, 2017

(All figures are in EUR million and before the impact of the purchase price allocation)	RHI Group six months ended June 30, 2017	Adjustments Magnesita Group six months ended June 30, 2017		Adjustments Transaction Costs	Adjustments New finance facilities	Unaudited pro forma for the six months ended June 30, 2017 after Acquisition of Control	Adjustments New finance facilities	Unaudited pro forma for the six months ended June 30, 2017 assuming full take up of Integrated Offer
	Note 1	*Note 2*		*Note 3*	*Note 4*	*Note 5*	*Note 4*	*Note 5*
Revenue	855.8	513.2		-	-	1,369.0	-	1,369.0
Cost of sales	(657.2)	(370.2)	f)	**-**	**-**	(1,027.4)	-	(1,027.4)
Gross profit	**198.6**	**143.0**		**-**	**-**	**341.6**	**-**	**341.6**
Selling and marketing expenses	(54.2)	(42.1)	f)	-	-	(96.3)	-	(96.3)
General and administrative expenses	(76.8)	(38.2)		-	-	(115.0)	-	(115.0)
Other income	37.0	2.0	a)	-	-	39.0	-	39.0
Other expenses	(45.6)	(8.1)	a) g)	**(22.1)**	**-**	(53.7)	-	(53.7)
Operating EBIT	**59.0**	**56.6**		**(22.1)**	**-**	**115.6**	**-**	**115.6**
Gain from derivatives from supply contracts	-	-		-	-	-	-	-
Loss from derivatives from supply contracts	(1.2)	-		-	-	(1.2)	-	-
Impairment losses	(7.2)	(48.0)	g)	-	-	(55.2)	-	(55.2)
Income from restructuring	**-**	**-**		-	-	-	-	-
Restructuring costs	(1.0)	(9.5)	a)	-	-	(10.5)	-	(10.5)
EBIT	**49.6**	**(0.9)**		**(22.1)**	**-**	**48.7**	**-**	**48.7**
Interest income	1.1	6.3	d) b)	-	-	7.4	(0.1)	7.3
Interest expenses	(8.7)	(29.9)	a) b) c)	-	(1.4)	(40.0)	(1.3)	(41.3)
Other net financial expenses	(2.5)	(18.9)	b) d) g)	-	-	(21.4)	-	(21.4)
Net finance costs	**(10.1)**	**(43.3)**		**(22.1)**	**(1.4)**	**(54.9)**	**(1.4)**	**(56.3)**
Share of profit of joint ventures	6.4	0.3	e)	-	-	6.7	-	6.7
Profit before income tax	**45.9**	**(43.1)**		**(22.1)**	**(1.4)**	**1.4**	**(1.4)**	**(0.0)**
Income tax	(20.2)	(5.8)		6.7	0.4	(25.7)	0.3	(25.3)
Profit after income tax	**25.7**	**(48.9)**		**(15.4)**	**(1.1)**	**(24.3)**	**(1.1)**	**(25.3)**

Notes

1. The financial information for RHI has been extracted without material adjustment from the RHI Financial Statements for the year ended December 31, 2016 and for the six months ended June 30, 2017, included on pages F-2 - F-176 in this Prospectus.

2. The financial information for Magnesita has been extracted without material adjustment from the Magnesita Financial Information for the year ended December 31, 2016 and for the six months ended June 30, 2017, included on pages F-339 - F-455 in this Prospectus.

   The Magnesita consolidated income statement has been translated from Brazilian Reals into euros at 3.90 for the year ended December 31, 2016 and at EUR 3.42 for the six months ended June 30, 2017 being the average exchange rates for the respective periods.

   The following reclassifications have been made to align Magnesita's historical statement of profit or (loss) as of December 31, 2016 with RHI's financial statement presentation as of December 31, 2016:

   a) Reclassification of EUR 0.4 million from Stock options to general and administrative expenses.

   b) Reclassification of EUR 38.2 million from other operating income (expenses), net to other operating income. Reclassification of EUR 0.1 million from other operating income (expenses), net to impairment losses, EUR 4.2 million from other operating income (expenses), net to restructuring costs, EUR 0.3 million from financial expenses to other operating expenses.

   c) Reclassification of EUR 8.3 million from financial income to interest income.

   d) Reclassification of EUR 53.5 million from financial expenses to interest expenses.

   e) Reclassification of income amounting to EUR 54.7 million from financial income to other net financial expenses and expenses amounting to EUR 31.3 million from financial expenses to other net financial expenses.

   f) Share of profit (loss) on associate and joint venture is shown in Magnesita's income statement in the operating income (expenses) before financial income (expenses) whilst in RHI's income statement this line item is shown as a separate line item between net finance costs and profit before income tax and is not included in the EBIT.

   g) Freight charges are classified within cost of sales by RHI while Magnesita classifies them within selling and marketing expenses. The freight expenses reclassified to cost of sales amount to BRL -204.532 million (EUR -52.4 million) for the Unaudited Pro Forma Income Statement for the Year ended December 31, 2016.

   h) Foreign exchange gains and losses are presented within other expenses while Magnesita presents them in other net financial expenses. Foreign exchange gains/losses reclassified to other expenses amount to BRL 140.690 million (EUR 36.1 million) for the Unaudited Pro Forma Income Statement for the Year ended December 31, 2016.

   The following reclassifications have been made to align Magnesita's historical statement of profit or (loss) as of June 30, 2017 with RHI's financial statement presentation as of June 30, 2017:

   a) Reclassification of EUR 2.0 million from other operating income (expenses), net to other operating income. Reclassification of EUR 48.0 million from other operating income (expenses), net to impairment losses, EUR 9.5 million from other operating income (expenses), net to restructuring costs, EUR 0.2 million from financial expenses to other operating expenses.

b) Reclassification of EUR 6.3 million from financial income to interest income.

c) Reclassification of EUR 29.9 million from financial expenses to interest expenses.

d) Reclassification of income amounting to EUR 14.2 million from financial income to other net financial expenses and expenses amounting to EUR 33.1 million from financial expenses to other net financial expenses.

e) Share of profit (loss) on associate and joint venture is shown in Magnesita's income statement in the operating income (expenses) before financial income (expenses) whilst in RHI's income statement this line item is shown as a separate line item between net finance costs and profit before income tax and is not included in the EBIT.

f) Freight charges are classified within cost of sales by RHI while Magnesita classifies them within selling and marketing expenses. The freight expenses reclassified to cost of sales amount to BRL -164.317 million (EUR -27.8 million) for the Unaudited Pro Forma Income Statement for the six months ended June 30, 2017.

g) Foreign exchange gains and losses are presented within other expenses while Magnesita presents them in other net financial expenses. Foreign exchange gains/losses reclassified to other expenses amount to BRL -12.002 (EUR -3.5 million) for the Unaudited Pro Forma Income Statement for the six months June 30, 2017.

3. For the purposes of the unaudited pro forma income statements, transaction costs expected to be incurred by RHI and Magnesita have been provided for, based on the transaction costs incurred for the period, and remaining transaction costs expected to be incurred to complete the transaction.

The calculation of the transaction costs adjustment is as follows:

	For the year ended December 31, 2016	**For the six months ended June 30, 2017**
	in EUR million	
Transaction costs recognised in the year ended December 31, 2016	(12.5)	(12.5)
Transaction costs recognised in the six months ended June 30, 2017		(17.9)
Transaction costs expected for the whole transaction	52.4	52.4
Total adjustment on transaction costs	**40.0**	**22.1**
Tax impact of adjustment to transaction costs	**11.1**	**6.7**

Income tax has been adjusted for the transaction costs at a tax rate of 25% and 34% respectively, being the statutory tax rate applied in Austria and Brazil respectively.

The transaction costs are one-off costs in connection with the transaction and not expected to be recurring in nature.

4. The adjustment to finance income and finance expenses has been calculated as detailed below:

	For the year ended December 31, 2016		**For the six months ended June 30, 2017**	
	After Acquisition of Control	*Assuming full take up of Integrated Offer*	*After Acquisition of Control*	*Assuming full take up of Integrated Offer*
	in EUR million			
Recognition of additional interest expense refinanced	0.1	0.1	-	-

facilities[a]				
Recognition of interest expense on acquisition financing[b]	2.8	5.5	1.4	2.7
Total adjustment on interest expenses	**2.9**	**5.5**	**1.4**	**2.7**
Adjustment for interest income[c]	0	(0.1)	-	(0.1)
Total adjustment on interest income	**-**	**(0.1)**	**-**	**(0.1)**

a) The average interest rate on the refinanced facilities prior to refinancing was 2.19% p.a. Post-refinancing, the average interest rate applied is 2.24% As noted in footnote 3 to the Unaudited Pro Forma Statement of Net Assets, a total facilities amounting to EUR 149.2 million were refinanced. The resulting additional interest to be recognized amounts to EUR 0.1 million for the full year ended December 31, 2016, and EUR 0.04 million for the six months ended June 30, 2017.

b) Additional indebtedness of EUR 118 million is assumed to have been drawn down for the Acquisition of Control. This facility incurs interest at 2.36% p.a., resulting in additional interest expense of EUR 2.8 million for the full year ended December 31, 2016, and EUR 1.4 million for the six months ended June 30, 2017.

For the Integrated Offer, a further EUR 110 million is assumed to be drawn down, also incurring interest at 2.36% p.a, thereby incurring a further EUR 2.6 million interest expense for the year ended December 31, 2016, and EUR 1.3 million for the six months ended June 30, 2017.

c) Cash deposits of EUR 7.3 million are assumed to be used to finance the Integrated Offer (calculated as total cash consideration of EU 117.3 million less the EUR 110 million facility drawn down). Assuming the cash deposits generate interest at 1.9% (based on the FY16 average interest rate on RHI cash deposits), RHI would have generated EUR 0.1 million less interest income for year ended December 31, 2016 on such cash and EUR 0.06 million interest on such cash for the six months ended June 30, 2017.

These costs are expected to be continuing in nature and are directly related to the transaction.

5. The unaudited pro forma income statements do not include effects from the purchase price allocation, which will have to occur within twelve months following the Acquisition of Control. Such purchase price allocation would result in non cash adjustments of assets and liabilities and may affect the Pro Forma Income Statements as it may result primarily in higher depreciation and amortization expenses of the Combined Group as a result of a higher fair value of assets, particularly intangible assets, of Magnesita. Such higher depreciation and amortization, if it occurred, would result in an increase in cost of sales and would consequently adversely affect the Combined Group's, gross profit, Operating EBIT, EBIT, profit before income tax and profit after income tax. However, such higher depreciation and amortization would in the Company’s view not materially affect the Combined Group's revenue, EBITDA or cash flow.

Report on the Compilation of Unaudited Pro Forma Financial Information Included in a Prospectus

We have completed our assurance engagement to report on the compilation of the Unaudited Pro Forma Financial Information by RHI Magnesita N.V., Arnhem, The Netherlands (the “**Company**”) and its subsidiaries (the “**Group**”) by the Company. The Unaudited Pro Forma Financial Information as of and for the six month period ended June 30, 2017 consists of the Unaudited Pro Forma Statement of Net Assets as of June 30, 2017, the Unaudited Pro Forma Income Statement for the Year ended December 31, 2016 and the Unaudited Pro Forma Income Statement for the six months ended June 30, 2017, as set out on pages 167–176 of the prospectus prepared by the Company. The applicable criteria on the basis of which the management of the Company has compiled the unaudited Pro Forma Financial Information are specified in Annex II of the Commission Regulation (EC) No 809/2004 of April 29, 2004 as amended and described in section “*Unaudited Pro Forma Financial Information*”.

The Unaudited Pro Forma Financial Information has been compiled by the management of the Company to illustrate the impact of the acquisition of Magnesita Refratários S.A. by RHI Magnesita N.V. as set out in section “*Unaudited Pro Forma Information*” (the “**Magnesita Acquisition**”). The Company’s financial performance for the year ended December 31, 2016 and for the six months ended June 30, 2017 give effect of the Magnesita Acquisition as if it had taken place at January 1, 2017 or at January 1, 2016 respectively, as set out on pages 52–57 of the Prospectus prepared by the Company. As part of this process, the income statement and the statement of net assets information relating to Magnesita Refratários S.A. has been extracted by the management of the Company from Magnesita Refratários S.A.'s condensed combined interim financial statements for the period ended June 30, 2017 and from the year ended December 31, 2016, on which audit reports have been published.

Management's Responsibility for Unaudited Pro Forma Financial Statements

The management of the Company is responsible for compiling the Unaudited Pro Forma Financial Information on basis of Annex II of the Commission Regulation (EC) No 809/2004 of April 29, 2004 as amended.

Auditor's Responsibilities

Our responsibility is to express an opinion as required by Annex II of the Commission Regulation (EC) No 809/2004 of April 29, 2004 as amended, about whether the Unaudited Pro Forma Financial Information has been compiled, in all material respects, by the management of the Company on the basis of the applicable criteria.

We conducted our engagement in accordance with Austrian Law and the International Standard on Assurance Engagements (ISAE) 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus, issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the management of the Company has compiled, in all material respects, the Unaudited Pro Forma Financial Information on the basis of the applicable criteria.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Pro Forma Financial Information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction as of, and for the six-months period ended June 30, 2017 or for the 12 month period ended December 31, 2016 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the management of the Company in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

(i) The related pro forma adjustments give appropriate effect to those criteria; and

(ii) The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the auditor's judgment, having regard to the auditor's understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion,

a) the Unaudited Pro Forma Financial Information has been properly compiled, in all material respects, on the basis stated in section "*Unaudited Pro Forma Financial Information*"; and

b) such basis is consistent with the accounting policies of the Company as described in the section "Principles of accounting and measurement" stated in the consolidated financial statements for the year ended December 31, 2016 of RHI AG which will merge with and into the Company.

Restriction on use

The Unaudited Pro Forma Financial Information and our assurance report thereto are intended solely for enclosure in the Prospectus. This report is required by the Commission Regulation (EC) No 809/2004 and is given for the purpose of complying with that Regulation and for no other purpose. In addition, this report is not intended to be relied on in the United States of America and we accept no responsibility for any use that you make of it in the United States of America. Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America and accordingly should not be relied upon as if it had been in accordance with those standards.

Vienna, October 17, 2017

Aslan Milla

PwC Wirtschaftsprüfung GmbH

MANAGEMENT AND CORPORATE GOVERNANCE OF RHI MAGNESITA

Introduction

Below is a summary of relevant information concerning the Board and employees of the Group as well as a brief summary of certain significant provisions of Dutch corporate law and the Listing Rules as in effect on the date of this Prospectus, the Articles of Association and the Board Rules (as defined below) as in effect as of the date the Merger becomes effective, the Dutch corporate governance code (the "**Dutch Corporate Governance Code**") and the United Kingdom corporate governance code (the "**UK Corporate Governance Code**"), in respect of the Board.

This summary does not purport to give a complete overview and should be read in conjunction with, and is qualified in its entirety by reference to, the relevant provisions of Dutch law and the Listing Rules as in force on the date of this Prospectus and the Articles of Association and the Board Rules as in effect as of the date the Merger becomes effective. The Articles of Association are available in the governing Dutch language and an unofficial English translation thereof, and the Board Rules are available in English, on the Issuer's website up for purposes of this Prospectus (prospectus.rhimagnesita.com).

Management structure

The Issuer has a one-tier board structure with a Board consisting of both executive directors (the "**Executive Directors**") and non-executive directors (the "**Non-Executive Directors**" and collectively with the Executive Directors, the "**Directors**"). As at the date of this Prospectus, the provisions of Dutch law that are commonly referred to as the 'large company regime' (*structuurregime*) do not apply to the Issuer.

The Board

Powers, responsibilities and functioning

Under Dutch law, the Board is collectively responsible for and has the power to conduct the general affairs of the Issuer. Pursuant to the Articles of Association, the Board may if it elects to do so assign duties and powers to individual Directors and/or committees that are composed of two or more Directors, with the day-to-day management of the Issuer entrusted to the Executive Directors. The Non-Executive Directors have the task of supervising the performance of duties by the Executive Directors as well as the general course of affairs of the Issuer and the business connected with it. In addition, both Executive Directors and Non-Executive Directors must perform such duties as are assigned to them pursuant to the Articles of Association and, as applicable, the Board Rules or a resolution of the Board. Each Director has a duty towards the Issuer to properly perform the duties assigned to him or her. Furthermore, each Director has a duty to act in the corporate interest of the Issuer and its business. Under Dutch law, the corporate interest extends to the interests of all stakeholders of the Issuer, such as shareholders, creditors, employees and other stakeholders.

In accordance with Dutch law, the Board may draft regulations which determine that one or more Directors can make valid decisions concerning matters belonging to his/her or their duties. For more information, see "*—Meetings and Decision Making*".

The Board as a whole is entitled to represent the Issuer. Additionally, the chief executive officer ("**CEO**") and the chairman (the "**Chairman**"), acting individually, and two Executive Directors, acting jointly, are also authorized to represent the Issuer. In addition, pursuant to the Articles of Association the Board may appoint officers who are authorized to represent the Issuer within the limits of the specific delegated powers to them.

Composition, appointment, term and dismissal

The Articles of Association provide that the Board shall consist of one or more Executive Directors and three or more Non-Executive Directors with a maximum of nineteen (19) Directors in total. The majority of the Directors shall be Non-Executive Directors and one-third of the Non-Executive Directors (rounded upwards) (the "**Employee Nominated Directors**") shall be appointed by employee representatives from various EEA Member States in accordance with the terms of reference agreed upon in the context of the Merger. The exact number of Executive Directors and Non-Executive Directors shall be determined by the Board taking into account the foregoing. The General Meeting may designate (i) one Non-Executive Director as the Chairman, (ii) one or more Non-Executive Directors as deputy-chairman/deputy-chairmen (the "**Deputy-Chairman**" or the "**Deputy-Chairmen**"), (iii) one Executive Director as CEO, (iv) one Executive Director as chief financial officer and (v) grant other titles to Executive Directors, in each case for a term to be determined by the General Meeting. An Executive Director can have more than one title. The General Meeting will also decide whether a Director is appointed as an Executive Director or as a Non-Executive Director. The Issuer will initiate the process for the appointment of the Employee Nominated Directors after the Merger has taken effect. As the actual appointment of the Employee Nominated Directors will primarily depend on the local selection and appointment processes, the Issuer cannot currently estimate by when such Directors will have been appointed.

Pursuant to the Articles of Association, Directors other than the Employee Nominated Directors will be appointed by the General Meeting. The Board may make a nomination for such appointments by the General Meeting. The Executive Directors shall not take part in discussions or decision-making by the Board relating to nominations for the appointment of Directors. A resolution to appoint a Director nominated by the Board may be adopted by the General Meeting by an absolute majority of votes cast, irrespective of the represented capital. A resolution to appoint the Director other than in accordance with a nomination by the Board may be adopted by the General Meeting by an absolute majority of votes cast representing more than one-third of the Issuer's issued share capital.

Pursuant to an agreement which will be concluded soon after the Admission between the Issuer and Alumina (the "**DAA**"), the vehicle through which GP Investments holds its participation in Magnesita, Alumina is entitled to nominate one person for appointment as a Non-Executive Director. Alumina has elected to nominate Fersen Lambranho for appointment. The DAA provides that Alumina or one of its affiliated companies can only exercise their nomination right if Alumina or one of its affiliated companies holds at least 5% of the Issuer's issued share capital (Alumina is expected to hold at least 7.9% of the Issuer's issued share capital following implementation of the Merger and the Acquisition of Control) and prohibits the Issuer from entering into agreements with other Shareholders concerning the nomination or appointment of Directors at more favorable conditions, except where such Shareholders hold 20% or more of the Issuer's issued share capital.

The legal relationship between a Director and the Issuer will not be considered an employment agreement. However, it is intended that each Executive Director will enter into a service agreement with a group company of the Issuer or the Issuer on or after the date the Merger becomes effective which is described in "*—Remuneration policy—Service and Severance Agreements of Executive Directors*" below. Furthermore, each Non-Executive Director has entered into an appointment letter with the Issuer, see *"—Appointment letters of Non-Executive Directors*" for a description thereof.

Non-Executive Directors (other than Employee Nominated Directors) will be nominated for a term of three years, subject to satisfactory performance and annual re-appointment at the annual General Meeting. This approach is consistent with Code Provision B.7.1 of the UK Corporate Governance Code which recommends that directors should seek re-election on an annual basis. Employee Nominated Directors are appointed for a term of not more than four years. The term of office for each Director (other than Employee Nominated Directors) will end on the day of the annual General Meeting in the year following appointment. Pursuant to the Articles of Association, Directors may be re-appointed for an unlimited number of terms but it is anticipated that the Non-Executive Directors (other than Employee Nominated Directors) may be offered a second term of three years, at the expiry of which they will not ordinarily be considered for re-appointment.

The General Meeting has the power to suspend or remove a Director at any time, by means of a resolution for suspension or removal. The Directors may be suspended or removed by the General Meeting upon a proposal by the Board. A resolution to suspend or remove a Director requires adoption by at least an absolute majority of the votes cast, if adopted upon a proposal by the Board. A resolution by the General Meeting to suspend or remove a Director other than upon such proposal requires adoption by an absolute majority of the votes cast representing at least one-third of the Issuer's issued capital. Executive Directors may also be suspended by the Board. The Executive Directors shall not participate in the discussion or decision-making process of the Board in relation to the making of any proposal for suspension and removal of any Director.

Any suspension may be extended one or more times, but may not last longer than three months in aggregate. If, at the end of such period, no decision has been taken on termination of the suspension or on removal of the relevant Director, the suspension shall end. A suspension can be ended by the General Meeting at any time.

Meetings and decision-making

The Board meets as often as deemed necessary by the Chairman, in his absence, or a Deputy-Chairman. Board meetings will be held in Vienna, Austria unless the Board decides otherwise. Pursuant to Dutch law, an Executive Director may not be allocated the tasks of: (i) serving as Chairman; (ii) participating in the adoption of resolutions (including any deliberations in respect of such resolutions) related to the remuneration of Executive Directors; or (iii) nominating Directors for appointment. Tasks that have not been specifically allocated to a specific Director fall within the power of the Board as a whole. The Directors share responsibility for all decisions and acts of the Board and for the acts of each individual member of the Board regardless of the allocation of tasks.

Pursuant to the Articles of Association, the Board has adopted Board Rules (the "**Board Rules**"). The Board Rules describe, *inter alia*, the procedure of holding meetings and decision-making by the Board, and the Board's operating procedures. The Board Rules have been established taking into account the Dutch Corporate Governance Code and the UK Corporate Governance Code. For further information on the Dutch Corporate Governance Code and UK Corporate Governance Code, see *"—Corporate governance"*.

Pursuant to the Articles of Association and the Board Rules, resolutions can be adopted without holding a meeting if the proposal is submitted to all Directors, each of them consents in writing and none of them has objected to this manner of adopting resolutions.

Resolutions requiring prior approval

Pursuant to the chapters 10 and 11 of the Listing Rules which will apply to the Issuer upon Admission having occurred, certain significant transactions to be entered into by the Company or a subsidiary will require the prior approval of the General Meeting. In addition, under Dutch law resolutions of the Board on a major change in the identity or the character of the Issuer or its business require the prior approval of the General Meeting, including in any case:

- transfer of the business or substantially all of the business to a third party;
- entry into or termination of a long term cooperation of the Issuer or any of its subsidiaries with another legal entity or company or as fully liable partner in a limited partnership or general partnership, in case the entry into or termination of such cooperation will or is likely to be of material importance to the Issuer; and

- acquiring or disposing by the Issuer or a subsidiary of the Issuer of a participation in the capital of a company with a value equal to at least one third of the sum of the assets of the Issuer as shown in the balance sheet with explanatory notes or, in case the Issuer draws up a consolidated balance sheet, shown in the consolidated balance sheet with explanatory notes according to the most recently adopted annual accounts of the Issuer.

The absence of approval of a Board's resolution by the General Meeting will not affect the authority of the Board, the CEO or the Chairman, acting individually, or two Executive Directors, acting jointly, to represent the Issuer.

Conflict of Interests

Dutch law provides that a Director may not participate in the discussions and decision-making by the Board if he or she has a direct or indirect personal interest conflicting with the interests of the Issuer or the business connected with it. Pursuant to the Articles of Association, this prohibition does not apply if all Directors have such a conflict of interest. A conflict of interest only exists if in the situation at hand the Director is deemed to be unable to serve the interests of the Issuer and the business connected with it with the required level of integrity and objectivity. Pursuant to the Articles of Association and the Board Rules, each Director shall declare the nature and extent of any personal conflict of interest to the other Directors.

All transactions in which there are conflicts of interest with Directors will be agreed on terms that are customary in the sector concerned and disclosed in the Issuer's annual management report.

The existence of a (potential) personal conflict of interest does not affect the authority to represent the Issuer, as described under "*—The Board—Powers, responsibilities and functioning*" above.

Directors

The following table sets forth the Directors. The business address of the Directors is the Issuer's registered address at Wienerbergstrasse 9, 1100 Vienna, Austria.

Name	**Position**	**Year of birth**	**Date of appointment**	**Expiry/ reappointment date**
Stefan Borgas	Executive Director (CEO)	1964	June 20, 2017	2018 AGM
Octavio Lopes	Executive Director (CFO)	1971	October 6, 2017	2018 AGM
Herbert Cordt	Non-Independent Non-Executive Director, Chairman(1)	1947	June 20, 2017	2018 AGM
Fersen Lambranho	Non-independent Non-Executive Director(1)	1961	October 6, 2017	2018 AGM
David A. Schlaff	Non-independent Non-Executive Director(1)	1978	October 6, 2017	2018 AGM
Stanislaus Prinz zu Sayn-Wittgenstein	Non-independent Non-Executive Director(1)	1965	October 6, 2017	2018 AGM
Celia Baxter	Independent Non-Executive Director(2), (3)	1958	October 6, 2017	2018 AGM
Andrew Hosty	Independent Non-Executive Director(2), (3)	1965	October 6, 2017	2018 AGM
James Leng	Independent Non-Executive Director(2), (3), Deputy Chairman and Senior Independent Director	1945	October 6, 2017	2018 AGM
John Ramsay	Independent Non-Executive Director(2), (3)	1957	October 6, 2017	2018 AGM
Wolfgang Ruttenstorfer	Independent Non-Executive Director(2), (4)	1950	June 20, 2017	2018 AGM
Karl Sevelda	Independent Non-Executive Director(2), (3)	1950	October 6, 2017	2018 AGM

(1) Non-independent within the meaning of the UK Corporate Governance Code but independent within the meaning of the Dutch Corporate Governance Code due to a difference in independence requirements under the respective codes.

(2) Independent within the meaning of the UK Corporate Governance Code.

(3) Independent within the meaning of the Dutch Corporate Governance Code.

(4) Mr. Ruttenstorfer is, as a result of having undertaken a management board role for RHI on a temporary basis between June and November 2016, not considered to be independent within the meaning of the Dutch Corporate Governance Code. Notwithstanding this historic role, the Board considers Mr. Ruttenstorfer to be independent for the purposes of the UK Corporate Governance Code.

2018 AGM means the annual General Meeting to be held in 2018.

The Employee Nominated Directors will be appointed after Admission by employee representatives from various EEA countries in accordance with terms of reference agreed upon in the context of the Merger.

Biographies

Executive Directors

Stefan Borgas

Stefan Borgas was appointed as an Executive Director on June 20, 2017 and will be designated as Chief Executive Officer as of the Merger taking effect. He was chief executive officer at RHI since December 2016. From 2012 to 2016, he was president and chief executive officer at Israel Chemicals Ltd. Between 2004 and 2012, he was chief executive officer at Lonza Group. Before this, he worked at BASF Group, where he held various management positions from 1998 to 2004. Stefan has a business administration degree from the University Saarbrücken and an MBA from the University of St. Gallen-HSG.

Octavio Lopes

Octavio Lopes was appointed as an Executive Director on October 6, 2017 and will be designated as Chief Financial Officer as of the Merger taking effect. He is the chairman of Magnesita since July 2016, was chief executive officer of Magnesita from June 2012 until June 2016 and was chief executive officer of Magnesita International from June 2016 until the Merger taking effect. He held several positions, including managing director and partner, at GP Investments, between 1997 and 2016. Between 2004 and 2007, he was the chief executive officer of Equatorial Energia. Octavio has previously served as a member of the board of directors of several companies including Magnesita, BHG, San Antonio, Tempo, Equatorial, CEMAR, Allis, Gafisa, and Submarino. He holds a bachelor´s degree in economics from the University of São Paulo and an MBA from the Wharton School at the University of Pennsylvania, of which he is a member of the Latin American Executive Board.

Non-Executive Directors

Celia Baxter

Celia Baxter was appointed as an Independent Non-Executive Director on October 6, 2017. Additionally, she is currently a non-executive director at Bekaert SA, a non-executive director of Senior PLC and a member of the Chartered Institute of Personnel Development. Celia started her professional career in 1982 at Ford Motor Company where she held several management positions. In 1988 she joined KPMG Peat Marwick. Celia joined Tate & Lyle Plc in 1994 where she became director of group human resources, before serving as head of human resources of Enterprise Oil plc and subsequently as director of group human resources for Bunzl plc from 2003 to 2016. She holds a PhD and BSc in botany from the University of Reading.

Herbert Cordt

Herbert Cordt was appointed as a Non-Executive Director on June 20, 2017 and will be designated as Chairman as of the Merger taking effect. He was chairman of the supervisory board of RHI since 2010 as well as vice-chairman from 2007 to 2010. He was a member of the advisory board at Delta Partners, Dubai from 2013 to 2015 as well as Watermill Group Boston, where he is serving since 2013. Herbert was a senior advisor at Citigroup in London from 1999 to 2014. Since 1992, he is managing partner at CORDT & PARTNER Management- und Finanzierungsconsulting GesmbH. He was managing director at GASKOKS – Österreichische Warenhandelsgesellschaft mbH. from 1991 to 1992. Between 1985 and 2016, he was chairman of the supervisory board at Ebner Industrieofenbau GmbH. At Österreichische Länderbank AG, he was a member of the management board from 1984 to 1991. From 1979 to 1984, he was vice governor at Österreichische Postsparkasse. He also worked as advisor for the federal finance minister of Austria from 1975 to 1979. Additionally to his business activities, he is also a member of the board of advisors for the MSFS Program, School of Foreign Service at Georgetown University since 2015. Herbert graduated from the Vienna School of International Studies (*Diplomatische Akademie Wien*) and obtained a doctorate in law from the University of Vienna as well as a master of science in foreign service from Georgetown University.

Andrew Hosty

Andrew Hosty was appointed as an Independent Non-Executive Director on October 6, 2017. He is chief executive of the Sir Henry Royce Institute for Advanced Materials. Previously, he was chief operating officer at Morgan Advanced Materials plc, an appointment he held from February 2013 until January 2016. Before this, he held a number of senior positions within Morgan Advanced Materials plc, including as chief executive officer of Morgan Ceramics and joined the Morgan Advanced Materials plc board in July 2010. Andrew is currently also a non-executive director of Consort Medical PLC and of the Rights and Issues Investment Trust PLC, and was previously a non-executive director of Fiberweb plc from 2012 to 2013 and president of the British Ceramics Confederation from 2003 to 2005. He is a fellow of the Royal Academy of Engineering, and holds a PhD from the Faculty of Engineering at the University of Sheffield and a BSc in materials science.

Fersen Lambranho

Fersen Lambranho was appointed as a Non-Executive Director on October 6, 2017 to already give effect to the DAA. He is vice-chairman of the board of Magnesita since 2017. He held numerous positions at Lojas Americanas SA, Brazil, including chief financial officer from 1990 to 1992, chief operating officer from 1992 to 1995, chief executive officer from 1996 to 1997, and was a board member from 1998 to 2003. At GP Investments, he was managing director from 1998 to 2001, co-chief executive officer and board member from 2002 to 2013, and has been chairman of the board of directors since 2014. Fersen has a bachelor's degree in civil engineering from the UFRJ, Rio de Janeiro, as well as MSc from COPPEAD-UFRJ, Rio de Janeiro, and a degree in OPM (owner/president management) from Harvard Business School.

James Leng

James Leng was appointed as an Independent Non-Executive Director on October 6, 2017 and will be designated as Deputy Chairman on as of the Merger taking effect. He will serve as Senior Independent Director. He has had an extensive non-executive career with a number of international publicly listed companies which include chairman of Corus Group plc, the global steel company sold to Tata Steel of India, and directorships of AON plc (risk management services), Alstom SA (engineering), Pilkington plc (glass), Hanson plc (aggregates & building products) and IMI plc (engineering). Other notable positions include directorships of TNK-BP (Russian oil and gas), chairman of HSBC Bank plc, chairman of Nomura European Holdings plc and lead non-executive director at the Ministry of Justice. In the early part of 2009, he was a director and chairman designate of Rio Tinto.

In an executive capacity James was chief executive officer of two publicly listed companies: from 1995-2001 at Laporte PLC, an international specialty chemical company, and before that at Low & Bonar PLC, a diverse materials and packaging company. His early business years were spent at John Waddington plc, where he was managing director of a number of their subsidiaries including consumer goods and packaging companies.

John Ramsay

John Ramsay was appointed as an Independent Non-Executive Director on October 6, 2017. He served as the chief financial officer of Syngenta AG from 2007 to 2016 and was also interim chief executive officer from October 2015 to June 2016. Prior to this, John served as group financial controller of Syngenta from 2000 to 2007 and as the finance head of Asia Pacific for Zeneca Agrochemicals from 1993 to 1999. Earlier in his career he was a financial controller of ICI Malaysia and regional controller for Latin America. Before joining ICI in 1984, he worked in audit and tax at KPMG. John has been a member of the supervisory board at Koninklijke DSM N.V. since May 2017. He is a chartered accountant and also holds an honours degree in accounting.

Wolfgang Ruttenstorfer

Wolfgang Ruttenstorfer was appointed as a Non-Executive Director on June 20, 2017. He has served as a member of the supervisory board of RHI AG since May 2012, and following the sickness related absence of the CEO served as the interim Chief Executive Officer and as a member of the management board of RHI AG from June 26, 2016 until November 30, 2016. He started his professional career in 1976 at OMV, where he was a member of the management board from 1992 to 1996, vice-chairman of the management board from 2000 to 2001 and chief executive officer and chairman of the management board from 2002 to 2011. Between 1997 and 1999, he served as permanent secretary in the Austrian federal ministry of finance. He was a member of the administrative board of Roche Holding from 2007 to 2011. From 2010 to 2014, he was chairman of the supervisory board at Vienna Insurance Group as well as a member of the supervisory board at Telekom Austria. He was chairman of the supervisory board at CA Immobilien Anlagen AG from 2009 to 2016. Currently, Wolfgang is a member of the supervisory board at Flughafen Wien AG (since 2011), as well as a member of the administrative board at NIS a.d. Naftna industrija Srbije, Novi Sad, (since 2012) and chairman of the supervisory board at Telekom Austria AG (since 2015) and a member of the supervisory board of Erne Fittings GmbH (since 2017). He graduated from the Vienna University of Economics.

David A. Schlaff

David A. Schlaff was appointed as a Non-Executive Director on October 6, 2017. He is chief investment officer at M-Tel Holding GmbH since 2008, where he is responsible for due diligence and acquisitions as well as the management of investments. From 2004 to 2007, he was a member of the management team at LH Financial Services Corporation, where he developed and implemented a new corporate strategy. Previously he worked for Forstmann-Leff Associates Inc. David was a member of the supervisory board at RHI since 2010. Between 2007 and 2011, he was also a member of the board of advisors at Latrobe Specialty Steel Company. From 2010 to 2011, he was a member of the supervisory council at A/S Ventspils Nafta. He holds a bachelor’s degree in business administration from the Interdisciplinary Center Herzliya in Israel.

Stanislaus Prinz zu Sayn-Wittgenstein

Stanislaus Prinz zu Sayn-Wittgenstein was appointed as a Non-Executive Director on October 6, 2017. He was chief executive officer and chief restructuring officer at Energieservice Westfalen Weser GmbH in 2015. From 2013 to 2015, he was a chief financial officer and deputy chief executive officer at Westfalen Weser Energie GmbH & Co KG and member of the supervisory boards of Stadtwerke Lage GmbH and Stadtwerke Hessisch-Oldendorf GmbH. Between 2004 and 2012 Stanislaus held numerous management positions within the E.ON group. Previously, he was managing director at GMD Gesellschaft für medizinische Datenverarbeitung mbH and director at the Deutsche Bank AG, investment banking division. He was a member of the supervisory board of RHI since 2001. Between 2000 and 2002, he was a member of the supervisory board of Didier Werke AG. Since 2016, he is a member of the supervisory board of Endurance Capital AG, a German industrial holding company that invests in mid cap special situations. Stanislaus holds a master’s degree in business administration from MIT Sloan School of Management and studied business administration and economics at Université de Fribourg and is a Chartered Financial Analyst.

Karl Sevelda

Karl Sevelda was appointed as a Non-Executive Director on October 6, 2017. He was chief executive officer from June 2013 to March 2017 and deputy chief executive officer from 2010 to 2013 at Raiffeisen Bank International AG. Previously, he joined Raiffeisen Zentralbank Österreich AG in

1998, where he was a member of the board, and responsible for corporate customers and corporate, trade and export finance worldwide until 2010. From 1986 to 1997, he held several senior management positions at Creditanstalt-Bankverein. In 1985 he worked at Creditanstalt-Bankverein in London and New York. Between 1983 and 1985, he held the position of secretary to the federal minister for trade and industry of Austria. From 1977 to 1983, he was responsible for corporate finance and export finance at Creditanstalt-Bankverein. Karl holds a master and doctorate degree from the Vienna University of Economics and Business.

Committees

Prior to Admission, the Board shall establish an audit and compliance committee (the "**Audit and Compliance Committee**"), a remuneration committee (the "**Remuneration Committee**") and a nominations committee (the "**Nomination Committee**"). It is the Board's intention to establish a corporate responsibility committee (the "**Corporate Responsibility Committee**") to oversee safety, health, environmental, community and other corporate responsibility matters as soon as possible following Admission. The Board shall appoint the members of each committee and determine its remit and responsibilities that will be set out in written terms of reference. The committees will consist of Non-Executive Directors only. They will report their findings to the Board, which will be ultimately responsible for all decision-making. The Board will remain collectively responsible for decisions prepared or taken by one or more of the committees.

Audit and Compliance Committee

The Audit and Compliance Committee will have, *inter alia*, the following duties:

a) monitoring the integrity of the Issuer's financial statements, including its annual and half-yearly reports, preliminary announcements and any other formal statements relating to its financial performance;

b) reviewing of and reporting to the Board on significant financial reporting issues and judgements which those statements contain having regard to any matters communicated to it by the internal or external auditor;

c) reviewing the Issuer's internal financial controls systems and risk management that identify, assess, manage and monitor financial risks, and its other internal control and risk management systems;

d) monitoring and assessing the compliance with recommendations and observations from internal and external auditors such as management letters and management's responses;

e) monitoring the role and functioning of the internal audit function and review of Audit Committee effectiveness; review of compliance, whistle-blowing and anti-fraud framework; and

f) maintaining relations with the external auditor, including, in particular, their independence, remuneration and any non-audit services carried out by them for the Issuer.

According to its rules, as currently proposed, the Audit and Compliance Committee is expected to meet at least three times each year and otherwise as required. All members of the Audit and Compliance Committee shall be Independent Non-Executive Directors with at least one of whom having recent and relevant financial experience and with competence in accounting and/or auditing. The Audit and Compliance Committee as a whole shall have competence relevant to the sector in which the Issuer operates. Members of the Audit and Compliance Committee are appointed by the Board on the recommendation of the Nomination Committee in consultation with the chairman of the Audit and Compliance Committee. The Board shall further appoint one of the members of the Audit and Compliance Committee as chairman of the Audit and Compliance Committee. At Admission, the members will be: John Ramsay (Chairman), Andrew Hosty and Wolfgang Ruttenstorfer.

The composition of the Audit Committee will be compliant with the UK Corporate Governance Code and the Dutch Corporate Governance Code.

Remuneration Committee

The Remuneration Committee will have, *inter alia*, the following duties:

a) developing the remuneration policy for all Directors to be proposed by the Board for approval at the General Meeting, and within that shareholder-approved policy and in consultation with the other Non-Executive Directors, setting the total remuneration package for the Executive Directors including bonuses, incentive payments and share options or other share awards, and any other benefits;

b) recommending and monitoring the level and structure of remuneration for senior management;

c) reviewing the design of all share incentive plans for approval by the Board and General Meeting;

d) reviewing the performance of any retained advisors and the effectiveness of the Remuneration Committee; and

d) preparing the remuneration report.

According to its rules, as currently proposed, the Remuneration Committee is expected to meet at least twice each year and otherwise as required. The Remuneration Committee will consist of at least three members, all of whom shall be Non-Executive Directors who meet the independence requirements of the Dutch Corporate Governance Code and the UK Corporate Governance Code. Members of the Remuneration Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the chairman of the Remuneration Committee. The Board shall further appoint one of the members of the Remuneration Committee as chairman of the Remuneration Committee. At Admission, the members will be Celia Baxter (Chairperson), James Leng and Karl Sevelda.

The composition of the Remuneration Committee will be compliant with the UK Corporate Governance Code and the Dutch Corporate Governance Code.

Nomination Committee

The Nomination Committee will have, *inter alia*, the following duties:

a) reviewing the structure, size, functioning and composition of the Board, the diversity policy and degree of achievement, succession planning, and making recommendations to the Board with regard to any changes;

b) keeping under review succession plans for senior management appointments, including in relation to the Executive Directors, and the Issuer's policy and process in relation to the recruitment of candidates for these roles;

c) making proposals for (re)appointments of Directors; and

d) making recommendations concerning membership of the audit and remuneration committees and any other Board committees as appropriate, in consultation with the chairman of those committees.

According to its rules, as currently proposed, the Nomination Committee is expected to meet at least twice each year and otherwise as required. The Nomination Committee will consist of at least three members, a majority of whom shall be Independent Non-Executive Directors. Members of the Nomination Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the chairman of the Nomination Committee. The Board shall further appoint the chairman of the Nomination Committee who should be either the Chairman or a Non-Executive Director. The members will be: Herbert Cordt (Chairman), James Leng and Celia Baxter.

The composition of the Nomination Committee will be compliant with the UK Corporate Governance Code and the Dutch Corporate Governance Code.

Remuneration policy and share plan

The Issuer is currently working on a new policy with respect to the remuneration of the Board and senior management. This will include the policy for bonuses, incentive payments and share options or other share awards, and any other benefits. Following a period of consultation with shareholders, this policy will be put to the General Meeting in 2018 for approval.

The Issuer is currently working on a long term incentive program (the "**LTIP**") with an aim to align management incentives with shareholder interests. The details of the LTIP and the number of employees and other key personnel of the Combined Group that will be eligible to participate in the LTIP will be developed by the Remuneration Committee and following a period of consultation with shareholders, be presented to the General Meeting in 2018 for approval. Subject to such approval, the LTIP is expected to start in the course of 2018.

Until the new remuneration policy is in place, the Company has a temporary remuneration policy for the remuneration of Executive Directors and Non-Executive Directors as summarized below.

Executive Directors

The temporary remuneration policy is based on the current remuneration packages of the Executive Directors for their functions within the RHI Group and Magnesita Group and allows the Executive Directors to be remunerated in line with these packages until the new remuneration policy is approved. For a description of the Executive Directors current remuneration packages see "*-Remuneration of Directors*".

Non-Executive Directors

Each Non-Executive Director will receive a base fee of GBP 65,000 per year. The chairman of the Audit and Compliance Committee and of the Remuneration Committee will each receive an additional fixed fee of GBP 12,500 per year and other members of the Audit and Compliance Committee and of the Remuneration Committee will each receive an additional fixed fee of GBP 7,500 per year. The chairman of the Nomination Committee (unless this role is fulfilled by the Chairman) and of the Corporate Responsibility Committee, when established, will each receive an additional fixed fee of GBP 10,000 per year. Other members of the Nomination Committee and of the Corporate Responsibility Committee, when established, will each receive an additional fixed fee of GBP 5,000 per year.

The Deputy-Chairman/Senior Independent Director will receive an additional fixed compensation of GBP 25,000 per year. The Chairman will receive a total compensation of GBP 220,000 per year.

Service and Severance Agreements of Executive Directors

As at the date of this Prospectus, Stefan Borgas is employed by RHI under a free service contract (*freier Dienstvertrag*). The terms and conditions of employment are governed by Austrian corporate and, to the extent applicable, employment law. Mr. Borgas entered into the service contract effective as of December 1, 2016 with an initial term of three years and a provision to extend by a further two years' term to be agreed at the latest 12 months before the end of the first term. Absent terminations for gross misconduct or negligence giving reason to remove him from the board of directors of RHI, In case of termination before the end of the terms specified above Mr. Borgas may claim compensation until the end of his respective service term with a maximum of two year's compensation and bonuses pro rata the time he spent with the company during the respective business year. . The service contract provides that upon Admission, Mr. Borgas will be offered a management contract with the Issuer at terms at least equivalent to his current service contract with a 12 months' notice period.

Octavio Lopes has a service contract with Magnesita International Ltd, 10 Norwich Street, London, EC4A 1BD, UK ("**Magnesita International**"). The terms and conditions of employment are governed by English law. Mr. Lopes entered into the service on June 30, 2016 with an initial term of two years, subject to a 12-month notice period. Absent termination for gross misconduct or reasons leading to his resignation from the Magnesita board of directors, Mr. Lopes may claim base salary and benefits until the end of such notice period. In case of early termination, the service contract provides for pro-rata claims for bonus and determines the corresponding applicable score level (as described below).

Appointment letters of Non-Executive Directors

Prior to Admission, the Non-Executive Directors will each enter into an appointment letter with the Issuer. These letters will be governed by the laws of England and Wales. The appointment letter can be terminated with three months' notice period by the Issuer but do not otherwise provide for any severance arrangements with the Issuer.

Remuneration of Directors

RHI

The following table sets out details of the remuneration of those Directors who served on the management or supervisory boards of RHI in 2016.

Name	Fixed earnings as supervisory board member(1)	Fixed earnings as management board member	Variable earnings	Share-based remuneration
Stefan Borgas (2)		EUR 79,727		
Herbert Cordt	EUR 57,700			
David A. Schlaff	EUR 27,700			
Stanislaus Prinz zu Sayn-Wittgenstein	EUR 29,100			
Wolfgang Ruttenstorfer (3)	EUR 44,800	EUR 374,000	EUR 260,678	EUR 253,463

(1) The remuneration of RHI's supervisory board members was determined by RHI's annual general meeting and distributed in such a way that the chairman of the supervisory board received 2.5 times the amount of an ordinary supervisory board member, and the vice-chairman of the supervisory board received 1.75 times the amount of an ordinary supervisory board Member, all on a pro-rata temporis basis.

(2) Mr. Borgas became member of RHI's management board in December, 2016.

(3) Mr. Ruttenstorfer was a member of the management board of RHI AG from June 26 to November 30, 2016 (representing another board member who was unable to exercise his duties). Accordingly, he received management board compensation for this period and supervisory board compensation for the rest of the year 2016.

In 2017, all members of RHI's management board were awarded a special bonus of 100% of their respective base salary paid in in October, 2017, for their achievements in connection with the Acquisition of Control and the integration of the business practices and operations of RHI and Magnesita.

No amounts were set aside or accrued by RHI or its subsidiaries to provide pension, retirement or similar benefit to any of the directors or members of the management board or supervisory board of RHI which were appointed as a Director.

For 2017, Stefan Borgas will receive a base salary of EUR 950,000, a bonus of up to 120% of the base salary, depending on meeting qualitative and quantitative targets, the quantitative targets being mostly based on operative EBIT and ROACE, and will be entitled to an annual cash payment based on 50% of the base salary translated into a number of virtual shares using a reference price and depending on the RHI share price at the payment date, conditional to his remaining employed by the Group. In addition to his normal annual bonus Mr Borgas was awarded a special bonus, relating to his achievements regarding the Acquisition and Control, of 100% of his base salary which was paid in

October, 2017, as detailed above. RHI contributes to the statutory severance system for Mr. Borgas. Mr. Borgas is entitled to use an upper midrange company car.

Magnesita

For Magnesita's key personnel, remuneration information is not provided on an individual basis because it is not legally required in Brazil and is not otherwise publicly disclosed by Magnesita. On an aggregated basis, key management personnel compensation (board of directors' and executive board members) in 2016 amounted to BRL 10,153 thousand (in management fees), BRL 9,136 thousand (in profit sharing), and BRL 1,568 thousand (in stock options).

No amounts were set aside or accrued by Magnesita or its subsidiaries to provide pension, retirement or similar benefit to any of the directors of Magnesita which were appointed as a Director.

Since June, 2016, Octavio Lopes has been employed by Magnesita International. Before, he was employed by Magnesita. In 2016, Mr. Lopes' fixed earnings were BRL 650,000 (for the service time with Magnesita) and GBP 275,000 (for the service time with Magnesita International). Additionally, Mr. Lopes received in 2016 GBP 82,500 (for the service time with Magnesita International), as pension contribution, paid in cash at his election, equivalent to 30% of the base salary. His variable earnings in 2016 were GBP 760,240. Magnesita's variable CEO compensation is determined at between 80% and 120% of a target bonus size, depending on Magnesita's yearly score, in a range from zero to 13, and subjected to Magnesita achieving a score equal to or higher than 7. In connection with the Acquisition of Control, Mr. Lopes was awarded by Magnesita a retention bonus of GBP 1.1 million, half of which was paid in October 2017, and the second half to be paid in in October 2018 (unless unilaterally terminated by Magnesita without cause, in which case the bonus would immediately become due and payable). In July, 2016, Mr. Lopes exercised 320,856 stock options he was granted in 2015 and acquired the same number of Magnesita shares.

For 2017, Octavio Lopes will receive a base salary of GBP 550,000, a bonus of up to 120% of the base salary and the first half of his retention bonus described above. According to his election, Mr. Lopes receives a cash payment of 30% of the base salary (GBP 165,000) in lieu of a pension contribution. Mr. Lopes further receives private health insurance for himself and his family in Brazil and the UK, life insurance, income protection insurance and may claim reasonable relocation expenses in case of a termination, without cause, of his service contract.

Equity holdings

Octavio Lopes acceded to the SPA and will sell 532,456 Magnesita shares, to Dutch Brasil Holding, and will receive 127,894 Ordinary Shares (and a partial cash compensation) upon the Acquisition of Control equating to a holding of 0.29% in the Issuer's issued share capital.

Apart from this, none of the Directors will have any direct interest in the issued share capital of the Issuer upon the Merger becoming effective and the Acquisition of Control being completed.

Certain Directors have family relationships with individuals who will have indirect interests in the issued share capital of the Issuer following the Merger becoming effective:

Mr. Stanislaus Prinz zu Sayn-Wittgenstein is the husband of Ms. Elisabeth Prinzessin zu Sayn-Wittgenstein, who holds a controlling interest in Chestnut, while Mr. Konstantin Alfred Winterstein, who shares a family relationship with Ms. Sayn-Wittgenstein, exercises control over Silver. Ms. Sayn-Wittgenstein made an agreement with Mr. Winterstein which allows Chestnut to exercise the voting rights of Silver in RHI. Upon completion of the Merger, each of Chestnut and Silver will hold 2,088,461 voting rights or 4.66% in the Issuer.

Mr. David A. Schlaff is the son of Mag. Martin Schlaff, the founder of MSP Stiftung, who has certain supervisory rights and the right to unilaterally amend the foundation documents with respect to MSP

Stiftung. Upon completion of the Merger, MSP Stiftung will hold 11,347,058 voting rights or 25.32% in the Issuer. See also *"Additional Information-Major shareholders*" for more details.

Before acceding to the SPA as described above, Octavio Lopes held 832,382 Magnesita shares, thereof (i) 252,282 shares proportionally held indirectly through GP Investments, (ii) 47,644 shares proportionally held indirectly as a limited partner in private equity funds managed by GP Investments' subsidiaries, (iii) 320,856 shares held directly and (iv) 105,800 American depositary receipts, representing 211,600 shares of Magnesita. Following Acquisition of Control, he will hold 60,597 Ordinary Shares under (i) above and 11,444 Ordinary Shares under (ii) above.

Fersen Lamas Lambranho owns 698,621 Magnesita shares, thereof (i) 659,870 shares proportionally held indirectly through GP Investments, and (ii) 38,751 shares proportionally held indirectly as a limited partner in private equity funds managed by GP Investments' subsidiaries. Following Acquisition of Control, he will hold 158,498 Ordinary Shares under (i) above and 9,308 Ordinary Shares under (ii) above.

Potential conflicts of interests

Octavio Lopes has acceded to the SPA as an Additional Seller of his 532,456 shares in Magnesita. His status as an Additional Seller could lead to conflicts of interest if RHI Magnesita raises claims against the Sellers under the SPA. Any such conflict will be handled in accordance with the Issuer's procedures for conflicts of interest, see "*—The Board—Conflicts of Interest*". Other than that, the Issuer is not aware of any potential conflicts of interest between the private interest or other duties of the Directors and their duties to the Issuer.

Liability of the Directors

Under Dutch law, Directors may be liable to the Issuer for damages in the event of improper or negligent performance of their duties. They may be jointly and severally liable for damages to the Issuer and to third parties for infringement of the Articles of Association or of certain provisions of the Dutch Civil Code. In certain circumstances, they may also incur additional specific civil, administrative and criminal liabilities.

The liability of Directors and other key employees is covered by a directors and officers' liability insurance policy. This policy contains limitations and exclusions, such as willful misconduct or intentional recklessness (*opzet of bewuste roekeloosheid*).

Indemnification

Pursuant to an indemnity agreement to be entered into with each Director prior to Admission, the Issuer shall indemnify the Directors from and against any liability and all claims, decisions, penalties and loss ("**Claims**") that the Director suffered in connection with imminent, pending or terminated actions, investigations or other civil, criminal or administrative proceedings initiated by a party other than the Issuer itself or any of its group companies, as a result of acts or omissions in his/her capacity as Director or a related capacity. Claims also include derivative proceedings against the Director, which were initiated on behalf of the Issuer or its group companies and claims of the Issuer (or one of its group companies) to compensate claims of third parties that arose because the Director was jointly and severally liable towards such third party in addition to the Issuer. No entitlement to indemnification exists from and against Claims to the extent they relate to personal gain, benefits or fees to which he/she was not entitled under applicable law, or if the Director's liability on account of gross negligence, willful misconduct or deliberate recklessness has been established at law.

The Issuer shall reimburse all costs (including reasonable attorney's fees, procedural costs and taxes payable on the indemnification granted) incurred by the Director in connection with the abovementioned proceedings, less any amounts reimbursed to the Director, or amounts the Director is entitled to be reimbursed, under any applicable directors' and officers' liability insurance or other insurance, but only after receipt of a written undertaking by the Director that he/she will repay such costs if a competent court establishes that he/she was not entitled to be reimbursed in this manner or, in the event of proceedings initiated by the Issuer or one of its group companies, if a competent court rules in favor of the Issuer or such group company.

Other Information in relation to Directors

Mr. Lambranho was a director of Lácteos Brasil S.A., which requested for judicial reorganization proceedings (*recuperação judicial*) including the negotiation of debts and establishment of a recovery plan with its creditors, due to financial difficulties caused by the Brazilian dairy sector crisis at the end of the year 2013.

Other than that and within the five years prior to the date of this Prospectus, no Director:

- has been convicted in relation to fraudulent offences; or
- has been associated with bankruptcies, receiverships or liquidations in his capacity as a member of an administrative, management or supervisory body, officer or as a founder.

In 2014, Messrs. Lopes and Lambranho paid settlement fees as part of a voluntary settlement agreement they entered with the Brazilian securities and exchange commission in connection with the delayed publication of financial reports by Allis Participações S.A., during a period in which both acted as non-executive directors of the company. Other than that, no Director has been officially and publicly incriminated and/or sanctioned by statutory or regulatory authorities (including designated professional bodies) or ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer, or from acting in the management or conduct of the affairs of any issuer.

Mr. Lopes is a minority shareholder in Partners Holding, a holding company that holds all the voting shares and 33.54% of the total shares of GP Investments.

Other than that and the DAA as described in *"Management and Corporate Governance of RHI Magnesita—The Board—Composition, appointment, term and dismissal"*, the Issuer is not aware of any arrangement or understanding with major Shareholders, holders of Depositary Interests, suppliers, customers or others pursuant to which any Director was selected as a member of the Board.

Activities performed outside the Group

The following table sets out the names of companies, business partnerships (excluding Group Companies) and associations outside the Group of which members of the Board (other than Employee Nominated Directors) have been a member of the administrative, management or supervisory boards or partner (as the case may be) at any time in the five years prior to the date of this Prospectus:

Name	Name of the company	Function	Current function (yes/no)
Stefan Borgas	SB Industry LLC	Owner	Yes
	Syngenta AG	Non-executive director	No
	Israel Chemicals Ltd	President & chief executive officer	No
	Lonza Group	Chief executive officer	No
Octavio Lopes	GP Investments Ltd	Member of the board of directors	No
Herbert Cordt	Ebner Industrieofenbau GmbH	Member of the supervisory board	No
	Citigroup London	Senior advisor	No
	Delta Partners, Dubai	Member of the advisory board	No
	Citigroup Germany and Austria	Member of the advisory board	Yes
	Watermill Group Boston	Member of the advisory board	Yes
	Georgetown University, School of Foreign Service, MSFS Program	Member of the advisory board	Yes
	CORDT & PARTNER Management- und	Managing partner	Yes

Name	Name of the company	Function	Current function (yes/no)
	Finanzierungsconsulting GesmbH		
	Cooper & Turner, UK	Member of the advisory board	Yes
	The Plastics Group Inc, USA	Member of the advisory board	Yes
	Quality Metalcraft Inc, USA	Member of the advisory board	Yes
	Experi-Metal Inc, USA	Member of the advisory board	Yes
Fersen Lambranho	GP Investments Ltd	Shareholder and Chairman	Yes
	Mangnesita	Vice-chairman	Yes
	Grupo SBF S.A.	Vice-chairman	Yes
	Leon Restaurants Ltd	Director	Yes
	Spice Private Equity AG	Vice-chairman	Yes
	BRZ Investimentos S.A.	Director	No
	LBR – Lácteos Brasil S.A.	Director	No
	Wiz Solucoes e Corretagem de Seguros S.A.	Alternate director	No
	BHG S.A. Brazil Hospitality Group	Director	No
	Allis Participacoes S.A.	Director	No
	Estácio Participacoes S.A.	Director	No
	BR Malls Participacoes S.A.	Director	No
David A. Schlaff	M-Tel Holding GmbH	Chief investment officer	Yes
Stanislaus Prinz zu Sayn-Wittgenstein	Endurance Capital AG	Member of the supervisory board	Yes
	Westfalen Weser Energie GmbH & Co KG	Member of the management board	No
	Energieservice Westfalen Weser GmbH	Member of the management board	No
	Stadtwerke Lage GmbH	Member of the supervisory board	No
	Stadtwerke Hessisch-Oldendorf GmbH	Member of the supervisory board	No
Celia Baxter	Senior plc	Non-executive director	Yes
	Bekaert SA	Non-executive director	Yes
	HR Tech LLP	Partner	Yes
Andrew Hosty	Consort Medical plc	Non-executive director	Yes
	mOm Incubators Ltd	Non-executive director	Yes
	Rights and Issues Investment Trust plc	Non-executive director	Yes
	Henry Royce Institute	Chief executive officer	Yes
	CEME Spa	Member of the advisory board	Yes
	Fiberweb plc	Non-executive director	No
	Morgan Advanced Materials plc	Executive director	No
James Leng	Nomura Europe Holdings plc	Non-executive chairman	No
	Nomura International plc	Non-executive chairman	No
	Nomura Bank International plc	Non-executive chairman	No
	Aon plc	Director	No
	Genel Energy plc	Senior independent director	No
	HSBC Bank plc	Non-executive chairman	No
	UK Ministry of Justice	Non-executive director	No
	Alstom SA	Director	No
John Ramsay	Koninklijke DSM N.V.	Member of the supervisory board	Yes
	Syngenta AG	Member of the executive committee	No
	Syngenta Inc	Member of the board	No
	UK Pension Fund	Member of the board of trustees	No
Wolfgang Ruttenstorfer	Telekom Austria AG	Chairman of the supervisory board	Yes
	Flughafen Wien Aktiengesellschaft	Member of the supervisory board	Yes
	NIS a.d. Naftna industrija Srbije, Novi Sad	Member of the supervisory board	Yes
	Erne Fittings GmbH	Member of the supervisory board	Yes
	CA Immobilien Anlagen Aktiengesellschaft	Chairman of the supervisory board	No
	AMIC Energy Management GmbH	Member of the supervisory board	No
	Vienna Insurance Group AG	Member of the supervisory board	No
Karl Sevelda	Siemens Aktiengesellschaft Österreich	Member of the supervisory board	Yes
	Semper Constantia Privatbank AG	Member of the supervisory board	Yes
	SIGNA Development Selection AG	Member of the supervisory board	Yes
	SIGNA Prime Selection AG	Member of the supervisory board	Yes
	SIGMA Kreditbank AG	Member of the supervisory board	Yes
	Raiffeisen Bank International AG	Chief executive officer	No
	Tatra banka, a.s.	Member of the supervisory board	No
	Raiffeisen Bank d.d. Bosna i Hercegovina	Member of the supervisory board	No
	Raiffeisen Bank S.A.	Member of the supervisory board	No
	AO Raiffeisenbank	Member of the supervisory board	No
	Raiffeisen banka a.d.	Member of the supervisory board	No

Name	Name of the company	Function	Current function (yes/no)
	Raiffeisen Bank Aval JSC	Member of the supervisory board	No
	Raiffeisen Bank Polska S.A.	Member of the supervisory board	No
	Raiffeisenbank a.s.	Member of the supervisory board	No
	Raiffeisenbank Austria d.d.	Member of the supervisory board	No
	Raiffeisen Bank Zrt.	Member of the supervisory board	No
	Priorbank JSC	Member of the supervisory board	No
	Oesterreichische Kontrollbank Aktiengesellschaft	Member of the supervisory board	No
	Bene Privatstiftung	Member of the management board	No
	BestLine Privatstiftung	Member of the management board	No

(Source: Internal data.)

Limitation of supervisory positions of Directors

Since January 1, 2013 restrictions apply with respect to the overall number of supervisory positions that may be occupied by executive directors and non-executive directors of “large Dutch companies”. The term “large Dutch company” applies to any Dutch public limited liability company, Dutch private limited liability company or Dutch foundation that meet at least two of the following three criteria: (i) the value of the company’s/foundation’s assets according to its balance sheet together with explanatory notes on the basis of the purchase price or manufacturing costs exceeds EUR 20.0 million; (ii) its net turnover in the applicable year exceeds EUR 40.0 million; and (iii) its average number of employees in the applicable year is 250 or more.

A person cannot be appointed as a managing or executive director of a “large Dutch company” if he/she already holds more than two supervisory positions at another “large Dutch company” or if he/she is the chairman of the supervisory board or one-tier board of another “large Dutch company”; and (ii) a person cannot be appointed as a supervisory director or non-executive director of a “large Dutch company” if he/she already holds supervisory positions or non-executive positions at five or more other “large Dutch company”, whereby the position of chairman of the supervisory board or one-tier board of another “large Dutch company” is counted twice.

An appointment in violation of these restrictions will result in that last appointment being void. Earlier appointments at other entities are not affected. The fact that an appointment is thus void does not affect the validity of decision-making.

Since the Issuer was only incorporated on June 20, 2017, it is not a large Dutch company yet but it is expected to qualify as a large Dutch company as of the end of its first financial year (i.e., December 31, 2017). These rules only apply when a company qualifies as a large Dutch company at two consecutive balance sheet dates.

Diversity

Dutch law requires large Dutch companies (see above for the explanation of this term) to pursue a policy of having at least 30% of the seats on both the board of directors and supervisory board held by men and at least 30% of the seats on the board of directors and the supervisory board held by women, each to the extent these seats are held by natural persons. Under Dutch law, this was referred to as a well-balanced allocation of seats. This allocation of seats needed to be taken into account in connection with: (a) the appointment, or nomination for the appointment, of executive directors and non-executive directors; (b) drafting the criteria for the size and composition of the Board, as well as the designation, appointment, recommendation and nomination for appointment of non-executive directors; and (c) drafting the criteria for the non-executive directors. If a large Dutch company did not comply with the gender diversity rules, it was required to explain in its annual report (i) why the seats were not allocated in a well-balanced manner, (ii) how it had attempted to achieve a well-balanced allocation and (iii) how it aimed to achieve a well-balanced allocation in the future. This statutory requirements will automatically lapse on January 1, 2020.

The Issuer currently does not meet these gender diversity targets. The Issuer will explain in its annual report for the year 2017: (a) why the seats are not allocated in a well-balanced manner as aforementioned; (b) how the Issuer has attempted to achieve a well-balanced allocation; and (c) how the Issuer aims to achieve a well-balanced allocation in the future.

In the UK, the Hampton-Alexander Review, published in November 2016, set the following voluntary targets and recommendations: (a) FTSE 100 companies should aim for a minimum of 33% of women on their executive committees and direct reports to the executive committees by 2020; (b) FTSE 350 companies should aim for a minimum of 33% female directors by 2020; and (c) FTSE 350 companies should voluntarily publish details of the number of women on the executive committee and direct reports to the executive committee in their annual reports, or on a website, and submit this data to the Hampton-Alexander Review.

Whilst the recommendations set out in the Hampton-Alexander Review are not part of UK law, the Issuer intends to work towards the relevant targets by 2020.

Corporate governance

The Issuer is committed to the highest standards of corporate governance and intends to adhere to both the UK Corporate Governance Code and the Dutch Corporate Governance Code to the fullest extent practicable. On and following Admission, the Board will comply and intends to continue to comply with the requirements of the UK Corporate Governance Code in full, save that the Chairman is not considered to be independent for the purposes of the UK Corporate Governance Code because he has served on the board of RHI for more than nine years, which constitutes non-compliance with Code Provision A.3.4 that recommends that the chairman should on appointment meet the independence criteria of the UK Corporate Governance Code. The Board believes that Mr. Cordt demonstrates integrity and independence of character and judgment, despite his non-independence under the UK Corporate Governance Code, and that his experience as chairman of RHI's supervisory board is valuable to the Issuer, in particular in view of the Acquisition and the further development of the Combined Group, and therefore warrants his appointment as Chairman.

The Issuer will report periodically to its Shareholders on its compliance with the UK Corporate Governance Code in accordance with the Listing Rules.

In compliance with the UK Corporate Governance Code and the Dutch Corporate Governance Code, the Board has established three committees: an Audit Committee, a Nomination Committee and a Remuneration Committee (see "—*Committees*" for more details). The Board, if the need should arise, may set up additional committees as appropriate.

The UK Corporate Governance Code recommends that the board of directors of a company with a premium listing on the Official List of the FCA should appoint one of the Non-Executive Directors to be the senior independent director (the "**Senior Independent Director**") to provide a sounding board for the chairman and to serve as an intermediary for the other directors where necessary. The Senior Independent Director should be available to shareholders if they have concerns which contact through the normal channels of the CEO has failed to resolve or for which contact is inappropriate. James Leng has been appointed Senior Independent Director.

The Issuer will, in addition to the UK Corporate Governance Code, comply with the provisions of the Dutch Corporate Governance Code, save for (i) where the Dutch Corporate Governance Code cannot be reconciled with the UK Corporate Governance Code, (ii) as noted below or (iii) in the case of any future deviation, subject to explanation thereof at the relevant time. A revised Dutch Corporate Governance Code was published on December 8, 2016 and came into force on, and applies to any financial year starting on or after, 1 January 2017. The Issuer will therefore report to its Shareholders on its compliance with the revised Dutch Corporate Governance Code.

The Board has considered the Dutch Corporate Governance Code and expects that, on Admission, the Board will be non-compliant with best practice provision 2.2.2. This provision recommends that a supervisory board member (or, in the case of a one tier board, a non-executive director) should be appointed for a period of four years. Provision B.2.3 recommends that non-executive directors should be appointed for specified terms, with the offer of any term beyond six years subject to particularly rigorous review and take into account the need for progressive refreshing of the board, while provision B.7.1 of the UK Corporate Governance Code recommends that directors should seek re-election on an annual basis. The Issuer intends to appoint the Non-Executive Directors (other than Employee Nominated Directors) for a term of approximately three years, subject to performance and annual re-election, with an expectation that the Board will then consider extending tenure for a further three-year period. All Directors (other than Employee Nominated Directors) will seek re-election on an annual basis.

DESCRIPTION OF THE SHARE CAPITAL AND THE ARTICLES OF ASSOCIATION

Introduction

This section summarizes certain information concerning the Issuer's share capital and certain material provisions of the Articles of Association and applicable Dutch law. It is based on relevant provisions of Dutch law as in effect on the date of this Prospectus and on the Articles of Association after their amendment immediately following the Merger becoming effective.

This summary does not purport to give a complete overview and should be read in conjunction with, and is qualified in its entirety by reference to, the Articles of Association and the relevant provisions of Dutch law as in force on the date of this Prospectus. The Articles of Association are incorporated by reference in this Prospectus and are available in the governing Dutch language and an unofficial English translation thereof on the Issuer's website set up for purposes of this Prospectus (prospectus.rhimagnesita.com). See also "*Management and Corporate Governance of RHI Magnesita*" for a summary of certain material provisions of the Articles of Association, the Board Rules and Dutch law relating to the Board.

General

RHI-MAG N.V. is a public company with limited liability (*naamloze vennootschap*) under Dutch law and was incorporated on June 20, 2017. It has its corporate seat in Arnhem, the Netherlands, its administrative seat (*administratieve zetel*) in Vienna, Austria and its registered office at Wienerbergstrasse 9, 1100 Vienna, Austria. RHI-MAG N.V. is registered with the Dutch Trade Register of the Chamber of Commerce (*Kamer van Koophandel*) under number 68991665. The telephone number of the Issuer is +43 50 2136200. The legal name of the Issuer will, immediately following the Merger, be RHI Magnesita N.V., the commercial name will be RHI Magnesita. The current articles of association of the Issuer will be amended immediately following the Merger becoming effective which will result in the Articles of Association *inter alia* containing the provisions summarized below.

Corporate purpose

The Issuer's corporate objects, as set out in article 3 of its Articles of Association, are:

a) to acquire businesses, companies and partnerships or interests therein, including but not limited to industrial enterprises;

b) to incorporate, to participate in any way whatsoever in, to manage, to supervise businesses, companies and partnerships;

c) to finance businesses, companies and partnerships;

d) to borrow, to lend and to raise funds, including the issue of bonds, debt instruments or other securities or evidence of indebtedness as well as to enter into agreements in connection with aforementioned activities;

e) to render advice and services to businesses, companies and partnerships;

f) to grant guarantees, to bind the Issuer and to pledge its assets for obligations of the Issuer or third parties;

g) to acquire, alienate, encumber, manage and exploit registered property and items of property in general;

h) to trade in currencies, securities and items of property in general;

i) to exploit and trade in patents, trade marks, licenses, knowhow, copyrights, data base rights and other intellectual property rights;

j) to perform any and all activities of an industrial, financial or commercial nature,

and to do all that is connected therewith or may be conducive thereto, all to be interpreted in the broadest sense.

Share capital

Authorized and issued share capital

At the date of this Prospectus, the Issuer's authorized share capital amounts to EUR 225,000 and is divided into 225,000 Ordinary Shares, of which 45,000 Ordinary Shares are issued and outstanding (the "**Incorporation Shares**"). The Incorporation Shares were created under Dutch law and have been fully paid up.

Upon the Merger taking effect, the Incorporation Shares will be cancelled.

Following the Merger becoming effective and the Acquisition of Control having been completed, the Issuer's authorized share capital will amount to EUR 100,000,000 divided into 100,000,000 Ordinary Shares, of which 44,819,039 Ordinary Shares will be issued and outstanding.

History of share capital

Other than the Incorporation Shares, no Ordinary Shares have been issued by the Issuer on the date of this Prospectus.

Ordinary Shares

Form of Ordinary Shares

All Ordinary Shares are in registered form (*op naam*). The Issuer will not issue share certificates (*aandeelbewijzen*). If requested, the Board will provide a Shareholder, usufructuary or pledgee of Ordinary Shares with an extract from the register relating to his or her title to an Ordinary Share free of charge. If the Ordinary Shares are encumbered with a right of usufruct, the extract will state to whom such rights will fall. The shareholders' register is kept by the Board.

The Issuer's shareholders' register records the names and addresses of the Shareholders, the number of Ordinary Shares held, the date on which the Ordinary Shares were acquired, the date of acknowledgement and/or service upon the Issuer of the instrument of transfer, the amount paid on each Ordinary Share and the date of registration in the shareholders' register. In addition, each transfer or passing of ownership is registered in the shareholders' register. The shareholders' register also includes the names and addresses of persons and legal entities with a right of pledge (*pandrecht*) or a right of usufruct (*vruchtgebruik*) on those Ordinary Shares.

CREST and Depositary Interests

The Issuer will, prior to Admission, enter into depositary arrangements to enable investors to settle and pay for interests in Ordinary Shares through the CREST system. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a share certificate and transferred otherwise than by a written instrument. Securities issued by non-UK companies in certain jurisdictions, including the Netherlands, cannot themselves be held electronically or transferred in the CREST system. However, Depositary Interests, representing the securities, can be dematerialized and settled electronically within the CREST system in the same way as any other CREST securities. Shareholders who hold their shares through the Depositary Interests facility will be bound by a deed poll, as described in more detail under "—*Deed Poll*" below.

Pursuant to arrangements to be put in place by the Issuer, the Depositary will hold, through a custodian, the Ordinary Shares and issue dematerialised Depositary Interests representing those underlying Ordinary Shares which will be legally held on trust for the holders of the Depositary Interests. The Issuer's share register will show Computershare Company Nominees Limited ("**CCNL**"), in its capacity as the custodian nominated by the Depositary (the "**Custodian**"), as the legal holder of the Ordinary Shares, but the beneficial interest will be held by the Shareholders. The Depositary has agreed to pass on to the holders of Depositary Interests all economic rights attaching to the shares received by it as holder of the shares on trust for such holder of Depositary Interests.

If a holder of a Depositary Interests wishes itself to hold legal title to the Ordinary Shares represented by its Depositary Interests, it may request that the relevant Depositary Interests is removed from CREST and that it is recorded in the Issuer's shareholders' register. A separate register of Depositary Interests may be kept by the Depositary in the United Kingdom, of which excerpts may be obtained by the Board. The Board is allowed to request the Depositary (i) to inspect the register of holders of Depositary Interests, (ii) for excerpts from the register of holders of Depositary Interests and (iii) for all such other information as the Board thinks fit. For so long as it (or its nominee) is a Shareholder, the Depositary is under the obligation to comply promptly with any request referred to herein.

Deed Poll

The Depositary Interests will be created pursuant to, and issued on the terms of, a deed poll to be executed by the Depositary prior to Admission (the "**Deed Poll**").

Each Depositary Interest will be treated by the Depositary as one Ordinary Share for the purposes of determining, for example, eligibility for any distributions. The Deed Poll contains provisions to the following effect:

- The Depositary, which is regulated by the FCA, will hold (itself or through the Custodian), as bare trustee, the underlying Ordinary Shares and all and any rights and other securities, property and cash attributable to the underlying Ordinary Shares for the time being held by the Depositary or Custodian pertaining to the Depositary Interests for the benefit of the holders of Depositary Interests.
- The Custodian, to be appointed by the Depositary, will provide custodial services including the holding of the Ordinary Shares in respect of which Depositary Interests are issued by the Depositary and the execution of instructions received from CREST members in relation to the Ordinary Shares held on their behalf.
- Holders of Depositary Interests warrant, *inter alia*, that the Ordinary Shares transferred, issued or held by the Depositary or the CCNL as the Custodian (on behalf of the Depositary) for the account of such Depositary Interests holder are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Issuer's constitutional documents or any contractual obligation, applicable law or regulations binding or affecting such holder. Each holder of Depositary Interests indemnifies the Depositary from and against any losses the Depositary incurs as a result of a breach of this warranty.
- The Depositary and any Custodian must pass on to holders of Depositary Interests and, so far as they are reasonably able, exercise on behalf of holders of Depositary Interests all rights and entitlements received or to which they are entitled in respect of the underlying shares which are capable of being passed on or exercised. Rights and entitlements to cash distributions, to information, to make choices and elections and to attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form in which they are received, together with amendments and additional documentation necessary to effect such passing-on. The Depositary is not entitled to vote on any Ordinary Shares without the prior explicit written instruction of the Depositary Interests holder. If arrangements are made which allow a Depositary Interests holder to take up rights in the Ordinary Shares requiring further payment, the Depositary Interests holder must put

the Depositary in cleared funds before the relevant payment date or other date notified by the Depositary if it wishes the Depositary to exercise such rights.

- The Depositary will be entitled to cancel Depositary Interests and treat the Depositary Interests holder as having requested a withdrawal of the Ordinary Shares in certain circumstances.

It should also be noted that the holders of Depositary Interests will not have the opportunity to exercise all of the rights and entitlements which Dutch law and the Articles of Association confer on Shareholders. In relation to voting it will be important for holders of Depositary Interests to give prompt instructions to the Depositary to vote on the Ordinary Shares on their behalf. The Issuer qualifies the Depositary Interests as dematerialized depositary interests issued by the Depositary for Ordinary Shares from time to time that can be settled electronically through and held in CREST and, where the context so permits or requires, depositary receipts (*certificaten van aandelen*) issued for Ordinary Shares with the cooperation of the Issuer within the meaning of Dutch law. As a result thereof, holders of Depositary Interests will have the same rights which, by virtue of the law, accrue to holders of depositary receipts of shares issued with a company's cooperation under Dutch law, including: the right to information regarding the agenda of general meetings of shareholders, the right to apply to the interim provisions judge of the Dutch court for the convocation of a general meeting of shareholders, the right to attend and address the general meeting of shareholders and the right to inspect the corporate documentation of a company.

A copy of the Deed Poll can be obtained on request in writing to the Depositary or the Issuer.

Depositary Agreement

Under the terms of the agreement for the provision of depositary and custodial services to be entered into between RHI Magnesita and the Depositary prior to Admission (the "**Depositary Agreement**"), RHI Magnesita appoints the Depositary to constitute and issue from time to time, upon the terms of the Deed Poll, Depositary Interests representing the Ordinary Shares and to provide certain other services in connection with such Depositary Interests (including custodial services).

The Depositary agrees that it will provide the various services with all reasonable skill and care. The depositary services to be provided by the Depositary include, for example, to maintain the register of Depositary Interests, to issue Depositary Interests to CREST members and to effect transactions relating to the Depositary Interests on behalf of CREST members and the Custodian.

In addition, the Depositary Agreement sets out the procedures to be followed where RHI Magnesita is to pay or make a dividend or other distribution.

RHI Magnesita agrees to provide such assistance, information and documentation to the Depositary as is reasonably required by the Depositary for the purposes of performing the services under the Depositary Agreement.

Qualification of Depositary Interests under Dutch law

Under Dutch law, holders of depositary receipts (*certificaten van aandelen*) have certain rights vis-à-vis a Dutch public limited liability company. For example, holders of depositary receipts who solely or jointly represent a minimum stake in the capital of a Dutch public limited liability company have the right to file an application for an inquiry into the policy and conduct of business of a Dutch public limited liability company. In addition, a Dutch public limited liability company must, in principle, treat equally situated holders of depositary receipts and shares equally.

Under Dutch law, there are two categories of depositary receipts: (i) depositary receipts for underlying shares issued with the co-operation of the issuer (that is, the Dutch public limited liability company), and (ii) depositary receipts for the underlying shares issued without the co-operation of the issuer (that is, the Dutch public limited liability company).

Holders of depositary receipts issued with the co-operation of the Dutch public limited liability company have certain additional rights vis-à-vis the Dutch public limited liability company and its shareholders. Such additional rights, which are generally of a mandatory nature *(dwingend recht)*, include the right to request the Dutch public limited liability company to convene general meetings of shareholders and the right to attend and speak at such meetings. In addition, Dutch law provides that holders of such depositary receipts have, jointly, a right of pledge over the underlying shares *(pandrecht van certificaathouders).* Holders of depositary receipts issued with the co-operation of the Dutch public limited liability company also have certain rights vis-à-vis other shareholders pursuant to Dutch takeover legislation, which implements the Directive 2004/25/EC, including, for example, the right to require a bidder that has acquired in total 95% of the Dutch public limited liability company's issued share capital by nominal value to purchase its depositary receipts as referred to in *"Applicable Regulations—Squeeze-out proceedings"*.

The Articles of Association provide that depositary receipts issued with the cooperation of the Issuer within the meaning of Dutch law include, but are not limited to, Depositary Interests for Ordinary Shares issued by the Depositary.

Under Dutch law, in the absence of a court decision or other authoritative guidance on point, it is uncertain whether or not the Depositary Interests, which are governed by English law, qualify as depositary receipts, although it is considered likely. It is therefore uncertain whether the holders of Depositary Interests are entitled to all of the abovementioned rights, most of which rights are of a mandatory nature. To the extent that the Depositary Interests do qualify as depositary receipts pursuant to Dutch law, it is likely that they are deemed to have been issued with the co-operation of the Issuer.

Finally, holders of Depositary Interests can exercise the voting rights attached to the underlying Ordinary Shares through voting instructions to, or a power of attorney from, the Depositary or any Custodian and are, in principle, entitled to any distributions on, or pre-emptive rights with respect to, the underlying Ordinary Shares, as described in *"—CREST and Depositary Interests*".

Issuance of Ordinary Shares

Pursuant to the Articles of Association, the General Meeting or the Board, if so designated by the General Meeting for a specific period, may resolve to issue Ordinary Shares or grant rights to subscribe for Ordinary Shares. Pursuant to the Articles of Association and Dutch law, the period of designation may not exceed five years but may be renewed by a resolution of the General Meeting for periods of up to five years. If not otherwise stated in the resolution approving the designation, such authority is irrevocable. The General Meeting is not authorized to resolve on the issuance of Ordinary Shares or the granting of rights to subscribe for Ordinary Shares if it has designated the Board as the competent body for such purpose. The resolution designating such authority to the Board must specify the number of Ordinary Shares which may be issued (which may be expressed as a percentage of the issued capital). No resolution of the General Meeting or, if so designated, the Board is required for an issue of Ordinary Shares pursuant to the exercise of a previously granted right to subscribe for Ordinary Shares. The Issuer may not subscribe for its own Ordinary Shares on issue.

Pursuant to a resolution of the General Meeting to be adopted prior to the Merger taking effect, the Board will, subject to the Merger taking effect, be irrevocably authorized to resolve to issue Ordinary Shares, to grant rights to subscribe for Ordinary Shares and/or to limit or exclude pre-emptive rights in connection therewith. This authorization of the Board is limited to (i) 5% of the Issuer's issued share capital immediately following the issue of 5,000,000 Ordinary Shares upon completion of the Acquisition of Control, which authorisation may be used for all purposes and (ii) an additional 5% of the Issuer's issued share capital immediately following the issue of 5,000,000 Ordinary Shares upon completion of the Acquisition of Control, which additional authorization may only be used in connection with or on the occasion of mergers, acquisitions and/or strategic alliances. The Board's authorization is valid until the end of the next annual General Meeting or the date which falls fifteen months from the Merger taking effect, whichever is earlier.

In exchange for the cancellation of their RHI Shares as a result of the Merger, the shareholders of RHI will receive one Ordinary Share for each RHI Share they hold on the Record Date. As a preparatory step, all Incorporation Shares will be withdrawn and cancelled when the Merger takes legal effect and at the very same time 39,819,039 Ordinary Shares will be allocated to RHI shareholders. The Merger therefore maintains the existing shareholding structure of RHI.

Prior to the Merger taking effect, RHI as the sole shareholder of the Issuer will, subject to the Merger taking effect, have irrevocably authorized the Board to resolve to issue up to 10 million new Ordinary Shares to the sellers in the Acquisition of Control and to the remaining Magnesita shareholders in the Mandatory Offer or any Delisting Offer with the Ordinary Shares not taken up in such offer(s) to be placed with investors in one or more private placements and/or public offers, and to exclude all pre-emptive rights in relation thereto. This authorization is valid for a period of five years from the date of the resolutions. For further details on the issue of Ordinary Shares in the context of the Acquisition, see "*Description of the Acquisition and the Restructuring*".

Pre-emptive rights

Upon the issuance of Ordinary Shares or granting of rights to subscribe for Ordinary Shares, each Shareholder shall have a pre-emptive right in respect of the Ordinary Shares to be issued in proportion to the aggregate nominal amount of his or her Ordinary Shares. Shareholders do not have pre-emptive rights in respect of Ordinary Shares issued against contribution in kind, Ordinary Shares issued to the Group's employees or Ordinary Shares issued to persons exercising a previously granted right to subscribe for Ordinary Shares.

Pre-emptive rights may be limited or excluded by a resolution of the General Meeting. The Board is authorized to resolve on the limitation or exclusion of the pre-emptive right if and to the extent the Board has been designated by the General Meeting to do so. The designation will only be valid for a specific period, in each case not exceeding five years. Unless provided otherwise in the designation, the designation cannot be cancelled. A resolution of the General Meeting to limit or exclude the pre-emptive rights or a resolution to designate the Board to limit or exclude the pre-emptive rights requires a simple majority or, if less than half of the Issuer's issued share capital is represented at a General Meeting, a majority of two-thirds the votes cast at a General Meeting.

As set out above under "*—Issuance of Shares*", the Board will, subject to the Merger taking effect, be irrevocably authorized by the General Meeting prior to the Merger taking effect to resolve to issue Ordinary Shares, grant rights to subscribe for Ordinary Shares and/or limit or exclude pre-emptive rights in relation thereto. This authorization of the Board is limited to (i) 5% of the Issuer's issued share capital immediately following the issue of 5,000,000 Ordinary Shares upon completion of the Acquisition of Control, which authorization may be used for all purposes and (ii) an additional 5% of the Issuer's issued share capital immediately following the issue of 5,000,000 Ordinary Shares upon completion of the Acquisition of Control, which additional authorization may only be used in connection with or on the occasion of mergers, acquisitions and/or strategic alliances. The Board's authorization is valid until the end of the next annual General Meeting or the date which falls 15 months from the Merger taking effect, whichever is earlier.

In addition, prior to the Merger taking effect, RHI as the sole shareholder of the Issuer will, subject to the Merger taking effect, have irrevocably authorized the Board to resolve to issue up to 10 million new Ordinary Shares in connection with the Acquisition and to exclude all pre-emptive rights in relation thereto. This authorization is valid for a period of five years from the date of the resolutions. For further details on the issue of Ordinary Shares in the context of the Acquisition, see "*Description of the Acquisition and the Restructuring*".

Acquisition of Ordinary Shares

The Issuer may acquire fully paid-up Ordinary Shares (which include Depositary Interests where the context so allows) at any time for no consideration, under universal succession of title or, subject to

Dutch law and the Articles of Association if: (i) the freely distributable part of the shareholders' equity is at least equal to the total purchase price of the repurchased Ordinary Shares; (ii) the aggregate nominal value of the Ordinary Shares that the Issuer acquires, holds or holds as a pledge or that are held by a subsidiary does not exceed 50% of the issued share capital; and (iii) the Board has been authorized by the General Meeting to repurchase Ordinary Shares, in which case the authorization will be valid for a specific period, in each case not exceeding 18 months. As part of the authorization, the General Meeting must specify the number of Ordinary Shares that may be acquired, the manner in which the Ordinary Shares may be acquired and the price range within which the Ordinary Shares may be acquired. No authorization from the General Meeting is required for the acquisition of fully paid-up Ordinary Shares for the purpose of transferring these Ordinary Shares to the employees of the Group pursuant to any applicable plan, provided that such Ordinary Shares are quoted on the official list of any stock exchange.

Pursuant to a resolution of the General Meeting to be adopted prior to the Merger taking effect, the Board will, subject to the Merger taking effect, be authorized to resolve to acquire fully paid-up Ordinary Shares. This authorization of the Board is limited to 5% of the issued share capital of the Issuer at the date of the acquisition and is valid for until the end of the next annual General Meeting or the date which falls 15 months from the Merger taking effect, whichever is earlier. Ordinary Shares may be acquired by way of a private deed, electronic settlement or such other way as deemed appropriate by the Board at its discretion, at a price between the nominal value and up to 5% above the average market price at the London Stock Exchange for the five business days prior to the date of the acquisition. Ordinary Shares may only be acquired up to 5% of the issued share capital at the date of the acquisition and provided that the Issuer and its subsidiaries will not hold more than 5% of the issued share capital of the Issuer following such acquisition.

The Issuer may not cast votes on Ordinary Shares held by it or by a subsidiary or for which the Issuer holds the Depositary Interests nor will such Ordinary Shares be counted for the purpose of calculating any voting quorum. Pledgees and usufructaries of Ordinary Shares owned by the Issuer or a subsidiary are not excluded from exercising voting rights if the right of pledge or usufruct was created before the Ordinary Share was owned by the Issuer or such subsidiary.

The Issuer is not entitled to dividends paid or other distributions made on Ordinary Shares held by it or for which the Issuer holds the Depositary Interests. Pledgees of Ordinary Shares and Depositary Interests owned by the Issuer or in respect of which a right of pledge or usufruct are not excluded from receiving distributions.

For the computation of the profit distribution, the Ordinary Shares held by the Issuer or for which the Issuer holds the Depositary Interests shall not be included unless such Ordinary Shares or Depositary Interests are subject to a usufruct or right of pledge for the benefit of a party other than the Issuer. The Board is authorized to dispose of the Issuer's own Ordinary Shares held by it.

Transfer of Ordinary Shares

A transfer of an Ordinary Share (not being, for the avoidance of doubt, a Depositary Interest held through the system of CREST) or a restricted right thereto (*beperkt recht*) requires a deed of transfer and the acknowledgment by the Issuer of the transfer in writing. Such acknowledgement is not required if the Issuer itself is a party to the transfer.

Capital reduction

Subject to the provisions of Dutch law and the Articles of Association, the General Meeting may upon the proposal of the Board resolve to reduce the issued share capital by (i) cancelling Ordinary Shares or (ii) reducing the nominal value of Ordinary Shares through an amendment of the Articles of Association. A resolution to cancel Ordinary Shares may only relate to Ordinary Shares held by the Issuer itself or of which it holds the Depositary Interests. A reduction of the nominal value of Ordinary

Shares, with or without repayment must be made pro rata on all Ordinary Shares concerned. This pro rata requirement may be waived if all Shareholders concerned so agree.

A resolution of the General Meeting to reduce the share capital requires a majority of at least two-thirds of the votes cast, if less than half of the issued and outstanding share capital is present or represented at the General Meeting.

In addition, Dutch law contains detailed provisions regarding the reduction of capital. A resolution to reduce the issued share capital shall not take effect as long as creditors can have legal recourse against the resolution. Certain aspects of taxation of a reduction of share capital are described in the sections "*Taxation for Shareholders—Taxation in the Netherlands*", "*Taxation for Shareholders—Taxation in the United Kingdom*" and "*Taxation for Shareholders—Taxation in Austria*" of this Prospectus.

Dividends and other distributions

Annual profit distribution

Distribution of profits other than an interim distribution only takes place following the adoption of the Issuer's annual accounts from which it appears that the distribution is allowed. The Issuer may only make distributions, whether a distribution of profits or of freely distributable reserves, to its shareholders if its shareholders' equity exceeds the sum of the paid-up and called-up share capital plus the reserves as required to be maintained by Dutch law or by the Articles of Association (including a mandatory reserve of EUR 288,699,230.59 which was created in connection with the Merger to comply with Austrian creditor protection rules). See "*Profits and Distribution—Dividend Policy*" for a more detailed description regarding dividends.

Right to reserve

The Board may resolve to reserve the profits or a part of the profits. Any profits remaining after any such reservation will be at the disposal of the General Meeting. See "*Dividend Policy*" for a more detailed description regarding dividends.

Interim distribution

Subject to Dutch law and the Articles of Association, the Board may resolve to make an interim distribution of profits provided that it appears from an interim statement of assets signed by the Board that the Issuer's equity does not fall below the sum of called-up and paid-up share capital, any statutory reserves and the reserves to be maintained pursuant to the Articles of Association.

Distribution in kind

The Board may decide that a distribution on Ordinary Shares shall not take place as a cash payment but as a payment in kind or in Ordinary Shares, or decide that Shareholders shall have the option to receive a distribution as a cash payment and/or as a payment in Ordinary Shares, provided that the Board is designated by the General Meeting to do so.

Payment

Payment of any future dividend on Ordinary Shares in cash will be made in euro. Any dividends on Ordinary Shares that are paid to holders of Depositary Interests through CREST will be automatically credited to the accounts of the relevant holders of Depositary Interests. There are no restrictions in relation to the payment of dividends under Dutch law in respect of holders of Ordinary Shares who are non-residents of the Netherlands. However, see "*Taxation of Shareholders—Taxation in the Netherlands*" for a discussion of certain aspects of taxation of dividends and refund procedures for non-tax residents of the Netherlands.

Payments of profit and other payments are announced in a notice by the Issuer and shall be made payable four weeks after adoption, unless the Board or the General Meeting at the proposal of the Board determines another date. A Shareholder's claim to payments of profits and other payments lapses five years after the day on which the claim became payable. Any profit or other payments that are not collected within this period revert to the Issuer.

Exchange controls and other provisions relating to non-Dutch Shareholders

Under Dutch law, subject to the 1977 Sanction Act (*Sanctiewet 1977*) or otherwise by international sanctions, there are no exchange control restrictions on investments in, or payments on, Ordinary Shares (except as to cash amounts). There are no special restrictions in the Articles of Association or Dutch law that limit the right of Shareholders who are not citizens or residents of the Netherlands to hold or vote Ordinary Shares.

General Meetings and voting rights

General Meetings

General Meetings must be held in Arnhem, the Netherlands, Amsterdam, the Netherlands, or Haarlemmermeer (including Schiphol Airport), the Netherlands. The annual General Meeting must be held at least once a year, no later than June 30. Extraordinary General Meetings may be held, as often as the Board, the CEO or the Chairman deems necessary. In addition, one or more Shareholders or holders of Depositary Interests, who solely or jointly represent at least one-tenth of the Issuer's issued capital, may request that a General Meeting be convened, the request setting out in detail matters to be considered. If no General Meeting has been held within eight weeks of making such request, those Shareholders or holders of Depositary Interests will be authorized to request in summary proceedings a District Court to convene a General Meeting. In any event, within three months of it becoming apparent to the Board that the shareholders' equity of the Issuer has decreased to an amount equal to or lower than one-half of the paid-up part of the capital, a General Meeting will be held to discuss any requisite measures.

The convocation of a General Meeting, be it the annual General Meeting or an extraordinary General Meeting, must be published through an announcement by electronic means. The notice must state the time and place of the meeting, the record date, the manner in which persons entitled to attend the General Meeting may register and exercise their rights, the time on which registration for the meeting must have occurred ultimately, as well as the place where the meeting documents may be obtained. The notice must be given by at least such number of days prior to the day of the meeting as required by Dutch law, which is currently 42 days.

The agenda for the annual General Meeting must contain certain items, including, among other things, the adoption of the Issuer's annual accounts, the discussion of any substantial change in the corporate governance structure of the Issuer and the allocation of the profit, insofar as this is at the disposal of the General Meeting. In addition, the agenda shall include such items as have been included therein by the Board, Shareholders or holders of Depositary Interests (with due observance of Dutch law as described below). If the agenda of the General Meeting contains the item of granting discharge to the Executive Directors and Non-Executive Directors concerning the performance of their duties in the financial year in question, the matter of the discharge shall be mentioned on the agenda as separate items for the Board. The agenda shall also include such items as one or more Shareholders or holders of Depositary Interests and others entitled to attend General Meetings, representing, pursuant to the Articles of Association, at least the percentage of the issued and outstanding share capital as required by law (which as at the date of this Prospectus is 3%), have requested the Board by a motivated request to include in the agenda, at least 60 days before the day of the General Meeting. No resolutions may be adopted on items other than those that have been included in the agenda (unless the resolution would be adopted unanimously during a meeting where the entire issued capital of the Issuer is present or represented).

The General Meeting is chaired by the Chairman or such other person as designated by him. Members of the Board may attend a General Meeting. In these General Meetings, they have an advisory vote. The chairman of the General Meeting may decide at his or her discretion to admit other persons to the General Meeting.

Voting rights

Each Ordinary Share confers the right to cast one vote in the General Meeting. Subject to certain exceptions provided by Dutch law or the Articles of Association, resolutions of the General Meeting are passed by an absolute majority of votes cast. Pursuant to Dutch law, no votes may be cast at a General Meeting in respect of Ordinary Shares that are held by the Issuer or any of its subsidiaries.

Each holder of Depositary Interests shall, upon request, be granted a proxy to exercise the right to cast the vote for the relevant Ordinary Share or Ordinary Shares, to the exclusion of the holder thereof, indicated in the proxy in the General Meeting. A holder of Depositary Interests who has been granted such proxy may exercise the right to vote such Ordinary Share or Ordinary Shares at his discretion. The proxy may not be limited, excluded or revoked.

Amendment of the Articles of Association

The General Meeting may resolve to amend the Articles of Association upon the proposal of the Board. A proposal to amend the Articles of Association must be included in the agenda for the General Meeting and include the verbatim text thereof. A copy of the proposal, containing the verbatim text of the proposed amendment, must be lodged with the Issuer for the inspection of every shareholder until the end of the General Meeting.

Dissolution and liquidation

The Issuer may only be dissolved by a resolution of the General Meeting, upon proposal by the Board. A proposal to dissolve the Issuer must be included in the agenda for the General Meeting. During liquidation, the provisions of the Articles of Association will remain in force as far as possible.

The balance remaining after satisfaction of the Issuer’s debts shall be distributed evenly on the Ordinary Shares.

APPLICABLE REGULATIONS

The summary of the Dutch and UK laws and regulations (including European laws that are directly applicable) set forth below is for general information only and contains a description of certain important Dutch and UK laws and regulations which are applicable to the Issuer by virtue of the Admission. This summary does not purport to give a complete overview and should be read in conjunction with, and is qualified in its entirety by reference to, the relevant provisions of Dutch and UK law as in force on the date of this Prospectus.

Notification and disclosure of holdings

Shareholders and holders of Depositary Interests may be subject to notification obligations under the Dutch Financial Supervision Act. Shareholders and holders of Depositary Interests are advised to seek professional advice on these obligations.

Disclosure of holdings by Shareholders and holders of Depositary Interests under Dutch law

Pursuant to the Dutch Financial Supervision Act, any person who, directly or indirectly, acquires or disposes of an actual or potential interest in the capital or voting rights of the Issuer must immediately notify the AFM, if, as a result of such acquisition or disposal, the percentage of capital interest or voting rights held by such person in the Issuer reaches, exceeds or falls below any of the following thresholds: 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%.

A notification requirement also applies if a person's capital interest or voting rights reaches, exceeds or falls below the above-mentioned thresholds as a result of a change in the Issuer's total outstanding share capital or voting rights. Such notification has to be made no later than the fourth trading day after the AFM has published the Issuer's notification of the change in its outstanding share capital.

Under the Dutch Financial Supervision Act, the Issuer is required to notify the AFM without delay of any changes in its share capital if its share capital has changed by 1% or more compared to the previous disclosure in respect of its share capital. The Issuer is also required to notify the AFM within eight days after each quarter, in the event its share capital or voting rights have changed by less than 1% in that relevant quarter or since its previous notification.

In addition, each person who is or ought to be aware that the substantial holding he holds in the Issuer reaches, exceeds or falls below any of the following thresholds: 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%, vis-à-vis his most recent notification to the AFM, which change relates to the composition of the notification as a result of certain acts (e.g. (i) the exchange of certain financial instruments for shares or depositary receipts for shares, (ii) the exchange of shares for depositary receipts for shares, or (iii) as a result of the exercise of rights pursuant to a contract for the acquisition of voting rights) must give notice to the AFM no later than the fourth trading day after he became or ought to be aware of this change.

The AFM keeps a public register of all notifications made pursuant to these disclosure obligations and publishes all notifications received by it. The notifications referred to in this paragraph should be made electronically through the notification system of the AFM or in writing by means of a standard form.

Controlled entities, within the meaning of the Dutch Financial Supervision Act, do not have notification obligations under the Dutch Financial Supervision Act, as their, direct and indirect, interests are attributed to their (ultimate) parent. Any person may qualify as a parent for purposes of the Dutch Financial Supervision Act, including an individual. A person who has a 3% or larger interest in the Issuer's share capital or voting rights and who ceases to be a controlled entity for these purposes must immediately notify the AFM. As of that moment, all notification obligations under the Dutch Financial Supervision Act will become applicable to the former controlled entity.

Apart from the attribution of interests of controlled entities to their (ultimate) parent, the following other interests must, among other things, be taken into account for the purpose of calculating the percentage of capital interest or voting rights: (i) shares or depositary receipts for shares or voting rights directly held (or acquired or disposed of) by any person; (ii) shares, depositary receipts for shares or and voting rights held by (or acquired or disposed of) such person's controlled undertakings or a third party for such person's account or by a third party with whom such person has concluded an oral or written voting agreement (including a discretionary power of attorney); (iii) voting rights acquired pursuant to an agreement providing for a temporary transfer of voting rights against a payment; (iv) shares or depositary receipts for shares or voting rights that such person, or any controlled undertaking or third-party referred to above, may acquire pursuant to any option or other right held by such person (including, but not limited to, on the basis of convertible bonds); (v) shares that determine the value of certain cash settled instruments such as contracts for difference and total return swaps; (vi) shares that must be acquired upon exercise of a put option by a counterparty; and (vii) shares that are the subject of another contract creating an economic position similar to a direct or indirect holding in those shares.

For the purpose of calculating the percentage of capital interest or voting rights, the following instruments qualify as 'shares': (i) shares; (ii) depositary receipts for shares (or negotiable instruments similar to such receipts); (iii) negotiable instruments for acquiring the instruments under (i) or (ii) (such as convertible bonds); and (iv) options for acquiring the instruments under (i) or (ii).

The notification to the AFM should indicate whether the interest is held directly or indirectly, and whether the interest is an actual or a potential interest.

A holder of a right of pledge or usufruct in respect of shares or depositary receipts for shares can also be subject to the reporting obligations of the Dutch Financial Supervision Act, if such person has, or acquires, the right to vote on the shares or, in the case of depositary receipts for shares, the underlying shares. If a pledgee or usufructuary acquires the voting rights on the shares or depositary receipts for shares, this may trigger a corresponding reporting obligation for the holder of the shares or depositary receipts for shares. Special rules apply with respect to the attribution of shares or depositary receipts for shares or voting rights that are part of the property of a partnership or other community of property.

Short selling under the Dutch Financial Supervision Act

Gross short positions in shares must also be notified to the AFM. For these gross short positions the same thresholds apply as for notifying an actual or potential interest in the capital and/or voting rights of a Dutch listed company, as referred to above, and without any set-off against long positions. If a person's gross short position reaches, exceeds or falls below one of the above-mentioned thresholds as a result of a change in the Issuer's issued share capital, such person must make a notification not later than the fourth trading day after the AFM has published the Issuer's notification in the public register of the AFM. Shareholders and holders of Depositary Interests are advised to consult with their own legal advisers to determine whether the gross short selling notification obligation applies to them.

Short selling under the Short Selling Regulation

Short selling transactions are regulated by Regulation (EU) No. 236/2012 of the European Parliament and of the Council of the European Union of March 2012 on short selling and certain aspects of credit default swaps (the "**Short Selling Regulation**"), the European Commission's implementing and delegated regulations.

In addition, pursuant to the Short Selling Regulation, each person holding a net short position in relation to the issued share capital of a company whose shares are admitted to trading on a regulated market or a multilateral trading facility in the European Union (such as the Issuer) is required to notify the relevant competent authority if such position reaches or falls below 0.2% of the company's issued share capital or reaches or falls below each percentage of 0.1% above this 0.2%. The competent authority in relation to the Issuer is the FCA. Furthermore, each net short position that reaches or falls below 0.5% of the company's issued share capital or that reaches or falls below each percentage of 0.1% above this 0.5% will have to be publicly disclosed. The applicable percentage of an individual net short position is calculated by deducting any long position that the respective person holds in relation to the specific issued share capital from any short position that this person holds in relation to the same issued share capital.

Disclosure of holdings and transactions by management

Market Abuse Regulation

Pursuant to the Market Abuse Regulation ((EU) No 596/2014 (the "**MAR**")), which entered into force on 3 July 2016, persons discharging managerial responsibilities (including the members of the Board) (the "**PDMRs**") must notify the AFM and the Issuer of any transactions conducted for his or her own account relating to shares or any debt instruments of the Issuer or to derivatives or other financial instruments linked thereto.

In addition, pursuant to the MAR and the regulations promulgated thereunder, certain persons who are closely associated with PDMRs, are also required to notify the AFM and the Issuer of any transactions conducted for their own account relating to shares or any debt instruments of the Issuer or to derivatives or other financial instruments linked thereto. The MAR and the regulations promulgated thereunder cover, *inter alia*, the following categories of persons: (i) the spouse or any partner considered by national law as equivalent to the spouse; (ii) dependent children; (iii) other relatives who have shared the same household for at least one year at the relevant transaction date; and (iv) any legal person, trust or partnership, the managerial responsibilities of which are discharged by a PDMR or by a person referred to under (i), (ii) or (iii), which is directly or indirectly controlled by such a person, which is set up for the benefit of such a person, or the economic interests of which are substantially equivalent to those of such a person.

These notification obligations under the MAR apply when the total amount of the transactions conducted by a PDMR or a person closely associated to a PDMR reaches or exceeds the threshold of EUR 5,000 within a calendar year (calculated without netting). When calculating whether the threshold is reached or exceeded, PDMRs do not need to add any transactions conducted by persons closely associated with them to their own transactions and vice-versa. The first transaction reaching or exceeding the threshold must be notified as set forth above. The notifications pursuant to the MAR described above must be made to the AFM and the Issuer no later than the third business day following the relevant transaction date.

A PDMR is not permitted to (directly or indirectly) conduct any transactions on its own account or for the account of a third party, relating to Ordinary Shares or debt instruments of the Issuer or other financial instruments linked thereto, during a closed period of 30 calendar days before the announcement of a half-yearly report or an annual report of the Issuer.

Dutch law

In addition to the afore-mentioned notification obligations and pursuant to the Dutch Financial Supervision Act, each member of the Board must notify the AFM: (a) immediately following the admission to trading and listing of the Ordinary Shares of the number of Ordinary Shares he/she holds and the number of votes he/she is entitled to cast in respect of the Issuer's issued share capital, and (b) subsequently of each change in the number of Ordinary Shares he/she holds and of each change in the number of votes he/she is entitled to cast in respect of the Issuer's issued share capital, immediately after the relevant change. If a member of the Board has notified a transaction to the AFM under the Dutch Financial Supervision Act as described above under *"—Notification and disclosure of holdings—Disclosure of holdings by Shareholders and holders of Depositary Interests under Dutch law"*, such notification is sufficient for purposes of the Dutch Financial Supervision Act as described in this paragraph.

Public registries

The Netherlands

The AFM does not issue separate public announcements of these notifications. It does, however, keep a public register of all notifications under the Dutch Financial Supervision Act on its website (www.afm.nl). Third parties can request to be notified automatically by e-mail of changes to the public register in relation to a particular company's shares or a particular notifying party.

United Kingdom

The FCA does not keep an official public registry of the notifications made with it. Certain notifications, however, are publicly accessible through the FCA's website (www.fca.org.uk) and the National Storage Mechanism (www.morningstar.co.uk/uk/nsm).

Insider trading and market abuse

The MAR contains specific rules intended to prevent insider trading and market manipulation that are directly applicable in the Netherlands and the UK.

Pursuant to the applicable rules on insider trading and market manipulation, the Issuer has adopted a policy on insider trading and communications for transactions in its securities.

The rules on preventing market abuse set out in MAR are applicable to the Issuer, PDMRs, persons closely associated with PDMRs, other insiders and persons performing or conducting transactions in the Issuer's financial instruments. Certain important market abuse rules set out in MAR that are relevant for investors are described hereunder.

The Issuer is required to make inside information public. Pursuant to MAR, inside information is information of a precise nature, which has not been made public, relating, directly or indirectly, to the Issuer or to one or more financial instruments, and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments. Unless an exception applies, the Issuer must without delay publish the inside information by means of a press release and post and maintain it on its website for at least five years. The Issuer shall not combine the disclosure of inside information to the public with the marketing of its activities. The Issuer must also provide the AFM with this inside information at the time of publication.

It is prohibited for any person to make use of inside information by acquiring or disposing of, for its own account or for the account of a third party, directly or indirectly, financial instruments to which that information relates, as well as an attempt thereto (insider dealing). The use of inside information by cancelling or amending an order concerning a financial instrument to which the information relates where the order was placed before the person concerned possessed the inside information also constitutes insider dealing. In addition, it is prohibited for any person to disclose inside information to anyone else (except where the disclosure is made in the normal exercise of an employment, profession or duties) or, whilst in possession of inside information, to recommend or induce anyone to acquire or dispose financial instruments to which the information relates. Furthermore, it is prohibited for any person to engage in or attempt to engage in market manipulation, for instance by conducting transactions which give, or are likely to give, false or misleading signals as to the supply of, the demand for or the price of a financial instrument.

Consequences of non-compliance

Dutch law

Non-compliance with the notification obligations under the MAR and the Dutch Financial Supervision Act set out under *"—Notification and disclosure of holdings—Disclosure of holdings by Shareholders and holders of Depositary Interests under Dutch law"* and *"—Disclosure of holdings and transactions by management"* is an economic offence (*economisch delict*) and could lead to the imposition of criminal fines, administrative fines, imprisonment or other sanctions. The AFM may impose administrative penalties or a cease-and-desist order under penalty for non-compliance. If criminal charges are pressed, the AFM is no longer allowed to impose administrative penalties and vice versa, the AFM is no longer allowed to seek criminal prosecution if administrative penalties have been imposed. Furthermore, a civil court can impose measures against any person who fails to notify or incorrectly notifies the AFM of matters required to be correctly notified. A claim requiring that such measures be imposed must be instituted by the Issuer and/or one or more Shareholders who alone or together with others represent(s) at least 3% of the Issuer's issued share capital or are able to exercise at least 3% of the voting rights. The measures that the civil court may impose include:

- an order requiring the person violating the disclosure obligations under the Dutch Financial Supervision Act to make appropriate disclosure;
- suspension of voting rights in respect of such person's shares for a period of up to three years as determined by the court;
- voiding a resolution adopted by a General Meeting, if the court determines that the resolution would not have been adopted but for the exercise of the voting rights of the person who is obliged to notify, or suspension of a resolution until the court makes a decision about such voiding; and
- an order to the person violating the disclosure obligations under the Dutch Financial Supervision Act to refrain, during a period of up to five years as determined by the court, from acquiring the shares and/or voting rights in the shares.

UK law

Non-compliance under MAR in the UK could lead to the imposition of criminal fines, administrative fines, imprisonment or other sanctions.

Under the civil regime, the FCA has the authority to:

- impose an unlimited fine on the Issuer or any of its Directors;
- publish a report or a statement (known as public censure) naming the offender for his or her misdeeds;
- take certain actions through court proceedings such as applying for injunctions, freezing orders and restitution orders;
- suspend the permission of authorized persons who breach MAR to carry on regulated activities;
- impose a requirement on an offender to publish a specified statement or specified information; or
- in extreme cases, suspend trading of the shares of the offending company.

The Criminal Justice Act 1993 (the "**CJA**") sets out the criminal regime in the UK. The FCA has primary responsibility for enforcing the CJA, with power to investigate insider dealing offences and to appoint inspectors to investigate and report on suspected offences. Proceedings must be commenced within three years of the offence or within 12 months after the date on which sufficient evidence to justify the proceedings comes to the knowledge of the FCA. An individual, if found to be in breach of the CJA, is liable to unlimited fines and/or imprisonment for a term not exceeding six months on summary conviction or seven years on a conviction on indictment.

Financial reporting

Dutch law

The Netherlands will be the Issuer's home member state for the purposes of Directive 2004/109/EC (as amended by Directive 2013/50/EU) as a consequence of which the Issuer will be subject to the Dutch Financial Supervision Act in respect of certain ongoing transparency and disclosure obligations.

Annually, within four months after the end of the financial year, the Board must prepare the Issuer's annual accounts and make them available for inspection by the Shareholders at the office of the Issuer and on its website. The Issuer's annual accounts must be accompanied by an auditor's statement, a management report and certain other information required under Dutch law. The Issuer's annual accounts must be signed by the members of the Board.

The annual accounts, the auditor's statement, the management report and the other information required under Dutch law must be made available to the Shareholders for review as from the day of the notice convening the annual General Meeting. The annual accounts must be adopted by the General Meeting. The Board must send the adopted annual accounts to the AFM within five business days after adoption.

The Issuer must prepare and make publicly available a semi-annual financial report as soon as possible, but at the latest three months after the end of the first six months of the financial year. If the semi-annual financial report is audited or reviewed, the independent auditor's audit or review report, respectively, must be published together with the semi-annual financial report.

Dutch Financial Reporting Supervision Act

On the basis of the Dutch Financial Reporting Supervision Act (*Wet toezicht financiële verslaggeving*) (the "**FRSA**"), the AFM supervises the application of financial reporting standards by, among others, companies whose corporate seat is in the Netherlands and whose securities are listed on a regulated Dutch or foreign stock exchange, such as the Issuer.

Pursuant to the FRSA, the AFM has an independent right to (i) request an explanation from the Issuer regarding its application of the applicable financial reporting standards and (ii) recommend the Issuer to make available further explanations. If the Issuer does not comply with such a request or recommendation, the AFM may request the enterprise chamber of the court of appeal in Amsterdam (*Ondernemingskamer van het Gerechtshof te Amsterdam*) (the "**Enterprise Chamber**") to order the Issuer to (i) provide an explanation of the way it has applied the applicable financial reporting standards to its financial reports or (ii) prepare its financial reports in accordance with the Enterprise Chamber's instructions.

UK law

Under the Disclosure Guidance and Transparency Rules, the Issuer must publish annual and half-yearly financial information.

The annual report and accounts must be published within four months of the end of the financial period to which they relate. The consolidated accounts of the Issuer must be prepared in accordance with IFRS and the Issuer's own accounts must also be published. The annual accounts of the Issuer must be independently audited and the auditors' report disclosed in full. The auditors must be qualified to carry out company audits in the UK or another EEA state. The accounts must be accompanied by a management report of the Issuer containing, amongst other things, a fair review of the Issuer's business and a description of the principal risks and uncertainties facing the Issuer.

A management responsibility statement must be made, confirming that to the best of the knowledge of the management, the financial statements give a true and fair view and that the management report contains a fair review of the business and financial position of the Issuer, its consolidated undertakings, and the principal risks and uncertainties that it faces.

Audited or unaudited interim results in respect of the first six months of the financial year must be published no later than three months after the end of the half-year of the Issuer. If the half-yearly report of the Issuer has been audited or reviewed by auditors the review report must be reproduced in full in the half-yearly report. The half-yearly report must contain condensed financial statements, in accordance with IAS 34, or equivalent information, and must also contain information about any significant events that have occurred in the half-year and the principal risks and uncertainties for the remaining six months. The half-yearly report is required to include a responsibility statement in a similar form to that required for annual reports.

Rules governing obligations of shareholders to make a public takeover bid

In accordance with Directive 2004/25/EC, each EEA Member State should ensure the protection of minority shareholders by obliging any person that acquires control of a company to make an offer to all the holders of that company's voting securities for all their holdings at an equitable price.

Directive 2004/25/EC applies to all companies governed by the laws of an EEA Member State of which all or some voting securities are admitted to trading on a regulated market in one or more EEA Member States. The laws of the EEA Member State in which a company has its registered office will determine the percentage of voting rights that is regarded as conferring control over that company.

Dutch law

In accordance with Section 5:70 of the Dutch Financial Supervision Act, any person – whether acting alone or in concert with others – who, directly or indirectly, acquires a controlling interest in the Issuer will be obliged to launch a mandatory public offer for all outstanding shares in the share capital of the Issuer and depositary receipts for such shares issued with the Issuer's cooperation. A controlling interest is deemed to exist if a (legal) person is able to exercise, alone or acting in concert, at least 30% of the voting rights in the General Meeting. An exception is made for, among others, Shareholders who – whether alone or acting in concert with others: (i) have an interest of at least 30% of the Issuer's voting rights before Admission and who still have such an interest after Admission, and (ii) reduce their holding to below 30% of the voting rights within 30 days of the acquisition of the controlling interest, provided that (a) the reduction of their holding was not effected by a transfer of Ordinary Shares to an exempted party and (b) during such period, such Shareholders or group of Shareholders did not exercise their voting rights.

The rules under the Dutch Financial Supervision Act regarding mandatory public offers apply to the Issuer because it has its corporate seat in the Netherlands. However, as the Ordinary Shares are not admitted to trading on a regulated market in the Netherlands but are admitted to trading on the London Stock Exchange, the Dutch Decree on public offers (*Besluit openbare biedingen Wft*) will only apply in relation to matters relating to information to be provided to trade unions and employees and company law matters, including the convocation of a General Meeting in the event of a public offer and a position statement of the Issuer.

UK law

Following Admission, the Group will be subject to the shared jurisdiction of the UK City Code on Takeovers and Mergers (the "**City Code**") and applicable Dutch takeover law.

As the Issuer is incorporated under the laws of the Netherlands and has its registered office in the Netherlands, it will continue to be subject to the Dutch decree on public offers as described above. However, as long as the Ordinary Shares are only admitted to trading on the main market for listed securities of the London Stock Exchange (and are not admitted to trading on a regulated market in any other EEA member state), in supervising any bid the UK Panel on Takeovers and Mergers, applying the City Code, will be responsible for matters relating to the consideration offered and the bid procedure. However, in relation to, among other matters, employee information and company law matters, the Dutch decree on public offers as described above will apply.

Squeeze-out proceedings

Pursuant to Section 2:92a Dutch Civil Code, a shareholder who for his or her own account contributes at least 95% of a Dutch company's issued share capital may institute proceedings against such company's minority shareholders jointly for the transfer of their shares to him or her. The proceedings are held before the Enterprise Chamber and can be instituted by means of a writ of summons served upon each of the minority shareholders in accordance with the provisions of the Dutch Code of Civil Procedure (*Wetboek van Burgerlijke Rechtsvordering*). The Enterprise Chamber may grant the claim for squeeze-out in relation to all minority shareholders and will determine the price to be paid for the shares, if necessary after appointment of one or three experts who will offer an opinion to the Enterprise Chamber on the value to be paid for the shares of the minority shareholders. Once the order to transfer becomes final before the Enterprise Chamber, the person acquiring the shares shall give written notice of the date and place of payment and the price to the holders of the shares to be acquired whose addresses are known to him. Unless the addresses of all of them are known to him, he is required to publish the same in a daily newspaper with nationwide circulation.

The offeror under a public takeover bid is also entitled to start squeeze-out proceedings if, following the public takeover bid, the offeror contributes at least 95% of the outstanding share capital and represents at least 95% of the total voting rights. The claim of a takeover squeeze-out needs to be filed with the Enterprise Chamber within three months following the expiry of the acceptance period of the offer. The Enterprise Chamber may grant the claim for squeeze-out in relation to all minority shareholders and will determine the price to be paid for the shares, if necessary after appointment of one or three experts who will offer an opinion to the Enterprise Chamber on the value to be paid for the shares of the minority shareholders. In principle, the offer price is considered reasonable if the offer was a mandatory offer or if at least 90% of the shares to which the offer related were received by way of voluntary offer.

The Dutch takeover provisions of the Dutch Financial Supervision Act also entitle those minority shareholders that have not previously tendered their shares under an offer to transfer their shares to the offeror, provided that the offeror has acquired at least 95% of the outstanding share capital and represents at least 95% of the total voting rights. With regard to price, the same procedure as for takeover squeeze-out proceedings initiated by an offeror applies. The claim also needs to be filed with the Enterprise Chamber within three months following the expiry of the acceptance period of the offer. UK law is not relevant in relation to squeeze-out proceedings.

TAXATION FOR SHAREHOLDERS

Taxation in the United Kingdom, Austria and the Netherlands

The following statements are intended only as a general guidance to certain Austrian, Dutch and UK tax considerations and do not purport to be a complete analysis of all potential Austrian, Dutch and UK tax consequences of holding or disposing of the Ordinary Shares or to deal with the tax consequences applicable to all categories of investors. They are based on Austrian, Dutch and UK tax legislation, published case law, double tax treaties, regulations and published policy, in each case as in force as of the date of this Prospectus, and (except where discussed expressly) they do not take into account any developments or amendments thereof after that date whether or not such developments or amendments have retroactive effect. They have been prepared on the basis that the Issuer is considered tax resident in Austria under the tax laws of Austria and under the double taxation treaty between Austria and the Netherlands.

Except where the position of non-residents is expressly referred to, the summary relates solely to persons who are resident in the country to which the section refers to for this country's tax purposes and who (in the case of individuals only) are domiciled in the country for this country's tax purposes. The discussion does not address all of the tax consequences that may be relevant to persons or entities subject to special treatment (such as brokers, dealers or traders in securities, insurance companies, collective investment schemes, tax-exempt organizations or any person who is connected with the Issuer or acquired (or is deemed to have acquired) their shares by reason of an office or employment).

Persons interested in purchasing the Ordinary Shares should seek advice from their own tax counsel regarding the tax implications of purchasing, holding, disposing, donating and bequeathing the Ordinary Shares, and the regulations on reclaiming previously withheld withholding tax. Due consideration to a shareholder's specific tax-related circumstances can only be given within the scope of an individual tax consultation.

THE STATEMENTS ARE INTENDED AS A GENERAL GUIDANCE ONLY AND DO NOT CONSTITUTE LEGAL OR TAX ADVICE. NEITHER THE ISSUER, THE SELLING SHAREHOLDER, ANY OF THE BANKS OR ANY DIRECTOR, OFFICER, EMPLOYER, EMPLOYEE OR AGENT OF ANY OF THEM, OR AFFILIATE OF ANY SUCH PERSON, ASSUMES LIABILITY TO SHAREHOLDERS ON THESE MATTERS UNDER CONTRACT LAW. HOLDERS OF THE ORDINARY SHARES WHO ARE IN ANY DOUBT AS TO THEIR TAX POSITION OR WHO MAY BE SUBJECT TO TAX IN A JURISDICTION OTHER THAN AUSTRIA, THE NETHERLANDS OR UK ARE STRONGLY RECOMMENDED TO CONSULT THEIR OWN PROFESSIONAL ADVISERS.

Taxation in Austria

General

The Issuer is considered tax resident in Austria under the tax rules of Austria and under the double taxation treaty between Austria and the Netherlands. The following sections describe a number of key Austrian taxation principles that may be relevant to purchasing, holding or transferring the Ordinary Shares, given that the Issuer is tax resident in Austria.

Shareholders of the Issuer are subject to taxation in connection with the holding of the Ordinary Shares (see "*–Taxes on Income (Dividends)*") and the disposal of the Ordinary Shares (see *"–Taxes on Capital Gains*").

Taxes on Income (Dividends)

Withholding Tax

Under Austrian domestic law, there is generally a 25% withholding tax ("**WHT**", in German: *Kapitalertragsteuer*) for corporations and 27.5% WHT for other recipients on dividends (profit distributions), which can be reclaimed, if exemptions are applicable. The WHT has to be deducted and forwarded to the tax office by the corporation tax resident in Austria distributing the dividend.

Austrian Resident Corporations

Dividends (profit distributions) paid by a corporation tax resident in Austria to corporations that are tax resident in Austria and subject to corporate income tax are generally exempt from tax. However, a WHT of 25% must be withheld and an additional 2.5% can be withheld, unless the receiving corporation holds a direct or indirect participation of at least 10%. WHT deducted can subsequently be reclaimed in the annual tax return. As a general rule of Austrian tax law, expenses related to non-taxable income (in this case the dividends) are not tax deductible.

Austrian Resident Individuals

Dividends (profit distributions) paid by a corporation tax resident in Austria to individuals (including other legal forms, e.g. partnerships with individuals as partners) tax resident in Austria are subject to income tax. The tax liability is generally satisfied by withholding a flat tax of 27.5% on the amount of the distribution (i.e. the income does not have to be declared in an annual tax return). The flat tax has to be deducted and forwarded by the corporation to the tax office. Expenses incurred in connection with income taxable at the special (flat) tax rate are not tax deductible.

Should the individual effective tax rate be lower than 27.5%, shareholders may apply for the whole amount of their investment income, including dividends, to be taxed at the progressive income tax rate based on their personal circumstances instead of the flat-rate WHT. For such cases, it is also not possible to deduct any income-related expenses.

Upon application, losses from investment income (including losses generated by the disposal of shares) may be set off against dividend income.

Non-Austrian Residents (Individual and Corporate)

Generally, dividends (profit distributions) paid by corporations tax resident in Austria to persons tax resident in other countries are subject to tax in Austria due to limited tax liability. The tax liability is generally satisfied by withholding a flat tax of 27.5%. Tax exemptions or reductions might be available, according to the applicable double tax treaty. To end up with the reduced WHT rate as set forth under the double tax treaty applicable, Austrian tax law provides for the following alternative methods of WHT relief: refund method or exemption at source method.

Refunds have to be applied for at the Austrian tax authority. The application for refund cannot be filed before the calendar year, in which the WHT was deducted, has expired, but not later than five years after the end of the calendar year in which the WHT was deducted.

The exemption at source is granted in line with the Austrian *DBA-Entlastungsverordnung* (double tax treaty relief regulation). A prerequisite for the admissibility of the tax relief at source is that the withholding agent (i.e. the company distributing the dividend) complies with the recording requirements as stipulated in the regulation. The scope of the recording obligations depends on the amount and type of remuneration and on the legal form of the dividend recipient.

If the remuneration to a foreign beneficiary is more than EUR 10,000 per calendar year, a tax relief at source is permissible only if he submits a certificate of residence issued by the foreign tax administration.

If the total remuneration to a foreign recipient does not exceed EUR 10,000, the certificate of residence can be replaced by the following statement in a written declaration:

(i) family and first name or name of the legal person (e.g. company);

(ii) declaration that there is no place of residence in Austria (for individuals);

(iii) addresses of dwellings in foreign countries, denomination of centre of vital interests (for individuals);

(iv) country of incorporation and address of the place of effective management (for corporations);

(v) declaration that there is no obligation to transfer the income to other persons;

(vi) a statement that the income is not attributable to a domestic permanent establishment;

(vii) nature and amount of remuneration received.

Irrespective of the amount of the remuneration, if the foreign recipient of the income is a corporation, the recipient has to declare the following to prove substance ("substance declaration"):

(i) the activity goes beyond asset management;

(ii) they employ own workforce;

(iii) they have their own premises available.

A successful application for refund within the last 3 years, replaces the substance declaration described above.

With regard to dividends paid to EU resident corporate shareholders, Austria has implemented the EU Parent/Subsidiary Directive according to which domestic WHT is reduced to zero. The requirements for the reduction are that the EU resident parent company must directly or indirectly hold at least 10% of the share capital of the Austrian subsidiary for a period of at least one year. Further, a certificate of residence is required and the substance requirements have to be met so that an exemption at source is possible. Consequently, pure holding companies cannot benefit from an exemption at source but have to go through the refund procedure.

If the requirements according to the EU Parent/Subsidiary Directive are not met, Austrian WHT has to be deducted. If an EU parent company cannot credit the Austrian WHT deducted against the corporate income tax of its residence state (e.g. because the dividend income is exempt from corporate income tax or due to a loss position of the shareholder), it is entitled to apply for a refund of the Austrian WHT. This application has to include a confirmation/documentation that the Austrian WHT could (fully or partly) not be credited at the level of the parent company.

Taxes on Capital Gains

Austrian Resident Corporations

Capital gains from the sale of shares are subject to corporate income tax at the rate of 25% and have to be declared in the annual tax return (unless held in an Austrian securities depot/administered by an Austrian withholding agent, see below). The taxable capital gain is calculated by deducting the acquisition costs (including the acquisition-related costs) of the shares from the disposal proceeds. A tax-deductible loss has to be spread over seven years.

Austrian Resident Individuals

Capital gains from the sale of shares owned by Austrian tax resident individuals (including other legal forms that are not corporations, e.g. partnerships with individuals as partners) are generally classified as capital income and are subject to income tax at the special (flat) tax rate of 27.5%, irrespective of how long the shares have been held.

If the shares are held in an Austrian securities deposit, the tax on the capital gain will in general be deducted on behalf of the seller of the shares by the Austrian withholding agent at the rate of 27.5%. If not, the capital income has to be declared in the annual tax return. Should the individual effective tax rate be lower than 27.5%, shareholders may apply for the whole amount of their capital income to be taxed at the progressive income tax rate based on their personal circumstances instead of the flat-rate WHT.

The tax base is calculated by deducting the acquisition costs from the disposal proceeds. For individuals holding the shares in their private accounts acquisition-related costs do not count as acquisition costs. If the shares are business assets, acquisition-related costs may be deducted. Expenses incurred in connection with income taxable at the special (flat) tax rate are not tax deductible.

Capital losses derived from the sale of shares may only be set off against other capital income (except interest derived from bank deposits). For private investors a loss carry-forward is not possible. If the investments are held as business assets, one-half of the excess amount can be carried forward.

Non-Austrian Residents (Individual and Corporate)

Capital gains derived from the sale of shares held in Austrian tax-resident corporations are taxable in Austria, if the participation is at least 1% (once in an observation period of five years). An exemption due to an applicable double tax treaty might be available. Generally, double tax treaties that follow the OECD model convention grant the exclusive taxation right to the residence state of the investor.

The tax treaty between Austria and UK generally grants the taxation right to the residence state; however, the taxation right is also granted to the other state if the owner of the shares has been tax resident in the other state within the last three years and the capital gain is not taxable in the state of residence. The tax treaty between Austria and the Netherlands generally grants the taxation right to the state of residence, however, the taxation right is also granted to the other state if the owner of the shares has been tax resident in the other state in the last five years.

Exit Tax and Transfer to Other Deposit

Generally, capital gains are only taxed at the disposal of the shares. Circumstances that lead to the loss of Austria's taxation right regarding the hidden reserves in the shares, e.g. the moving away from Austria or the moving away from a country that grants Austria the taxation right on capital gains in shares in the applicable double taxation treaty, lead to a deemed sale of the shares and thus to the realisation of a taxable capital gain (25% for corporations and 27.5% for individuals).

Special rules apply to the loss of the taxation right in relation to EEA Member States: Generally, the taxpayer can apply for the tax on the capital gain to be paid in annual installments (seven years for non-current assets, two years for current assets). A later disposal of the shares (the further loss of the taxation right to a non-EEA member state also counts as such disposal) leads to the acceleration of the outstanding instalments. If an individual moves to another EEA Member State, instead of the instalment mechanism, they may apply for the tax to be only calculated, but not paid until a later disposal of the shares (the further loss of the taxation right to a non-EEA member state also counts as such disposal).

Additionally, the transfer of shares from a securities deposit or a transfer to another securities deposit is regarded as a deemed sale. The fair market value at the time of the withdrawal or the transfer of the shares is regarded as the disposal proceeds. Certain exemptions apply in bona fide cases.

Gift and Inheritance Tax/Other Taxes

Generally, there are no gift or inheritance taxes in Austria. However, if gifts or inheritances lead to the loss of Austria's taxation right the exit tax rules might apply (see above). For Austrian VAT purposes the issuance or sale of shares does not represent a VATable event. No stamp duties or other transfer taxes are imposed on the issuance or sale of shares.

Taxation in the Netherlands

General

The Issuer is considered tax resident in Austria under the tax rules of Austria and under the double taxation treaty between Austria and the Netherlands.

For the purpose of this summary, the term "entity" refers to a corporation as well as any other person that is taxable as a corporation for Dutch corporate income tax purposes.

Where this summary refers to a holder of an Ordinary Share, an individual holding an Ordinary Share or an entity holding an Ordinary Share, such reference is restricted to an individual or entity holding legal title to as well as an economic interest in such Ordinary Share or otherwise being regarded as owning an Ordinary Share for Dutch tax purposes. It is noted that for purposes of Dutch income, corporate, gift and inheritance tax, assets legally owned by a third party such as a trustee, foundation or similar entity, may be treated as assets owned by the (deemed) settlor, grantor or similar originator or the beneficiaries in proportion to their interest in such arrangement.

Where the summary refers to "the Netherlands" or "Dutch" it refers only to the European part of the Kingdom of the Netherlands.

Except for the section "—Withholding tax", this summary does not describe the Dutch tax consequences for an individual or non-resident entity holding an Ordinary Share which individual or non-resident entity has or will have a substantial interest or a deemed substantial interest in the Issuer.

Generally speaking, an individual holding an Ordinary Share has a substantial interest in the Issuer if (a) such individual, either alone or together with his partner, directly or indirectly has or (b) certain relatives by blood or marriage in the direct line (including foster children) of such individual or his partner, directly or indirectly have (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5% or more, of either the total issued and outstanding capital of the Issuer or the issued and outstanding capital of any class of shares of the Issuer or (ii) the ownership of, or certain rights over, profit participating certificates (*winstbewijzen*) that relate to 5% or more of either the annual profit or the liquidation proceeds of the Issuer. Also, an individual holding an Ordinary Share has a substantial interest in the Issuer, if his partner has, or if certain relatives of the individual or his partner have, a deemed substantial interest in the Issuer. Generally, an individual holding an Ordinary Share, or his partner or relevant relative, has a deemed substantial interest in the Issuer if either (a) such person or his predecessor has disposed of or is deemed to have disposed of all or part of a substantial interest or (b) such person has transferred an enterprise in exchange for shares in the Issuer, on a non-recognition basis.

Generally speaking, a non-resident entity holding an Ordinary Share has a substantial interest in the Issuer if such entity, directly or indirectly has (i) the ownership of, a right to acquire the ownership of, or certain rights over shares representing 5% or more of either the total issued and outstanding capital of the Issuer or the issued and outstanding capital of any class of shares of the Issuer or (ii) the ownership of, or certain rights over, profit participating certificates (*winstbewijzen*) that relate to 5% or more of either the annual profit or the liquidation proceeds of the Issuer. Generally, an entity holding an Ordinary Share has a deemed substantial interest in the Issuer, if such entity has disposed of or is deemed to have disposed of all or part of a substantial interest on a non-recognition basis.

This summary does not describe the Dutch tax consequences for investment institutions (*fiscale beleggingsinstellingen*), pension funds, exempt investment institutions (*vrijgestelde beleggingsinstellingen*) or other Dutch tax resident entities that are not subject to or exempt from Dutch corporate income tax.

Furthermore, this summary does not describe the Dutch tax consequences for entities which are a resident of Aruba, Curacao or Sint Maarten that have an enterprise which is carried on through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) on Bonaire, Sint Eustatius or Saba and the Ordinary Shares are attributable to such permanent establishment or permanent representative.

Withholding Tax

The Issuer is generally required to withhold Dutch dividend withholding tax from dividends distributed on the Ordinary Shares at the rate of 15%.

As an exception to this rule, the Issuer may not be required to withhold Dutch dividend withholding tax, if it is considered to be a tax resident of both the Netherlands and Austria, or the Netherlands and another jurisdiction in accordance with the domestic tax residency provisions applied by each of these jurisdictions, while an applicable double tax treaty between the Netherlands and Austria, or the Netherlands and such other jurisdiction attributes tax residency to Austria or that other jurisdiction, respectively. This exception does not apply to dividends distributed by the Issuer to a holder which is resident or deemed to be resident in the Netherlands for Dutch income tax purposes or Dutch corporate income tax purposes.

The concept of dividends distributed on the Ordinary Shares includes, without limitation:

(i) distributions of profits (including paid-in capital not recognized for dividend withholding tax purposes) in cash or in kind, including deemed and constructive dividends;

(ii) liquidation distributions and, generally, proceeds realized upon a repurchase of Ordinary Shares by the Issuer or upon the transfer of Ordinary Shares to a direct or indirect subsidiary of the Issuer, in excess of the average paid-in capital recognized for dividend withholding tax purposes;

(iii) the nominal value of Ordinary Shares issued or any increase in the nominal value of Ordinary Shares, except where such (increase in) the nominal value of Ordinary Shares is funded out of the Issuer's paid-in capital recognized for dividend withholding tax purposes;

(iv) repayments of paid-in capital recognized for dividend withholding tax purposes up to the amount of the Issuer's profits (*zuivere winst*) unless the General Meeting has resolved in advance that the Issuer shall make such repayments and the nominal value of the Ordinary Shares concerned has been reduced by a corresponding amount through an amendment of the Articles of Association.

A holder of an Ordinary Share who is, or is deemed to be, resident in the Netherlands for Dutch tax purposes may generally be entitled to credit the dividend withholding tax withheld against such holder's liability to Dutch tax on income and capital gains.

Under the terms of Dutch domestic anti-dividend stripping rules, a recipient of dividends distributed on an Ordinary Share will not be entitled to an exemption from, reduction, refund, or credit of dividend tax if the recipient is not the beneficial owner of such dividends as meant in those rules.

Taxes on Income and Capital Gains

Resident Entities

An entity holding an Ordinary Share which is, or is deemed to be, resident in the Netherlands for Dutch tax purposes and which is not tax exempt, will generally be subject to corporate income tax in the Netherlands in respect of income or a capital gain derived from such Ordinary Share at the prevailing statutory rates (at up to a maximum rate of 25%), unless the holder has the benefit of the participation exemption (*deelnemingsvrijstelling*) with respect to such Ordinary Share. The holder of an Ordinary Share may under certain circumstances have the benefit of the participation exemption (*deelnemingsvrijstelling*) if the holder owns at least 5% of the nominally paid-up share capital of the Issuer or has a right to acquire such interest.

Resident Individuals

An individual holding an Ordinary Share who is, or is deemed to be, resident in the Netherlands for Dutch tax purposes will be subject to income tax in the Netherlands in respect of income or a capital gain derived from such Ordinary Share at rates up to 52% if:

(i) the holder has an enterprise or an interest in an enterprise, to which the Ordinary Share is attributable; or

(ii) the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) as defined in the Income Tax Act (*Wet inkomstenbelasting 2001*).

If neither condition (i) nor condition (ii) applies, such individual will be subject to income tax on the basis of a deemed return, regardless of any actual income or capital gain derived from an Ordinary Share. The deemed return currently amounts to up to 5.39% of the value of the individual's net assets as per the beginning of the relevant financial year (including the Ordinary Share). Subject to application of personal allowances, the deemed return shall be taxed at a rate of 30%.

Non-residents (Entities and Individuals)

A holder of an Ordinary Share which is not, and is not deemed to be, resident in the Netherlands for Dutch tax purposes will not be subject to taxation in the Netherlands on income or a capital gain derived from an Ordinary Share unless:

(i) such income or capital gain is attributable to an enterprise or part thereof which is either effectively managed in the Netherlands or carried on through a permanent establishment (*vaste inrichting*) or permanent representative (*vaste vertegenwoordiger*) taxable in the Netherlands; or

(ii) the holder is an individual and such income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in the Netherlands as defined in the Income Tax Act (*Wet inkomstenbelasting 2001*).

Gift and Inheritance Tax

Dutch gift or inheritance taxes will not be levied on the occasion of the transfer of an Ordinary Share by way of gift by, or on the death of, a holder, unless:

(i) the holder is or is deemed to be resident in the Netherlands for the purpose of the relevant provisions, or

(ii) the transfer is construed as an inheritance or gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in the Netherlands for the purpose of the relevant provisions.

Value Added Tax

Generally, no value added tax should be due in the Netherlands in respect of payments in consideration for the issuance of an Ordinary Share, payments on an Ordinary Share or payments made upon a transfer of an Ordinary Share.

Other Taxes and Duties

There is no registration tax, capital tax, customs duty, transfer tax, stamp duty or any other similar tax or duty payable in the Netherlands in respect of or in connection with the subscription, issue, placement, allotment, delivery or transfer of an Ordinary Share.

Residence

A holder of an Ordinary Share will not be, or deemed to be, resident in the Netherlands for Dutch tax purposes and, subject to the exceptions set out above, will not otherwise be subject to Dutch taxation, by reason only of acquiring, holding or disposing of an Ordinary Share.

Taxation in the United Kingdom

General

The guidance below is intended to apply only to Shareholders who (unless the position of non-UK resident shareholders is expressly referred to) are resident, or if individuals resident and domiciled or deemed domiciled and to whom "split year" treatment does not apply, in the UK for UK tax purposes, who are the absolute beneficial owners of Ordinary Shares or Depositary Interests (which are not held through an Individual Savings Account or a Self-Invested Personal Pension Plan) and who hold the Ordinary Shares or Depositary Interests as an investment and not on trading account or through trust arrangements or as a trustee.

Any reference in this "*Taxation in the United Kingdom*" section (other than the section "*Stamp duty and stamp duty reserve* tax ("SDRT") in the UK") to Ordinary Shares includes a reference to Depositary Interests.

The following statements also assume that the Finance Bill 2017-2019 will be enacted in substantially its current form. Royal Assent of the Bill is expected to take place in late 2017.

Shareholders who are in any doubt as to their tax position are strongly recommended to consult their own professional advisers.***The Issuer***

The Issuer is not incorporated in the UK nor is it intended that the affairs of the Issuer will be managed and controlled in the UK. Consequently, the Issuer is not and should not become resident in the UK for UK taxation purposes. The remainder of this section is written on the basis that the Issuer is not, and does not become, so resident. Accordingly, and provided that the Issuer does not carry on a trade in the UK (whether or not through a permanent establishment situated therein), the Issuer will not be subject to UK income tax or corporation tax on its profits other than on any UK source income from which UK tax is deducted at source. Certain interest and certain other types of income received by the Issuer which have a UK source may be subject to UK withholding taxes.

Taxes on Income (Dividends)

Withholding Tax

The Issuer will not be required to withhold amounts on account of UK tax at source when paying a dividend.

UK Resident Corporations

Corporate Shareholders within the charge to UK corporation tax which are "small companies" for the purpose of UK taxation of dividends will be subject to UK tax on dividends received from the Issuer on the basis that the Issuer is liable to tax under the domestic laws of both Netherlands and Austria.

A Shareholder that is not a "small company" for the purposes of UK taxation of dividends should not be subject to UK corporation tax on dividends received from the Issuer so long as the dividends fall within an exempt class and certain conditions are met. In general (i) dividends paid on non-redeemable "ordinary shares" (that is, non-redeemable shares that do not carry any present or future preferential rights to dividends or to the Issuer's assets on its winding-up) and (ii) dividends paid to a United Kingdom resident corporate Shareholder holding less than 10% of the issued share capital of the class in respect of which the dividend is paid should fall within an exempt class. However, it should be noted that the exemptions are not comprehensive and are subject to anti-avoidance rules. Shareholders will need to ensure that they satisfy the requirements of any exempt class and that no anti-avoidance rules apply before treating any dividend as exempt.

UK Resident and Domiciled Individuals

References to individuals in this section are to individuals resident for tax purposes and domiciled (or deemed domiciled) in the United Kingdom.

When the Issuer pays a dividend to a Shareholder who is an individual , the amount of income tax payable on the receipt, if any, will depend on the individual's own personal tax position.

No UK income tax should be payable by an individual Shareholder if the amount of dividends received, when aggregated with the Shareholder's other dividend income in the year of assessment, does not exceed the nil rate amount (GBP 5,000 for the tax year beginning 6 April 2017 and ending 5 April 2018. reduced to GBP 2,000 for dividends received after April 6, 2018, subject to Finance Bill 2017 - 19 being enacted in its current form.

Any dividend income received by an individual Shareholder in a tax year in excess of the nil rate amount will be subject to income tax at the following dividend rates for 2017/18: 7.5% for basic rate tax payers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers. "Dividend income" for these purposes includes UK and non UK source dividends and certain other distributions in respect of shares.

If Austrian withholding tax has been deducted from the dividend, relief for this overseas tax suffered may be available against this additional UK tax liability. The amount of relief from UK tax must not exceed the UK income tax on that dividend income.

Dividend income that is within the dividend nil rate amount counts towards an individual's basic or higher rate limits – and will therefore affect the level of savings allowance to which they are entitled, and the rate of tax that is due on any dividend income in excess of the nil rate amount. In calculating into which tax band any dividend income over the nil rate amount falls, savings and dividend income are treated as the highest part of an individual's income. Where an individual has both savings and dividend income, the dividend income is treated as the top slice

Taxes on Capital Gains–taxation of chargeable gains arising on sale or other disposal

A disposal or deemed disposal of the Ordinary Shares by a Shareholder who is resident for tax purposes in the UK may, depending on the Shareholder's circumstances and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purposes of UK taxation on chargeable gains.

UK Resident Individuals

For an individual Shareholder within the charge to UK capital gains tax, a disposal (or deemed disposal) of Ordinary Shares may give rise to a chargeable gain or an allowable loss for the purposes of capital gains tax. The rate of capital gains tax on the disposal of shares is 10% (for the tax year beginning 6 April 2017 and ending 5 April 2018) for individuals who are subject to income tax at the basic rate and 20% (for the tax year beginning 6 April 2017 and ending 5 April 2018) for individuals who are subject to income tax at the higher or additional rates. An individual Shareholder is entitled to realize an annual exempt amount of gains currently GBP 11,300 (for the tax year beginning 6 April 2017 and ending 5 April 2018), 2018 without being liable to tax.

UK Resident Corporations

For a corporate Shareholder within the charge to UK corporation tax, a disposal (or deemed disposal) of the Ordinary Shares may give rise to a chargeable gain or allowable loss for the purposes of UK corporation tax, depending on the circumstances and subject to any available exemption or relief. Indexation allowance may reduce the amount of any chargeable gain for these purposes, but will not create or increase any allowable loss. The main rate of UK corporation tax is currently 19% with effect from April 1, 2017.

Non UK Resident (Individual and Corporate)

A Shareholder (individual or corporate) who is not resident in the UK for tax purposes is generally not subject to UK taxation on chargeable gains unless the asset is situated in the United Kingdom and such a Shareholder carries on a trade, profession or vocation in the UK through a branch or agency or, in the case of a non-UK resident corporate Shareholder, a permanent establishment to which the Ordinary Shares are attributable. The Ordinary Shares will be assets situated outside the United Kingdom for the purposes of capital gains tax provided that the Ordinary Shares are not registered in any register kept in the UK. They may, however, be subject to taxation under their local law.

A Shareholder who is an individual and who has previously been resident in the United Kingdom (or ordinarily resident in the case of a cessation prior to the 2013/2014 UK tax year) may in some cases be subject to UK tax on chargeable gains in respect of a disposal of the Shares during his/her period of non-residence in the event that he/she re-establishes residence in the United Kingdom.

Inheritance tax

The Ordinary Shares will be assets situated outside the United Kingdom for the purposes of United Kingdom inheritance tax provided that the shares are not registered in any register kept in the United Kingdom. UK inheritance tax may be chargeable on the death of, or on a gift of shares situated outside the United Kingdom by, a shareholder who is domiciled or is deemed to be domiciled in the United Kingdom (subject to certain exemptions and reliefs). For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit.

Where a holder is neither domiciled nor deemed domiciled (under certain rules relating to long residence or previous domicile) in the United Kingdom, neither a gift of such assets by the holder nor the death of such holder will give rise to a liability to United Kingdom inheritance tax.

UK Stamp duty and stamp duty reserve tax ("SDRT")

The following statements about UK stamp duty and SDRT apply regardless of whether or not a shareholder is resident, domiciled or deemed domiciled in the UK.

Issue of Ordinary Shares and Depositary Interests

No UK stamp duty or SDRT will be payable on the issue of the Ordinary Shares or Depositary Interests.

Transfer of Ordinary Shares

No SDRT will be payable on the transfer of the Ordinary Shares provided that the Ordinary Shares are not registered on a share register that is kept in the UK by or on behalf of the Issuer.

No stamp duty will be payable on a transfer of the Ordinary Shares provided that (i) any instrument of transfer is not executed inside the UK and (ii) such instrument of transfer does not relate to any property situated, or to any matter or thing done or to be done, in the UK. In practice, it may not be necessary to pay such stamp duty but Shareholders should note that if an instrument of transfer is chargeable to UK stamp duty, that instrument may not be produced in civil proceedings in the UK, and may not be available for any other purpose in the UK (other than criminal proceedings) until any UK stamp duty that is due, and any interest and penalties for late stamping, have been duly paid.

Transfer of Depositary Interests

No UK stamp duty will be payable on the transfer of the Depositary Interests within CREST.

No UK SDRT will be payable on the transfer or any agreement to transfer the Depositary Interests provided that:

(i) the Issuer does not exercise its central management and control in the UK;

(ii) the Ordinary Shares are not registered on a share register that is kept in the UK by or on behalf of the Issuer; and

(iii) the Ordinary Shares will be (and remain) listed on the Official List of the London Stock Exchange and are admitted to trading on its main market for listed securities.

ADDITIONAL INFORMATION

Significant change in the Issuer's financial condition and trading position

As at the date of this Prospectus, there have been no significant changes to RHI Group's financial condition and trading position subsequent to the period covered by the historical financial statements contained in this Prospectus with the exception of the following:

RHI entered into (i) the New Debenture Bond in the amount of EUR 178.0 million in July 2017 to refinance existing debenture bonds in the corresponding nominal amount, (ii) the EUR 88.0 million Equity Bridge in September 2017 to finance the share component of the Mandatory Offer and (iii) the EUR 477.2 million Syndicated Loan in August 2017 to refinance certain existing liabilities, to finance the Acquisition of Control and the Mandatory Offer, to establish a revolving credit facility in the amount of EUR 100 million and to cover a potential market risk in relation to the equity bridge financing.

As at the date of this Prospectus, there have been no significant changes to Magnesita Group's financial condition and trading position subsequent to the period covered by the historical financial statements contained in this Prospectus.

Costs in connection with the Admission

The Issuer estimates that its total costs in connection with the Admission will amount to approximately EUR 6 million.

Documents Available for Inspection

For the period during which this Prospectus is valid, the following documents will be available free of charge for inspection during regular business hours at the offices of the Issuer, located at Wienerbergstrasse 9, 1100 Vienna, Austria:

- the Articles of Association; and
- this Prospectus.

The above documents are also available on the Issuer's website set up for purposes of this Prospectus (prospectus.rhimagnesita.com).

The Issuer's future consolidated annual and interim financial statements will be available from the Issuer on its website (www.rhimagnesita.com).

Major shareholders

Insofar as is known to the Issuer on the basis of notification of shareholdings under Austrian law* and information provided by the Sellers, the following legal entities are expected to hold, directly or indirectly, 3% or more of the Issuer's capital and voting rights, upon the Merger becoming effective and following the issuance of 5,000,000 new Ordinary Shares to the sellers of Magnesita shares as part of the Acquisition of Control:

Shareholder	Number of Ordinary Shares	Percentage
MSP Stiftung[(1)]	11,347,058	25.32
Alumina Holdings LLC [(2)]	3,543,320	7.90
Chestnut Beteiligungsgesellschaft mbH[(3)]	2,088,461	4.66
Silver Beteiligungsgesellschaft mbH[(3)]	2,088,461	4.66

(1) MSP Stiftung is a foundation under Liechtenstein law, whose founder is Mag. Martin Schlaff. Mr. Schlaff has certain supervisory rights and the right to unilaterally amend the foundation documents with respect to MSP Stiftung. Upon completion of the Merger MSP Stiftung directly and Mr. Schlaff indirectly (via MSP Stiftung) will

hold 11,347,058 voting rights in the Issuer.

(2) The Issuer has been informed by GP Investments that Alumina Holdings LLC is a corporation incorporated under the laws of the Delaware, USA, which holds 35.4% of Magnesita's total share capital and is controlled, indirectly, by GP Capital Partners III, L.P. ("**GPCPIII**") and GP Capital Partners IV, L.P. ("**GPCPIV**"), whose purpose is to carry out private equity investments, or related private equity, seeking control or shared control, or an influential minority in the target companies; the ownership in such funds is dispersed and no single quota holder/entity individually exercises control over them. GPCPIII and GPCPIV are respectively managed by GP Investments (Cayman) III, Ltd. and GP Investments IV, Ltd., both of which are wholly-owned subsidiaries of GP Investments, a company headquartered in Bermuda, which is controlled by Partners Holdings, Inc., a company incorporated under the laws of the British Virgin Islands, is controlled by Antonio Bonchristiano and Fersen Lambranho. GP Investments is a listed company listed on the Luxembourg Stock Exchange and has its shares traded on the Brazilian Stock Exchange by means of certificates of deposit of shares..

(3) Ms. Elisabeth Prinzessin zu Sayn-Wittgenstein holds a controlling interest in Chestnut Beteiligungsgesellschaft mbH ("**Chestnut**"), while Mr. Konstantin Alfred Winterstein exercises control over Silver Beteiligungsgesellschaft mbH ("**Silver**"). Ms. Sayn-Wittgenstein made an agreement with Mr. Winterstein which allows Chestnut to exercise the voting rights of Silver in RHI. Ms. Sayn-Wittgenstein and Mr. Winterstein share a family relationship.

(Information as at October 13, 2017.)

* Under Austrian law, the threshold for notification of interests in the capital and voting rights of an issuer is set at 4%. RHI will therefore in principle not be aware of shareholders holding an interest below 4% of its capital or voting rights.

These shareholders do not have voting rights different from the other holders of Ordinary Shares.

Related party transactions

For detailed a description of the DAA which entitles Alumina to nominate one Non-Executive Director see described in *"Management and Corporate Governance of RHI Magnesita—The Board—Composition, appointment, term and dismissal"*.

On October 16, 2015, RHI entered into an advisory agreement with Mr. Martin Schlaff, who has certain supervisory rights and the right to unilaterally amend the foundation documents with respect to MSP Stiftung (a major shareholder of RHI) and is a close relative of Mr. David Schlaff (a member of RHI's supervisory board). Pursuant to this agreement, Mr. Martin Schlaff advised RHI on its preparations for the Acquisition of Control. No consideration was payable under the agreement to Mr. Martin Schlaff. The agreement was terminated on September 28, 2016.

For further information regarding related party transactions see Note (65) to the 2016 RHI Consolidated Annual Financial Statements, Note (63) to the 2015 RHI Consolidated Annual Financial Statements, Note (68) to the 2014 RHI Consolidated Annual Financial Statements, and the Notes (14) to the Magnesita Consolidated Historical Financial Information.

Other than these, there are no arrangements or understanding between RHI and its major shareholders or RHI and the members of the administrative, management or supervisory bodies of RHI.

Other than the related party transactions outlined above, there are no arrangements or understanding between Magnesita and its major shareholders or Magnesita and the members of the administrative, management or supervisory bodies of Magnesita. **The Sponsor**

The Sponsor and/or its affiliates have in the past engaged and may in the future, from time to time, engage in commercial banking, investment banking and financial advisory and ancillary activities in the ordinary course of their business with RHI, Magnesita and/or the Issuer or its shareholders or any parties related to any of them, in respect of which they may have received and may in the future receive customary fees and commissions. In connection with the Equity Bridge, Citigroup Global Markets Limited is one of the three mandated lead arrangers and original lenders.

Security identification number of the Ordinary Shares

When admitted to trading, the Ordinary Shares will be registered with ISIN code NL0012650360 and SEDOL number BYZ2JR8.

Depositary

Computershare Investor Services PLC, with its offices on The Pavilions, Bridgwater Road, Bristol BS13 8AE, United Kingdom, is acting as depositary for the Ordinary Shares.

GLOSSARY / DEFINITIONS

Acquisition	The Acquisition of Control, the Mandatory Offer and any Delisting Offer, together.
Acquisition of Control	RHI AG's agreement to acquire 50% plus one share of the share capital in Magnesita
Admission	The admission of the Ordinary Shares to the Premium Listing and to trading on the London Stock Exchange plc's main market for listed securities.
AFM	Dutch Authority for the Financial Markets (*Stichting Autoriteit Financiële Markten*).
Alumina	Alumina Holdings LLC.
AOD	Argon oxygen decarburization.
Articles of Association	The articles of association of the Issuer, as they will read as at Admission.
Board	The board of directors of the Issuer.
Board Rules	Board rules adopted by the Board.
BOF	Basic oxygen furnace(s).
Brazilian real or **BRL**	The legal currency of Brazil.
CAA	United States Clean Air Act.
Cash Compensation	The cash compensation of EUR 26.50 per RHI Share for RHI shareholders who have validly exercised their right to withdraw from RHI in connection with the Merger.
CCNL	Computershare Company Nominees Limited.
CIS	Computershare Investor Services PLC.
City Code	The UK City Code on Takeovers and Mergers.
CJA	The UK Criminal Justice Act 1993.
CPP	Cost per performance.
CREST	UK-based central securities depositary operating a paperless settlement procedure enabling securities to be evidenced otherwise than by a share certificate and transferred otherwise than by a written instrument.
DAA	Director Appointment and Relationship Agreement between the Issuer and Alumina pursuant to which Alumina will be entitled to nominate one Non-Executive Director under certain circumstances.

Delisting Offer	An offer to delist Magnesita's shares from Novo Mercado and the São Paulo Stock Exchange.
Deloitte	Deloitte Audit Wirtschaftsprüfungs GmbH, Renngasse 1, 1010 Vienna, Austria.
Demerger	The spin-off of the business operations of RHI to RHI Feuerfest GmbH by way of universal succession from RHI as the transferring company to RHI Feuerfest GmbH as the acquiring company.
Depositary	CIS as CREST depositary.
Depositary Interests	The dematerialized depositary interests representing entitlements to Ordinary Shares that can be settled electronically through and held in CREST, as issued by the Depositary, which holds the underlying securities on trust.
Directors	The Non-Executive Directors and the Executive Directors.
DNPM	National Department of Mineral Production (*Departamento Nacional de Produção Mineral*).
Dutch Brasil Holding	Dutch Brasil Holding B.V., a private company with limited liability incorporated under the laws of the Netherlands.
Dutch Corporate Governance Code	The corporate governance code of the Netherlands.
Dutch Financial Supervision Act	The Dutch Financial Supervision Act (*Wet op het financieel toezicht*) and the rules promulgated thereunder.
EAF	Electric arc furnaces.
EEA	European Economic Area.
ELD	Environmental Liability Directive 2004/35/EC.
Eletrobrás	Centrais Elétricas Brasileiras S.A.
Emission Directive	Directive 2003/87/EC on emission trading as amended most recently by decision (EU) 2015/1814 of the European Parliament.
Employee Nominated Directors	One-third of the Non-Executive Directors to be appointed by employee representatives who will sit on the Board.
Enterprise Chamber	Enterprise chamber of the court of appeal in Amsterdam (*Ondernemingskamer van het Gerechtshof te Amsterdam*).
Envoy	Magnesita-Envoy Asia Ltd.
Equity Bridge	EUR 88.0 million equity bridge financing agreement entered into by RHI in September 2017 to finance the share component of the Mandatory

	Offer.
ETS	The EU Emissions Trading Scheme.
EU-IFRS	International Financial Reporting Standards, as adopted by the European Union.
EUR or **euro**	The single legal currency adopted by certain participating member states of the European Union.
Executive Directors	The executive directors of the Issuer.
FCA	UK Financial Conduct Authority.
FLS	Full line supply.
Free-Float Shareholders	The holders of the Free-Float Shares.
Free-Float Shares	Those Magnesita shares that are neither held by RHI Magnesita, its affiliates, members of the board of directors or statutory officers of Magnesita nor any person acting in concert with RHI Magnesita nor treasury shares.
FRSA	The Dutch Financial Reporting Supervision Act (*Wet toezicht financiële verslaggeving*).
General Meeting	The annual general meeting of shareholders of the Issuer, being the corporate body or, where the context so requires, the physical meeting.
GPCP4	GPCP4 Fundo de Investmento em Partic.
Group or **Combined Group**	Before the Acquisition of Control, RHI and its consolidated subsidiaries and subsidiary undertakings from time to time, and after the Acquisition of Control, the Issuer and its consolidated subsidiaries and subsidiary undertakings from time to time including Magnesita.
IED	Industrial Emissions Directive 2010/75/EU on integrated pollution prevention and control of industrial emissions.
Incorporation Shares	The 45,000 Ordinary Shares that were issued upon the incorporation of the Issuer.
Integrated Offer	A combination, which the Issuer may, at its sole election, make of the Delisting Offer and the Mandatory Offer.
Issuer or **RHI Magnesita**	RHI-MAG N.V., to be renamed when the Merger becomes effective to RHI Magnesita N.V.
KMR	Krosaki Magnesita Refractories.
Kyoto Protocol	The Kyoto Protocol to the United Nations Framework Convention on Climate Change entered into force in February 2005.

Listing Rules	Listing rules of the FCA.
London Stock Exchange	London Stock Exchange plc.
Magnesita	Magnesita Refratários S.A., a corporation incorporated under the laws of Brazil.
Magnesita Acquisition	The acquisition of 100% of the issued share capital of Magnesita.
Magnesita Financial Information	The Magnesita Consolidated Historical Financial Information and the Magnesita Special Purpose Consolidated Interim Financial Information.
Magnesita Group	Magnesita and its consolidated subsidiaries and subsidiary undertakings from time to time.
Magnesita Consolidated Historical Financial Information	The audited consolidated historical financial information of Magnesita as of and for the years ended December 31, 2016, 2015 and 2014, prepared for the special purpose of this Prospectus in order to conform the financial reporting standards and accounting policies of Magnesita to those of RHI.
Magnesita Special Purpose Consolidated Interim Financial Information	The audited special purpose consolidated interim financial information of Magnesita as of and for the six-month period ended June 30, 2017, prepared for the special purpose of this Prospectus in order to conform the financial reporting standards and accounting policies of Magnesita to those of RHI.
Mandatory Offer	The public mandatory offer that, following the Acquisition of Control, the Issuer (or an affiliate of the Issuer) will be obligated to make under applicable Brazilian law to acquire all remaining Magnesita shares at the same conditions as those pursuant to which Magnesita shares were acquired in the Acquisition of Control pursuant to the SPA.
MAR	Market Abuse Regulation (EU) No 596/2014.
Merger	the cross-border merger pursuant to which (i) RHI will be merged into the Issuer and will cease to exist, (ii) the Issuer will assume all of RHI's contractual relationships, assets and liabilities under universal succession of title and (iii) RHI's shareholders will receive one newly issued Ordinary Share for each no-par value bearer share in the capital of RHI.
New Debenture Bond	The New Debenture Bond (*Schuldscheindarlehen*) in the amount of EUR 178.0 million entered into by RHI in July 2017 to refinance corresponding existing debenture bonds.
Non-Executive Directors	The non-executive members of the Board.
Novo Mercado	The Novo Mercado segment of the Brazilian Stock Exchange in São Paulo.
OFAC	The Office of Foreign Assets Control of the U.S. Department of the Treasury.
Ordinary Shares	The ordinary shares in the capital of RHI-MAG N.V. with a nominal value

of EUR 1 each.

Other operating income (expenses), net	Non-recurring items such as labor indemnities, restructuring costs, gains/losses on sale of non-core assets, etc.
Paris Agreement	The Paris Agreement dealing with greenhouse gas emission reduction measures that entered into force on November 4, 2016.
PDMRs	Persons discharging managerial responsibilities.
Premium Listing	The listing of the Ordinary Shares on the premium listing segment of the Official List of the UK Financial Conduct Authority.
Prospectus Directive	Directive 2003/71/EC of the European Parliament and the Council of the European Union and the amendments thereto (including those resulting from Directive 2010/73/EU).
Record Date	The end of the bank working day in Austria immediately preceding the day on which the Merger takes legal effect.
Refinancing	The New Debenture Bond together with the Equity Bridge and the Syndicated Loan.
Restructuring	The Demerger and the Merger, as preparatory steps to the Acquisition of Control.
RHI	RHI AG, a stock corporation (*Aktiengesellschaft*) incorporated under the laws of Austria.
RHI Consolidated Annual Financial Statements	The audited consolidated financial statements of RHI AG as of and for the years ended December 31, 2016, 2015 and 2014.
RHI Consolidated Interim Financial Statements	The audited consolidated interim financial statements of RHI AG for the six-month period ended June 30, 2017.
RHI Financial Statements	RHI Consolidated Interim Financial Statements together with the RHI Consolidated Annual Financial Statements.
RHI Group	RHI and its consolidated subsidiaries and subsidiary undertakings from time to time.
RHI Shares	No-par value bearer share in the capital of RHI with a nominal value of EUR 1 each.
Rhône	Rearden L. Holdings 3 S.À R.L.
ROACE	Return on average capital employed.
R&D	Research and development.

SDRT	UK stamp duty and stamp duty reserve tax.
Sellers	Alumina, GPCP4, Rhône and members of the board of directors of Magnesita and other individuals and investment funds which have acceded to the SPA.
Shareholder	A holder of Ordinary Shares and includes, where the context so permits, a person entitled to a Depositary Interest.
Short Selling Regulation	Regulation (EU) No. 236/2012 of the European Parliament and of the Council of the European Union of March 2012 on short selling and certain aspects of credit default swaps.
Sinterco	Processing plant of sinter doloma in Belgium of which Magnesita holds a 70% interest and its non-controlling shareholder is Carrières et fours à Chaux Dumont-Wautier S.A. (Lhoist Group) holds the remaining 30% interest.
SPA	The share purchase agreement, dated October 5, 2016 (as amended on November 3, 2016), between RHI and its indirect, wholly-owned subsidiary Dutch Brasil Holding, on the one hand and the Sellers, on the other hand, for the sale of up to 50% plus one share of the issued and outstanding share capital in Magnesita.
Sponsor	Citigroup Global Markets Limited, as sole sponsor for the Admission.
Superfund	The U.S. Comprehensive Environmental Response, Compensation and Liability Act.
Syndicated Loan	The EUR 477.2 million syndicated term and revolving loan agreement entered into by RHI in July 2017.
Third Market	Multilateral trading facility operated by the Vienna Stock Exchange.
Total Purchase Price	EUR 409,684,071.
U.K. Corporate Governance Code	United Kingdom corporate governance code.
UK	United Kingdom.
Unaudited Pro Forma Financial Information	The unaudited pro forma statement of net assets as of June 30, 2017 and the unaudited consolidated pro forma income statements for the year ended December 31, 2016 and for the six months ended June 30, 2017.
USD or **U.S. dollar**	The currency of the United States of America.
Withdrawal Shares	The 6,300 RHI Shares for which RHI Shareholders have validly exercised their right to withdraw from RHI in connection with the Merger.

Index to financial statements

Interim consolidated financial statements as of 06/30/2017

Consolidated statement of financial position

as of 06/30/2017

in € million	Notes	06/30/2017	12/31/2016
ASSETS			
Non-current assets			
Property, plant and equipment	(10)	474.0	521.8
Goodwill	(11)	37.0	37.8
Other intangible assets	(12)	65.2	71.1
Investments in joint ventures	(13)	16.7	20.5
Other non-current financial assets	(14)	19.3	18.9
Other non-current assets	(15)	17.4	17.7
Deferred tax assets	(16)	134.7	144.8
		764.3	**832.6**
Current assets			
Inventories	(17)	373.0	365.3
Trade and other current receivables	(18)	386.5	399.1
Income tax receivables	(19)	10.7	9.3
Other current financial assets	(20)	10.4	3.0
Cash and cash equivalents	(21)	149.4	182.9
Assets held for sale	(22)	45.4	0.0
		975.4	**959.6**
		1,739.7	**1,792.2**
EQUITY AND LIABILITIES			
Equity			
Share capital	(23)	289.4	289.4
Group reserves	(24)	197.1	219.3
Equity attributable to shareholders of RHI AG		486.5	508.7
Non-controlling interests	(25)	15.9	15.3
		502.4	**524.0**
Non-current liabilities			
Non-current financial liabilities	(26)	335.2	350.6
Other non-current financial liabilities	(27)	41.2	43.5
Deferred tax liabilities	(16)	12.3	13.5
Personnel provisions	(28)	310.0	317.4
Other non-current provisions	(29)	3.0	4.5
Other non-current liabilities	(30)	5.8	6.9
		707.5	**736.4**
Current liabilities			
Current financial liabilities	(26)	158.1	165.1
Other current financial liabilities	(27)	8.0	6.5
Trade payables and other current liabilities	(31)	301.3	312.7
Income tax liabilities	(32)	16.2	18.4
Current provisions	(33)	26.5	29.1
Liabilities relating to assets held for sale	(22)	19.7	0.0
		529.8	**531.8**
		1,739.7	**1,792.2**

Consolidated statement of profit or loss

from 01/01/2017 to 06/30/2017

in € million	Notes	4-6/2017[1]	4-6/2016[1]	1-6/2017	1-6/2016[1]
Revenue	(34)	437.0	440.5	855.8	830.2
Cost of sales	(35)	(340.2)	(346.4)	(657.2)	(649.6)
Gross profit		**96.8**	**94.1**	**198.6**	**180.6**
Selling and marketing expenses	(36)	(28.4)	(26.7)	(54.2)	(52.1)
General and administrative expenses	(37)	(41.8)	(32.5)	(76.8)	(62.4)
Other income	(38)	21.9	10.0	37.0	56.8
Other expenses	(39)	(27.4)	(5.0)	(45.6)	(52.7)
Operating EBIT		**21.1**	**39.9**	**59.0**	**70.2**
Result from derivatives from supply contracts	(57)	3.1	6.2	(1.2)	3.0
Impairment losses	(40)	(7.2)	0.0	(7.2)	0.0
Restructuring costs	(41)	0.0	(4.6)	(1.0)	(4.6)
EBIT		**17.0**	**41.5**	**49.6**	**68.6**
Interest income	(42)	0.7	1.0	1.1	1.4
Interest expenses	(43)	(4.4)	(4.5)	(8.7)	(9.0)
Other net financial expenses	(44)	(1.0)	(1.6)	(2.5)	(3.5)
Net finance costs		**(4.7)**	**(5.1)**	**(10.1)**	**(11.1)**
Share of profit of joint ventures	(13)	3.4	2.7	6.4	5.4
Profit before income tax		**15.7**	**39.1**	**45.9**	**62.9**
Income tax	(45)	(8.5)	(15.0)	(20.2)	(24.0)
Profit after income tax		**7.2**	**24.1**	**25.7**	**38.9**
attributable to shareholders of RHI AG		6.6	23.6	24.5	37.8
attributable to non-controlling interests	(25)	0.6	0.5	1.2	1.1

in €					
Earnings per share (basic and diluted)	(54)	0.17	0.59	0.62	0.95

(1) unaudited

All items up to and including the operating EBIT do not include results from derivatives from supply contracts, impairment losses for cash-generating units and restructuring effects.

Consolidated statement of comprehensive income
from 01/01/2017 to 06/30/2017

in € million	Notes	4-6/2017[1]	4-6/2016[1]	1-6/2017	1-6/2016[1]
Profit after income tax		**7.2**	**24.1**	**25.7**	**38.9**
Currency translation differences					
Unrealized results from currency translation	(6)	(25.1)	1.1	(17.0)	(8.7)
Deferred taxes thereon	(16)	1.4	(0.5)	1.7	(0.3)
Current taxes thereon		0.0	0.5	(0.7)	0.5
Reclassification reserves to profit or loss		0.0	(3.7)	0.0	(3.7)
Market valuation of cash flow hedges					
Unrealized results from fair value change	(57)	0.1	0.0	0.4	0.0
Deferred taxes thereon	(16)	0.0	0.0	(0.1)	0.0
Reclassification reserves to profit or loss	(57)	0.3	0.0	0.3	0.0
Deferred taxes thereon	(16)	(0.1)	0.0	(0.1)	0.0
Market valuation of available-for-sale financial instruments					
Unrealized results from fair value change	(56)	0.0	0.1	0.0	0.1
Items that will be reclassified subsequently to profit or loss, if necessary		**(23.4)**	**(2.5)**	**(15.5)**	**(12.1)**
Remeasurement of defined benefit plans					
Remeasurement of defined benefit plans	(28)	(8.8)	(13.0)	(2.6)	(26.8)
Deferred taxes thereon	(16)	2.3	4.3	0.7	8.3
Items that will not be reclassified to profit or loss		**(6.5)**	**(8.7)**	**(1.9)**	**(18.5)**
Other comprehensive income after income tax		**(29.9)**	**(11.2)**	**(17.4)**	**(30.6)**
Total comprehensive income		**(22.7)**	**12.9**	**8.3**	**8.3**
attributable to shareholders of RHI AG		(22.2)	12.4	7.7	7.7
attributable to non-controlling interests	(25)	(0.5)	0.5	0.6	0.6

(1) unaudited

Consolidated statement of cash flows

from 01/01/2017 to 06/30/2017

in € million	Notes	1-6/2017	1-6/2016[1]
Profit after income tax		25.7	38.9
Adjustments for			
income tax		20.2	24.0
depreciation and amortization charges		32.3	32.4
impairment losses of property, plant and equipment and intangible assets		7.7	0.0
income from the reversal of investment subsidies		(0.4)	(0.4)
reversal of impairment losses on securities		(0.1)	(0.5)
(gains)/losses from the disposal of property, plant and equipment		(0.1)	0.5
losses from the disposal of subsidiaries		0.0	4.1
interest result		7.6	7.6
share of profit of joint ventures		(6.4)	(5.4)
other non-cash changes		7.0	(3.5)
Changes in			
inventories		(35.5)	(2.2)
trade receivables and receivables from long-term construction contracts		(0.3)	20.1
other receivables and assets		0.7	(5.1)
provisions		(12.4)	(13.8)
trade payables		4.1	4.2
prepayments received on orders[2]		2.7	1.6
other liabilities[2]		4.4	(7.8)
Cash flow from operating activities		**57.2**	**94.7**
Income tax paid less refunds		(17.4)	(18.0)
Net cash flow from operating activities	(48)	**39.8**	**76.7**
Cash inflows from the sale of subsidiaries net of cash		0.0	(4.6)
Investments in property, plant and equipment and intangible assets		(17.2)	(23.4)
Cash inflows from the sale of property, plant and equipment		1.1	2.2
Investments in/cash inflows from non-current receivables		0.0	(0.1)
Dividends received from joint ventures		10.2	7.5
Interest received		1.1	1.3
Net cash flow from investing activities	(49)	**(4.8)**	**(17.1)**

in € million	Notes	1-6/2017	1-6/2016[1]
Capital expenses for the issue of shares		(0.9)	0.0
Payments to non-controlling interests		(0.6)	0.0
Dividend payments to shareholders of RHI AG		(29.9)	(29.9)
Proceeds from non-current borrowings and loans		0.0	0.2
Repayments of non-current borrowings and loans		(18.0)	(13.4)
Changes in current borrowings		(4.2)	(4.1)
Interest payments		(5.5)	(7.2)
Net cash flow from financing activities	(50)	**(59.1)**	**(54.4)**
Total cash flow		**(24.1)**	**5.2**
Change in cash and cash equivalents		**(24.1)**	**5.2**
Cash and cash equivalents at beginning of year		182.9	149.7
Changes due to currency translation		(4.9)	1.2
Cash and cash equivalents at year-end[3]	(52)	153.9	156.1
Total interest paid	(51)	5.5	7.4
Total interest received	(51)	1.1	1.4

(1) unaudited
(2) Prior-year values adjusted to current presentation.
(3) thereof shown under assets held for sale € 4.5 million

Consolidated statement of changes in equity

from 01/01/2017 to 06/30/2017

in € million	Share capital	Additional paid-in capital	Group reserves: Retained earnings	Accumulated other comprehensive income: Cash flow hedges	Available-for-sale financial instruments	Defined benefit plans	Currency translation	Disposal group classified as held for sale	Equity attributable to shareholders of RHI AG	Non-controlling interests	Total equity
Notes	(23)	(24)	(24)	(24)	(24)	(24)	(24)	(24)		(25)	
12/31/2016	**289.4**	**38.3**	**331.0**	**(0.7)**	**0.0**	**(100.3)**	**(49.0)**	**0.0**	**508.7**	**15.3**	**524.0**
Profit after income tax	**–**	**–**	**24.5**	**–**	**–**	**–**	**–**	**–**	**24.5**	**1.2**	**25.7**
Currency translation differences	–	–	–	–	–	–	(15.4)	–	**(15.4)**	**(0.6)**	**(16.0)**
Market valuation of cash flow hedges	–	–	–	0.5	–	–	–	–	**0.5**	**–**	**0.5**
Remeasurement of defined benefit plans	–	–	–	–	–	(1.9)	–	–	**(1.9)**	**–**	**(1.9)**
Reclassification disposal group classified as held for sale	–	–	–	–	–	1.0	1.7	(2.7)	**0.0**	**–**	**0.0**
Other comprehensive income after income tax	**–**	**–**	**–**	**0.5**	**–**	**(0.9)**	**(13.7)**	**(2.7)**	**(16.8)**	**(0.6)**	**(17.4)**
Total comprehensive income	**–**	**–**	**24.5**	**0.5**	**–**	**(0.9)**	**(13.7)**	**(2.7)**	**7.7**	**0.6**	**8.3**
Dividends	–	–	(29.9)	–	–	–	–	–	**(29.9)**	**–**	**(29.9)**
Transactions with shareholders	**–**	**–**	**(29.9)**	**–**	**–**	**–**	**–**	**–**	**(29.9)**	**–**	**(29.9)**
06/30/2017	**289.4**	**38.3**	**325.6**	**(0.2)**	**0.0**	**(101.2)**	**(62.7)**	**(2.7)**	**486.5**	**15.9**	**502.4**

in € million	Share capital	Additional paid-in capital	Group reserves: Retained earnings	Accumulated other comprehensive income: Cash flow hedges	Available-for-sale financial instruments	Defined benefit plans	Currency translation	Disposal group classified as held for sale	Equity attributable to shareholders of RHI AG	Non-controlling interests	Total equity[1]
Notes	(23)	(24)	(24)	(24)	(24)	(24)	(24)	(24)		(25)	
12/31/2015	**289.4**	**38.3**	**284.5**	**(0.9)**	**0.0**	**(91.9)**	**(41.8)**	**0.0**	**477.6**	**13.8**	**491.4**
Profit after income tax	**–**	**–**	**37.8**	**–**	**–**	**–**	**–**	**–**	**37.8**	**1.1**	**38.9**
Currency translation differences	–	–	–	–	–	–	(11.7)	–	**(11.7)**	**(0.5)**	**(12.2)**
Market valuation of cash flow hedges	–	–	–	–	0.1	–	–	–	**0.1**	**–**	**0.1**
Remeasurement of defined benefit plans	–	–	–	–	–	(18.5)	–	–	**(18.5)**	**–**	**(18.5)**
Other comprehensive income after income tax	**–**	**–**	**–**	**–**	**0.1**	**(18.5)**	**(11.7)**	**–**	**(30.1)**	**(0.5)**	**(30.6)**
Total comprehensive income	**–**	**–**	**37.8**	**–**	**0.1**	**(18.5)**	**(11.7)**	**–**	**7.7**	**0.6**	**8.3**
Dividends	–	–	(29.9)	–	–	–	–	–	**(29.9)**	**–**	**(29.9)**
Transactions with shareholders	**–**	**–**	**(29.9)**	**–**	**–**	**–**	**–**	**–**	**(29.9)**	**–**	**(29.9)**
Reclassification due to disposal of defined benefit plans	**–**	**–**	**1.9**	**–**	**–**	**(1.9)**	**–**	**–**	**0.0**	**–**	**0.0**
06/30/2016	**289.4**	**38.3**	**294.3**	**(0.9)**	**0.1**	**(112.3)**	**(53.5)**	**0.0**	**455.4**	**14.4**	**469.8**

(1) unaudited

Notes
to the interim consolidated financial statements as of 06/30/2017

PRINCIPLES AND METHODS

(1) General

The RHI Group is a globally operating Austrian industrial group. The core activities of the RHI Group comprise the development and production as well as the sale, installation and maintenance of high-grade refractory products and systems which are used in industrial high-temperature processes exceeding 1,200 °C. The RHI Group supplies customers in the steel, cement, lime, glass and nonferrous metals industries. In addition, RHI products are employed in the environment (waste incineration), energy (refractory construction) and chemicals (petrochemicals) sectors.

The ultimate parent undertaking of the Group is RHI AG, a stock corporation under Austrian law. The company is registered in the commercial register under the number FN 103123b at the Commercial Court of Vienna and has its legal domicile and head office in Wienerbergstraße 9, 1100 Vienna, Austria.

The shares of RHI AG are listed on the Prime Market and the lead index ATX of the Vienna Stock Exchange.

The interim consolidated financial statements are prepared as of June 30, 2017. Interim financial statements were prepared for all Group companies for consolidation purposes.

The interim consolidated financial statements for the period from January 1 to June 30, 2017 were drawn up pursuant to IAS 34 “Interim Financial Reporting” and in accordance with all International Financial Reporting Standards (IFRSs) mandatory at the time of preparation as adopted by the European Union (EU).

The presentation in the consolidated statement of financial position distinguishes between current and non-current assets and liabilities. Assets and liabilities are classified as current if they are due within one year or within a longer normal business cycle. Inventories as well as trade receivables and trade payables are generally presented as current items. Deferred tax assets and liabilities as well as assets and provisions for pensions and termination benefits are generally presented as non-current items.

The consolidated statement of profit or loss is drawn up in accordance with the cost of sales method. Under this method, revenue is offset against the expenses incurred to generate it, which are allocated to the functions production, sales and administration.

EBIT (earnings before interest and taxes) and the operating EBIT (EBIT adjusted for special influences) are shown separately in the statement of profit or loss as they are important key figures of measuring performance for the RHI Group. Special influences are related in particular to the measurement of individual long-term contractual obligations, effects from impairment tests at the level of cash-generating units or from restructuring due to massive capacity adjustments, significantly changed market strategies or comprehensive reorganization in administration. The presentation chosen is to convey a true view of the earnings situation, which is comparable over time, to the users of the RHI interim consolidated financial statements. Extraordinary effects in the current interim reporting period are related in their entirety (first half of 2016: € 3.0 million) to the functional segment production; in the first half of the previous year, € (4.6) million were related to other expenses.

With the exception of specific items such as available-for-sale financial assets, derivative financial instruments and plan assets for defined benefit obligations, the interim consolidated financial statements are prepared in accordance with the principle of historical acquisition and production costs. The measurement methods applied to the exceptions are described in the following.

The preparation of the interim consolidated financial statements in agreement with generally accepted accounting and valuation principles under IFRS, as adopted by the EU, requires the use of estimates and assumptions that influence the amount and presentation of assets and liabilities recognized as well as the disclosure of contingent assets and liabilities as of the interim reporting 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 experience from comparable 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. For computational reasons, rounding differences may occur.

The Management Board of RHI AG completed and signed the present interim consolidated financial statements on August 25, 2017 and released them for publication.

The interim consolidated financial statements as of June 30, 2017 were audited by the auditor PwC Wirtschaftsprüfung GmbH. The comparative figures as of June 30,2016 and the quarterly figures were neither audited nor reviewed by the auditor.

(2) Initial application of new financial reporting standards

In the first half of 2017, no new financial reporting standards were applied for the first time. The same accounting and measurement principles as in the previous year were used.

(3) New financial reporting standards not yet applied

The IASB issued further standards, amendments to standards and interpretations, whose application is, however, not yet mandatory for the year 2017. They were not applied early on a voluntary basis.

The following accounting standards were adopted by the EU by the time of the preparation of the RHI consolidated interim financial statements:

Standard	Title	Publication (EU endorsement)[1]	Mandatory application for RHI	Expected effects on RHI consolidated financial statements
New standards				
IFRS 9	Financial Instruments	07/24/2014 (11/22/2016)	01/01/2018	A reliable assessment of the effects is not possible at the moment.
IFRS 15	Revenue from Contracts with Customers	05/28/2014, 09/11/2015 (09/22/2016)	01/01/2018	A reliable assessment of the effects is not possible at the moment.

(1) according to EU Endorsement Status Report of 07/13/2017

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" includes new specifications regarding the classification and measurement of financial instruments and thus supersedes the current provisions of IAS 39 "Financial Instruments: Recognition and Measurement".

IFRS 9 applies to financial years starting on or after January 1, 2018. At present, the RHI Group intends to initially apply the new standard IFRS 9 in the first quarter of 2018.

The classification of financial assets is on the one hand coupled with the business model of the company (hold, hold and sell, trade); on the other hand, the characteristics of the cash flows related to the financial instrument are included. In the classification of financial assets IFRS 9 distinguishes between the categories "amortized cost", "fair value through other comprehensive income" (with or without reclassification to the statement of profit or loss) and "fair value through profit or loss". Measurement at amortized cost is only possible if the financial asset is held within a business model whose objective is to hold the financial asset to collect the contractual cash flow. In addition, the contractual terms of the financial asset have to give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

For financial liabilities two measurement categories continue to exist: “amortized cost” and “fair value through profit or loss”. Financial liabilities are measured at fair value through profit or loss if they fall under the definition “held for trading” or they are designated in this measurement category at initial recognition. If the designation option is exercised, any profit or loss from changes in credit risk has to be recognized in other comprehensive income in the future.

IFRS 9 includes new impairment rules and places a stronger focus on a future-oriented model of “expected credit losses”. The new rules are applicable in particular to financial assets measured at amortized cost, debt instruments on the asset side which are measured at fair value through other comprehensive income, as well as lease receivables and contract assets in accordance with IFRS 15. The general impairment model according to IFRS 9 distinguishes between three levels, with the amount of the impairment depending on the assignment of the financial instrument to one of the three levels. For financial instruments, whose credit risk has not increased significantly since initial recognition, a loss allowance has to be recognized in the amount of the credit losses whose occurrence is expected within the next 12 months (Level 1). If the credit risk has increased significantly, but there is no objective evidence of impairment, the loss allowance must be increased to the amount of the expected losses throughout the entire remaining term (Level 2). With the occurrence of objective evidence of impairment, the net carrying amount, i.e., the gross carrying amount adjusted for the loss allowance, is the decisive reference figure (Level 3). Simplified special rules exist for trade receivables as well as for contract assets according to IFRS 15 which do not include a major financing component. In such cases, a loss allowance for full lifetime expected credit losses has to be formed at initial recognition and for the subsequent reporting dates. For trade receivables and for contract assets according to IFRS 15 which include a significant financing component as well as for lease receivables there is an option to elect the general or simplified recognition. Moreover, the new impairment rules will lead to extended disclosure requirements.

For the accounting of hedging relationships, the risk management target will be decisive in the future in accordance with IFRS 9. The new model for hedging relationships is intended to establish a better connection between the risk management strategy, the reasons for concluding hedging transactions and hedge accounting in the financial statements. The assessment of hedge effectiveness will only be made prospectively and on a qualitative basis in the future provided that the high effectiveness can be demonstrated without a quantitative calculation. The obligation to demonstrate a minimum effectiveness within a range from 80% to 125% is replaced by a qualitative test. This test is to examine the economic correlation between the hedged item and the hedge and to ensure that the effects of the change in credit risk are not so significant that the change in value of the hedged item or the hedging instrument dominate. The designation of single risk components as hedged items is permitted under IFRS 9 insofar as the risk component can be identified independently and assessed reliably. Hedging aggregated risks or net positions is possible under IFRS 9. In addition, the disclosure requirements are extended.

The RHI Group is currently analyzing the details of the potential effects of IFRS 9. The initial application will lead to an adapted presentation of the measurement categories for financial assets as the IAS 39 measurement categories “loans and receivables” and “available-for-sale financial assets”, which have so far been relevant for the Group, will be eliminated. Depending on the classification of the financial assets in the respective measurement categories of IFRS 9, an effect on measurement may result in certain cases. Due to the new rules with respect to impairment, it will be possible to expense expected losses earlier or later in some cases. A reliable estimate of the quantitative effects will only be possible after the completion of the detailed analysis.

The classification of financial liabilities remains unchanged according to IFRS 9. Since the RHI Group has not designated any financial liabilities as fair value through profit or loss, a first preliminary evaluation does not show any effects of the application of the requirements of IFRS 9 with respect to the classification of financial liabilities.

The RHI Group currently applies the provisions for hedge accounting for the hedging of future cash flows of financial liabilities carrying variable interest. Based on analyses performed so far, no significant effects on the accounting of such hedging relationships are expected from the initial application of IFRS 9.

IFRS 15 "Revenues from Contracts with Customers"

IFRS 15 provides uniform regulations for revenue recognition which are applicable to all contracts with customers. IFRS 15 supersedes IAS 18 "Revenue" and IAS 11 "Construction Contracts". The decisive factor for revenue recognition is no longer the transfer of significant risks and rewards, but rather, when the customer obtains control over the goods and services agreed and can benefit from them.

IFRS 15 introduces a five-step model to determine revenue recognition. According to this model, the contract with the customer and the separate performance obligations therein have to be identified. Then the transaction price must be determined and allocated to the performance obligations identified. Revenue must then be recognized separately for each performance obligation in the amount of the allocated pro-rata transaction price. For this purpose, criteria were defined which distinguish between satisfying a performance obligation either at a point in time or over time.

IFRS 15 is applicable to financial years starting on or after January 1, 2018. The RHI Group plans to apply the modified retrospective method. Under this method, IFRS 15 is applied to those contracts that are not yet complete as of January 1, 2018. The cumulative effect of the initial application will be recognized as an adjustment of the opening balance of group reserves in the item retained earnings as of January 1, 2018. Currently the effects of the initial application of IFRS 15 on RHI's consolidated financial statements are being evaluated as part of a project. Based on the analyses performed so far, the possible effects are as follows:

If contracts with customers include the delivery of products, revenue is recognized at the time when control over the products is passed to the customer in accordance with IFRS 15. Depending on the transport agreements, the time of passing control may deviate from the time of transfer of significant risks and rewards, which may lead to a shift in revenue recognition in the future.

By applying IFRS 15, additional separate performance obligations can be identified in supply contracts with customers. When multiple independent performance obligations are identified, the transaction price has to be allocated to the components by reference to their relative standalone selling prices in the future. Accordingly, temporary shifts may occur in revenue recognition.

In addition to delivering products, the RHI Group also provides various services. When services represent separate performance obligations within a contract, a corresponding transaction price has to be allocated to the service component. This may influence the timing of revenue recognition. Moreover, it causes an increase in revenue from providing services at the expense of revenue from the sale of products.

In the Steel segment, multi-component contracts with variable payment arrangements are concluded in some cases. For such contracts, the transaction price depends on the customer's production performance (e.g. amount per ton of steel produced in the customer aggregate serviced). Pursuant to the current provisions on revenue recognition according to IAS 18, revenue for refractory products is recognized in the Group based on the production performance achieved by the customer. If the customer already obtains control over the refractory products with the installation of the refractory materials in the aggregate, revenue must be recognized at this time in accordance with IFRS 15. Since the consideration to be paid by the customer is completely variable, revenue in the Group must be determined on the basis of an estimate. In such cases, revenue from refractory products is recognized earlier in accordance with IFRS 15. In the consolidated statement of financial position, the receivables from the customer contract that has not yet been invoiced leads to the recognition of a contract asset. The RHI Group assumes that revenue will only be recognized earlier and thus may have an effect on the consolidated financial statements for those customer aggregates in which refractories with long service lives are applied. As far as other products or services apart from refractory products represent separate performance obligations in such multi-component contracts, a variable transaction price has to be allocated to the components by reference to their relative standalone selling prices. This may influence the timing of revenue recognition.

The initial application of IFRS 15 will lead to an adjustment of internal processes and of the IT landscape. A reliable estimate of the quantitative effects resulting from the application of the new IFRS 15 is not possible before completion of the project.

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

Standard	Title	Publication[(1)]	Mandatory application for RHI	Expected effects on RHI consolidated financial statements
New standards and interpretations				
IFRS 14	Regulatory Deferral Accounts	01/30/2014	No EU endorsement	Not relevant
IFRS 16	Leases	01/13/2016	01/01/2019	Material effects expected
IFRS 17	Insurance Contracts	05/18/2017	01/01/2021	Not relevant
IFRIC 22	Foreign Currency Transactions and Advance Consideration	12/08/2016	01/01/2018	No effect
IFRIC 23	Uncertainty over Income Tax Treatments	06/07/2017	01/01/2019	No material effects expected
Amendments of standards				
IAS 7	Disclosure Initiative	01/29/2016	01/01/2017[(2)]	Additional notes disclosures
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	01/19/2016	01/01/2017[(2)]	No effect
IAS 40	Transfers of Investment Property	12/08/2016	01/01/2018	No effect
IFRS 2	Classification and Measurement of Share-based Payment Transactions	06/20/2016	01/01/2018	No effect
IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	09/12/2016	01/01/2018	Not relevant
IFRS 10, IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	09/11/2014	Postponed by EU	No effect
IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers	04/12/2016	01/01/2018	No effect
Various	Annual improvements to IFRSs 2014-2016 Cycle	12/08/2016	01/01/2017/ 01/01/2018[(2)]	No effect

(1) according to EU Endorsement Status Report of 07/13/2017

(2) The actual mandatory application for the RHI Group depends on the date set as the date of application when adopted by the EU.

IFRS 16 "Leases"

The accounting standard IFRS 16, which was issued in January 2016, supersedes IAS 17 "Leases" and the related interpretations and is applicable to financial years beginning on or after January 1, 2019. Accounting for the lessor according to IFRS 16 is comparable to the current regulations. In contrast, accounting will change fundamentally for the lessee with the application of IFRS 16. In the future, most leases will have to be recognized as assets and liabilities in the statement of financial position of the lessee, regardless of whether they are considered operating or financing leases under the previous criteria of IAS 17.

According to IFRS 16, a lessee recognizes a right of use, which represents his right to use the underlying asset, and a liability from the lease, which reflects the obligation of lease payments. Exemptions are provided for short-term leases and assets of minor value. Moreover, the type of expenses related to these leases will change since IFRS 16 replaces the straight-line expenses for operating leases with a depreciation charge for rights of use and interest expenses for liabilities from the lease. In the consolidated statement of cash flows, there is a shift from cash flow from operating activities to cash flow from financing activities since the repayment of leasing liabilities must in any case be shown as cash flow from financing activities.

As a lessee, the RHI Group can apply IFRS 16 based on the retrospective method or the modified retrospective method with optional simplification rules; the option chosen has to be applied consistently to all leases of the Group. Subject to adoption under EU law, the RHI Group currently intends to initially apply IFRS 16 as of January 1, 2019. At present it is still undecided which transition method the Group will choose and whether the exemption options will be used.

The RHI Group has started to assess the possible effects on the consolidated financial statements, but can currently not determine the precise effects of the application of IFRS 16 on the reported assets and liabilities. Due to the fact that obligations from rental and leasing contracts of € 58.6 million exist in the RHI Group as of June 30, 2017 (12/31/2016: € 66.7 million), the RHI Group expects a significant extension of the statement of financial position due to the initial application of IFRS 16 (see note (61)). Together with the resulting shift between EBIT and net finance costs as well as the shift between cash flow from operating activities and financing activities, the Group expects a significant impact on the presentation of the asset, financial and earnings position.

IFRIC 23 "Uncertainty over Income Tax Treatments"

The interpretation clarifies the consideration of probability/uncertainty in the accounting for uncertainties in income taxes. IFRIC 23 is to be applied to the determination of taxable profit (or tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. The basic assumption is that a tax authority has both the right to and knowledge of all relevant information. The RHI Group has started an evaluation of the possible effects on the consolidated financial statements; from the present perspective, no significant impact on the consolidated financial statements is expected.

IAS 7 "Statements of Cash Flow: Disclosure Initiative"

The amendments to IAS 7 on the statement of cash flows require additional information on changes in financial liabilities. The additional information affects both cash and non-cash changes. In order to meet the new disclosure requirements, the RHI Group intends to present a reconciliation statement of financial statements at the beginning of the year and the end of the year.

(4) Group of consolidated companies

In addition to RHI AG as the parent company, the RHI interim consolidated financial statements as of June 30, 2017 include the interim financial statements of 79 subsidiaries (12/31/2016: 77) and of the RHISA Employee Trust, Sandton, South Africa.

As in the previous year, one joint venture is accounted for using the equity method.

Four (12/31/2016: three) subsidiaries and three (12/31/2016: three) other investments which are considered to be immaterial for the financial position and performance of the RHI Group due to their suspended or minimal business activities are not included in the interim consolidated financial statements.

The group of consolidated companies developed as follows:

	1-6/2017		1-6/2016	
Number of consolidated companies	Full consolidation	Equity method	Full consolidation	Equity method
Balance at beginning of period	**78**	**1**	**78**	**1**
Additions	3	0	1	0
Retirements and disposals	0	0	(2)	0
Balance at end of period	**81**	**1**	**77**	**1**

Changes in the group of consolidated companies in the first half of 2017

Additions are related to the establishment of the RHISA Employee Trust, Sandton, in South Africa with effect from March 13, 2017. The operating activities of the RHI Group in South Africa are subject to the Black Economic Empowerment legislation. Based on this, the RHI Group has transferred 25.4% of the shares in RHI Refractories Africa (Pty) Ltd. to a trust, whose beneficiaries are employees of RHI Refractories Africa (Pty) Ltd. The trust is fully consolidated in the interim consolidated financial statements since the RHI Group can exercise a controlling influence on the trust due to the contractual terms and conditions.

In addition, RHI Feuerfest GmbH, a wholly-owned subsidiary of RHI AG, was included for the first time in the interim consolidated financial statements with effect from May 19, 2017. This company will take over the operating activities of RHI AG after the planned combination with Magnesita (see note (62)).

Furthermore, RHI AG established the subsidiary RHI-MAG (100%), which is based in Arnhem, the Netherlands, and has its place of the management in Austria, on June 20, 2017, which was subsequently fully consolidated. The shares of the company are intended to be admitted to trading on the London Stock Exchange in the course of the planned combination with Magnesita.

Changes in the group of consolidated companies in the first half of 2016

On March 4, 2016, the subsidiary RHI United Offices Europe, S.L. (100%), based in Lugones, Spain, was established and included in the consolidated financial statements as of this date. The purpose of this company is the provision of internal administrative services.

With effect from May 12, 2016 the subsidiary RHI Rückversicherungs AG (100%) based in Vaduz, Liechtenstein, was liquidated.

As of June 6, 2016, all shares (100%) in RHI Monofrax, LLC, Wilmington, USA, were sold. The net assets disposed at the date of deconsolidation consist of the following items:

in € million	06/06/2016
Inventories	11.9
Trade and other current receivables	0.3
Cash and cash equivalents	4.6
Personnel provisions	(5.6)
Other non-current provisions	(0.7)
Trade payables and other current liabilities	(2.7)
Net assets disposed	**7.8**

The result from deconsolidation is determined as follows:

in € million	06/06/2016
Net assets disposed	(7.8)
Reclassification currency translation differences	3.7
Result from deconsolidation	**(4.1)**

The loss, taking into account the transaction-related costs of € 0.5 million incurred in the USA, was recognized under the item restructuring costs in the statement of profit or loss.

The selling price of USD 1 was paid in cash.

Companies of the RHI Group

The main operating companies of the RHI Group pursue the following core business activities:

Name and registered office of the company	Country of core activity	Core business activity
RHI AG, Austria	International	Sales, R&D, financing
Didier-Werke Aktiengesellschaft, Germany	Germany	Production
Magnesit Anonim Sirketi, Turkey	Turkey	Mining, production, sales
Orient Refractories Limited, India	India	Production, sales
RHI Canada Inc., Canada	Canada	Production, sales, provision of services
RHI GLAS GmbH, Germany	International	Sales
RHI Refractories (Dalian) Co., Ltd., PR China	PR China	Production
RHI US Ltd., USA	USA	Production, sales, provision of services
RHI-Refmex, S.A. de C.V., Mexico	Latin America	Sales
Veitsch-Radex GmbH & Co OG, Austria	Austria	Mining, production

The following list shows all companies in which the RHI Group holds a share of at least 20% (with the exception of the RHISA Employee Trust):

		06/30/2017		12/31/2016	
Ser. no.	Name and registered office of the company	Share–holder	Share in %	Share–holder	Share in %
1.	RHI AG, Vienna, Austria				
	Fully consolidated subsidiaries				
2.	Betriebs- und Baugesellschaft mit beschränkter Haftung, Wiesbaden, Germany	7.	100.0	7.	100.0
3.	CJSC “RHI Podolsk Refractories”, Moscow, Russia	27.,75.	100.0	27.,75.	100.0
4.	D.S.I.P.C.-Didier Société Industrielle de Production et de Constructions, Breuillet, France	7.	100.0	7.	100.0
5.	Didier Belgium N.V., Evergem, Belgium	38.,68.	100.0	38.,68.	100.0
6.	Didier Vertriebsgesellschaft mbH, Wiesbaden, Germany	7.	100.0	7.	100.0
7.	Didier-Werke Aktiengesellschaft, Wiesbaden, Germany	1.,27.	100.0	1.,27.	100.0
8.	Dolomite Franchi S.p.A., Brescia, Italy	27.	100.0	27.	100.0
9.	Dutch Brasil Holding B.V., Arnhem, Netherlands	75.	100.0	75.	100.0
10.	Dutch MAS B.V., Arnhem, Netherlands	7.	100.0	7.	100.0
11.	Dutch US Holding B.V., Arnhem, Netherlands	75.	100.0	75.	100.0
12.	FE “VERA”, Dnepropetrovsk, Ukraine	27.	100.0	27.	100.0
13.	Full Line Supply Africa (Pty) Ltd., Sandton, South Africa	47.	100.0	47.	100.0
14.	GIX International Limited, Newark, United Kingdom	80.	100.0	80.	100.0
15.	INDRESCO U.K. Ltd., Newark, United Kingdom	14.	100.0	14.	100.0
16.	INTERSTOP (Shanghai) Co., Ltd., Shanghai, PR China	74.	100.0	74.	100.0
17.	Latino America Refractories ApS, Hellerup, Denmark	80.	100.0	80.	100.0

Ser. no.	Name and registered office of the company	06/30/2017 Share– holder	Share in %	12/31/2016 Share– holder	Share in %
18.	Liaoning RHI Jinding Magnesia Co., Ltd., Dashiqiao City, PR China(1)	27.	83.3	27.	83.3
19.	LLC "RHI Wostok Service", Moscow, Russia	1.,27.	100.0	1.,27.	100.0
20.	LLC "RHI Wostok", Moscow, Russia	1.,27.	100.0	1.,27.	100.0
21.	Lokalbahn Mixnitz-St. Erhard Aktien-Gesellschaft, Vienna, Austria	60.	100.0	60.	100.0
22.	Magnesit Anonim Sirketi, Eskisehir, Turkey(2)	27.	100.0	27.	100.0
23.	Mezubag AG, Pfäffikon, Switzerland	74.	100.0	74.	100.0
24.	Orient Refractories Limited, New Delhi, India	11.	69.6	11.	69.6
25.	Premier Periclase Limited, Drogheda, Ireland	11.	100.0	11.	100.0
26.	Producción RHI México, S. de R.L. de C.V., Ramos Arizpe, Mexico	52.,80.	100.0	52.,80.	100.0
27.	Radex Vertriebsgesellschaft m.b.H., Leoben, Austria	77.	100.0	77.	100.0
28.	REFEL S.p.A., San Vito al Tagliamento, Italy	7.	100.0	7.	100.0
29.	Refractory Intellectual Property GmbH & Co KG, Vienna, Austria	1.,30.	100.0	1.,30.	100.0
30.	Refractory Intellectual Property GmbH, Vienna, Austria	1.	100.0	1.	100.0
31.	RHI Argentina S.R.L., San Nicolás, Argentina	11.,80.	100.0	11.,80.	100.0
32.	RHI Canada Inc., Burlington, Canada	80.	100.0	80.	100.0
33.	RHI Chile S.A., Santiago, Chile	14.,80.	100.0	14.,80.	100.0
34.	RHI Clasil Private Limited, Hyderabad, India	80.	53.7	80.	53.7
35.	RHI Dinaris GmbH, Wiesbaden, Germany	68.	100.0	68.	100.0
36.	RHI Feuerfest GmbH, Vienna, Austria	1.	100.0	–	–
37.	RHI Finance A/S, Hellerup, Denmark	1.	100.0	1.	100.0
38.	RHI GLAS GmbH, Wiesbaden, Germany	68.	100.0	68.	100.0
39.	RHI India Private Limited, Navi Mumbai, India	9.,80.	100.0	9.,80.	100.0
40.	RHI ITALIA S.R.L., Brescia, Italy	1.	100.0	1.	100.0
41.	RHI Marvo Feuerungs- und Industriebau GmbH, Gerbstedt, Germany	42.	100.0	42.	100.0
42.	RHI MARVO Feuerungs- und Industriebau GmbH, Kerpen, Germany	7.	100.0	7.	100.0
43.	RHI MARVO S.R.L., Ploiesti, Romania	27.,75.	100.0	27.,75.	100.0
44.	RHI Normag AS, Porsgrunn, Norway	27.	100.0	27.	100.0
45.	RHI Refractories (Dalian) Co., Ltd., Dalian, PR China	27.	100.0	27.	100.0
46.	RHI Refractories (Site Services) Ltd., Newark, United Kingdom	15.	100.0	15.	100.0
47.	RHI Refractories Africa (Pty) Ltd., Sandton, South Africa	27.,72.	100.0	27.	100.0
48.	RHI Refractories Andino C.A., Puerto Ordaz, Venezuela	80.	100.0	80.	100.0
49.	RHI Refractories Asia Ltd., Hongkong, PR China	73.	100.0	73.	100.0
50.	RHI Refractories Asia Pacific Pte. Ltd., Singapore	1.	100.0	1.	100.0
51.	RHI Refractories Egypt LLC., Cairo, Egypt	27.,75.	100.0	27.,75.	100.0
52.	RHI Refractories España, S.L., Lugones, Spain	7.,10.	100.0	7.,10.	100.0
53.	RHI Refractories France SA, Breuillet, France	73.	100.0	73.	100.0
54.	RHI Refractories Holding Company, Wilmington, USA	80.	100.0	80.	100.0
55.	RHI Refractories Ibérica, S.L., Lugones, Spain	73.	100.0	73.	100.0
56.	RHI Refractories Italiana s.r.l., Brescia, Italy	73.	100.0	73.	100.0
57.	RHI Refractories Liaoning Co., Ltd., Bayuquan, PR China(1)	27.	66.0	27.	66.0
58.	RHI Refractories Mercosul Ltda., Sao Paulo, Brazil	75.,80.	100.0	75.,80.	100.0
59.	RHI Refractories Nord AB, Stockholm, Sweden	73.	100.0	73.	100.0
60.	RHI Refractories Raw Material GmbH, Vienna, Austria	1.,27.	100.0	1.,27.	100.0

Ser. no.	Name and registered office of the company	06/30/2017 Share–holder	Share in %	12/31/2016 Share–holder	Share in %
61.	RHI Refractories Site Services GmbH, Wiesbaden, Germany	7.	100.0	7.	100.0
62.	RHI Refractories UK Limited, Bonnybridge, United Kingdom	7.	100.0	7.	100.0
63.	RHI Refratários Brasil Ltda, Belo Horizonte, Brazil	9.,80.	100.0	9.,80.	100.0
64.	RHI Sales Europe West GmbH, Mülheim-Kärlich, Germany	7.,73.	100.0	7.,73.	100.0
65.	RHI Trading (Dalian) Co., Ltd., Dalian, PR China	27.	100.0	27.	100.0
66.	RHI United Offices America, S.A. de C.V., Monterrey, Mexico	52.,67.	100.0	52.,67.	100.0
67.	RHI United Offices Europe, S.L., Lugones, Spain	52.	100.0	52.	100.0
68.	RHI Urmitz AG & Co. KG, Mülheim-Kärlich, Germany	6.,7.	100.0	6.,7.	100.0
69.	RHI US Ltd., Wilmington, USA	11.	100.0	11.	100.0
70.	RHI-MAG N.V., Arnhem, Netherlands	1.	100.0	–	–
71.	RHI-Refmex, S.A. de C.V., Ramos Arizpe, Mexico	52.,80.	100.0	52.,80.	100.0
72.	RHISA Employee Trust, Sandton, South Africa	–	0.0	–	–
73.	SAPREF AG für feuerfestes Material, Basel, Switzerland	80.	100.0	80.	100.0
74.	Stopinc Aktiengesellschaft, Hünenberg, Switzerland	7.,27.	100.0	7.,27.	100.0
75.	Veitscher Vertriebsgesellschaft m.b.H., Vienna, Austria	1.	100.0	1.	100.0
76.	Veitsch-Radex America LLC., Wilmington, USA	69.	100.0	69.	100.0
77.	Veitsch-Radex GmbH & Co OG, Vienna, Austria	1.,78.	100.0	1.,78.	100.0
78.	Veitsch-Radex GmbH, Vienna, Austria	1.	100.0	1.	100.0
79.	Veitsch-Radex Vertriebsgesellschaft m.b.H., Vienna, Austria	1.	100.0	1.	100.0
80.	VRD Americas B.V., Arnhem, Netherlands	1.,27.	100.0	1.,27.	100.0
81.	Zimmermann & Jansen GmbH, Düren, Germany	7.	100.0	7.	100.0
	Subsidiaries not consolidated due to minor significance				
82.	Dr.-Ing. Petri & Co. Unterstützungsgesellschaft m.b.H., Wiesbaden, Germany	7.	100.0	7.	100.0
83.	INTERSTOP do Brasil Equipamentos Metalurgicos Ltda i.L., Barueri, Brazil	74.	100.0	74.	100.0
84.	RHI Réfractaires Algérie E.U.R.L., Sidi Amar, Algeria	53.	100.0	53.	100.0
85.	RHI Refractories Lugones, S.L., Lugones, Spain	52.	100.0	–	–
	Equity-accounted joint ventures				
86.	MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	75.,89.	50.0	75.,89.	50.0
	Other immaterial investments, measured at cost				
87.	LLC "NSK Refractory Holding", Moscow, Russia	27.	49.0	27.	49.0
88.	LLC "NSK Refractory", Novokuznetsk, Russia	27.	49.0	27.	49.0
89.	MAGNIFIN Magnesiaprodukte GmbH, St. Jakob, Austria	75.	50.0	75.	50.0

(1) In accordance with IAS 32, fixed-term or puttable non-controlling interests are shown under liabilities.

(2) Further shareholders are VRD Americas B.V., Lokalbahn Mixnitz St. Erhard Aktien-Gesellschaft and Veitscher Vertriebsgesellschaft mbH.

(3) Further shareholders are Didier-Werke AG, RHI Dinaris GmbH and RHI GLAS GmbH.

(4) Controlling influence due to contractual terms and conditions

i.L. In liquidation

(5) Methods of consolidation

Subsidiaries

Subsidiaries are companies over which RHI AG exercises control. Control exists when the company has the power to decide on the relevant activities, is exposed to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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 at the date of acquisition or when control is obtained. Intangible assets which were previously not recognized in the separate financial statements of the company acquired are also measured at fair value. Intangible assets identified when a company is acquired, including for example patents, brand names and customer relations, are only measured separately at the time of acquisition if they are identifiable and are in the control of the company and a future economic benefit is expected.

For the acquisition of companies in which less than 100% of the shares are acquired, IFRS 3 allows an accounting policy choice whereby either goodwill proportionate to the share held or goodwill including the share accounted for by non-controlling interests can be recognized. This accounting policy choice can be exercised anew for any company acquisition.

The measurement at the date of acquisition can be made on a preliminary basis in justified cases. If adjustments are necessary in favor or at the expense of assets and liabilities within twelve months of the acquisition, they will be made accordingly. These adjustments are presented in the notes.

The goodwill determined 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 immediately recognized to profit or loss in other income after renewed measurement of the identifiable assets, liabilities and contingent liabilities.

Shares in net assets of subsidiaries that are not attributable to RHI AG are shown separately under equity as non-controlling interests. The basis for non-controlling interests are the equity of the subsidiary concerned after adjustment to the accounting and measurement principles of the RHI Group and proportional consolidation entries.

Transaction costs which are directly related to business combinations are expensed as incurred. Conditional components of the purchase price are recorded at fair value at the date of initial consolidation.

When additional shares are acquired in companies which are already included in the consolidated financial statements as subsidiaries, the difference between the purchase price and the proportional carrying amount in the subsidiary's net assets is offset against shareholders' equity. Gains and losses from the sale of shares are also recorded in equity unless they lead to a loss of the controlling influence.

In the case of a step acquisition and the related obtaining of a controlling interest, the difference between the carrying amount to be transferred and the fair value at the date of the initial full consolidation is realized through profit or loss.

Intragroup receivables and liabilities as well as income and expenses are fully eliminated.

Intragroup results related to intragroup deliveries of non-current assets and inventories as well as transfers of shares are eliminated.

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

Subsidiaries are deconsolidated on the day control ends.

Joint ventures

Shares in joint ventures are accounted for using the equity method. A joint venture is a joint arrangement between the RHI Group and one or several other partners whereby the parties that have joint control over the arrangement have rights to the net assets of the arrangement.

At the date of acquisition, a positive difference between the acquisition costs and the share in the fair values of identified assets and liabilities of the joint venture is determined and recognized as goodwill. Goodwill is shown under the item shares in joint ventures in the statement of financial position.

The acquisition cost of investments accounted for using the equity method is increased or decreased each year to reflect the change in the equity of the individual joint venture that is attributable to the RHI Group. Unrealized intragroup results from transactions with these companies are offset against the carrying amount of the investment on a pro-rata basis during consolidation, if they are material.

The RHI Group examines at every reporting date and interim reporting date whether there are objective indications of an impairment of the shares in the joint ventures. If such indications exist, the required impairment is determined as the difference between the recoverable amount and the carrying amount of the joint venture and recognized in profit and loss in the item share of profit of joint ventures. If the reasons for a previously recognized impairment cease to exist, a reversal of impairment is recognized in profit or loss with the exception of goodwill.

The financial statements of the companies accounted for using the equity method are prepared in accordance with uniform accounting and measurement methods throughout the Group.

(6) Foreign currency translation

Functional currency and presentation currency

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

The items included in the interim financial statements of each Group company are valued based on the currency of the primary economic environment in which the company operates (functional currency).

Foreign currency transactions and balances

Foreign currency transactions in the interim 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 monetary assets and liabilities in foreign currencies at the closing rate are recognized in profit or loss under other income or expenses. Contrary to this, unrealized currency translation differences from monetary items which form part of a net investment in a foreign business are recognized in other comprehensive income in equity. Non-monetary items in foreign currency are carried at historical rates.

Group companies

The interim financial statements of foreign subsidiaries that have a functional currency differing from the Group presentation currency are translated into euros as follows:

Assets and liabilities are translated at the closing rate on the reporting date of the interim consolidated financial statements, while monthly income and expenses and consequently the profit for the period as presented in the statement of profit or loss are translated at the respective closing rates of the previous month. Differences resulting from this translation process and differences resulting from the translation of amounts carried forward from the prior year are recorded under other comprehensive income without recognition to profit or loss. Monthly cash flows are translated at the respective closing rates of the previous month. Goodwill and adjustments to the fair value of assets and liabilities related to the purchase price allocations of a subsidiary outside the European currency area are recognized as assets and liabilities of the respective subsidiary and translated at the closing rate.

The euro exchange rates of currencies important for the RHI Group are shown in the following table:

		Closing rate		Average rate(1)	
Currencies	1 € =	06/30/2017	12/31/2016	1-6/2017	1-6/2016
Brazilian real	BRL	3.77	3.42	3.42	4.20
Pound sterling	GBP	0.88	0.86	0.86	0.77
Chilean peso	CLP	759.92	700.25	710.87	764.83
Chinese renminbi yuan	CNY	7.74	7.31	7.41	7.24
Indian rupee	INR	73.97	71.43	71.01	74.49
Canadian dollar	CAD	1.48	1.42	1.44	1.48
Mexican peso	MXN	20.66	21.77	21.13	19.76
Norwegian krone	NOK	9.57	9.09	9.13	9.42
Swiss franc	CHF	1.09	1.08	1.07	1.10
South African rand	ZAR	14.92	14.33	14.34	17.15
US dollar	USD	1.14	1.05	1.08	1.11

(1) Arithmetic mean of the monthly closing rate

(7) Principles of accounting and measurement

Property, plant and equipment

Property, plant and equipment is measured at acquisition or production cost, less accumulated depreciation on a systematic basis and impairments. 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.

Leased property, plant and equipment that qualifies as asset purchase financed with long-term funds is capitalized at the market value of the asset or the lower present value in accordance with IAS 17. The leased assets are depreciated on a systematic basis over the useful life. The payment obligations resulting from future lease instalments are discounted and recorded as liabilities. Current lease payments are apportioned between a finance charge and the amortization of the outstanding liability. As of the reporting date of the interim financial statements, the property, plant and equipment leased through finance leases is of small scale. All other leases are treated as operating leases. The lease payments resulting from operating leases are recorded as expenses.

The production costs of internally generated assets comprise direct costs as well as a proportional share of capitalizable production overheads and borrowing costs. If financing can be specifically allocated to an investment, the actual borrowing costs are capitalized as production costs. If no direct connection can be made, the average rate on borrowed capital of the Group is used as the capitalization rate due to the central funding of the Group.

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.

Real estate, land and plant under construction are not depreciated on a systematic basis. Depreciation of other material property, plant and equipment is based on the following useful lives:

Factory and office buildings	15 to 50 years
Land improvement	8 to 30 years
Crusher machines and mixing facilities	8 to 20 years
Presses	10 to 12 years
Tunnel, rotary and shaft kilns	50 years
Other calcining and drying kilns	20 to 30 years
Cars, other plant, furniture and fixtures	3 to 35 years

The residual 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 statement of profit or loss.

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 through profit or loss immediately after a new assessment of the identified assets, liabilities and contingent liabilities.

Other intangible assets

Research costs are expensed in the year incurred and included under general and administrative costs.

Development costs also represent expenses in the period. They are recognized under general and administrative expenses. They are only capitalized if the allocable costs of the intangible asset can be measured reliably during its development period. Moreover, capitalization requires that the product or process development can be clearly defined, is feasible in technical, economic and capacity terms and is intended for own use or sale. In addition, future cash inflows which cover not only normal costs but also the related development costs must be expected. Capitalized development costs are amortized on a straight-line basis over the expected useful life, however, over a maximum of ten years, and recognized in cost of sales.

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 predominantly amortized on a straight-line basis over a period of four years.

Purchased intangible assets are measured at acquisition cost, which also includes acquisition-related costs, less accumulated amortization and impairments. Intangible assets with a finite useful life are amortized on a straight-line basis over the expected period of useful life. The following table shows the most important useful lives:

Patente	7 bis 18 Jahre
Markenrechte	20 Jahre
Landnutzungsrechte	50 bzw. 65 Jahre
Kundenbeziehungen	6 Jahre

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 for impairment at least annually.

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 of disposal and its value in use (present value of future cash flows). If the carrying amount is higher than the recoverable amount, an impairment loss equivalent to the resulting difference is recognized in the statement of profit or loss. If the reason for an impairment loss recognized in the past for property, plant and equipment and for other intangible assets ceases to exist, a reversal of impairment on the amortized acquisition and production costs is recognized to profit or loss.

In the case of impairments related to cash-generating units (CGU) which contain goodwill, existing goodwill is initially reduced. If the required impairment exceeds the carrying amount of the goodwill, the difference is apportioned proportionately to the remaining non-current tangible and intangible assets of the CGU. Reversals of impairment losses recognized on goodwill are not permitted and are therefore not considered. The effects of impairment tests at the CGU level are shown separately in the statement of profit or loss.

Cash-generating units (CGU)

In the RHI Group the individual assets do not generate cash inflows independent of one another; therefore, no recoverable amount can be presented for individual assets. As a result, the assets are combined in CGUs, which largely generate independent cash inflows. These units are combined in strategic business units and reflect the market presence and the market appearance and are as such responsible for cash inflows.

The organizational structures of the Group reflect these units. In addition to the joint management and control of the business activities in each unit, the sales know-how, the knowledge of RHI products and, as an important added value, the combination of this specific technical knowledge and the technical services provided to customers are also incorporated in these units. Sales know-how is reflected in long-standing customer relationships or knowledge of the customer’s production facilities and processes. Product knowledge is manifested in the application-oriented knowledge of chemical, physical and thermal properties of RHI products. The services offered extend over the life cycle of RHI products at the customer’s plant, from the appropriate installation and support of optimal operations, to environmentally sound disposal with the customer or the sustainable reuse in RHI’s production process. These factors determine cash inflow to a significant extent and consequently form the basis for the CGU structures of the RHI Group.

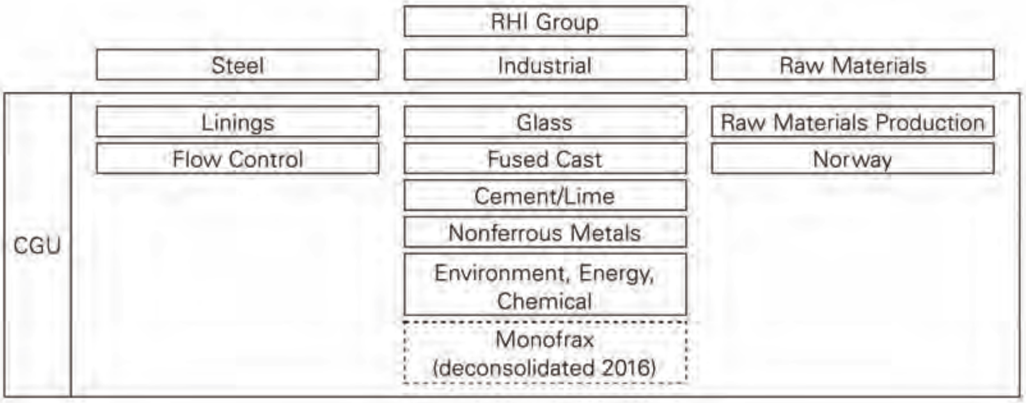
The CGUs of the strategic business unit Steel are Linings and Flow Control. These two units are determined according to the production stages in the process of steel production. Goodwill of € 9.4 million (12/31/2016: € 9.4 million) is allocated to the CGU Steel/Linings. As of June 30, 2017, goodwill of € 27.6 million (12/31/2016: € 27.1 million) and an intangible asset of indefinite useful life of € 1.8 million, unchanged compared with the December 31, 2016, are allocated to the CGU Steel/Flow Control. This asset is related to an acquired brand name. The Group intends to continue to use this brand name without a change.

In the Industrial Division, each industry segment (cement/lime, nonferrous metals and environment, energy, chemicals) with the exception of glass forms a separate CGU. The glass segment and the related plants were also considered to be one CGU up to and including 2014. In the year 2015, the Management Board of the RHI Group decided to initiate a structured selling process for the Falconer plant of the US subsidiary RHI Monofrax, LLC. Consequently, the related cash flows were assessed for this plant and it was treated as a separate CGU, Industrial/Monofrax. It was sold to the German private equity fund Callista and deconsolidated in the second quarter of 2016.

The global market environment in the glass industry is still characterized by low willingness to invest, high excess capacities and progressing market consolidation in the USA and Europe. As part of the plant concept, the Management Board of the RHI Group evaluated in 2016 whether a structured selling process would be initiated for another two companies or they would continue to operate within the Group. These two companies were REFEL S.p.A., based in Italy, and CJSC “RHI Podolsk Refractories”, based in Russia. In this context, independent cash flows were generated for these plants, enabling separate consideration. Therefore, the plants of the subsidiaries REFEL S.p.A. ("San Vito" plant) and CJSC "RHI Podolsk Refractories" ("Sherbinska" plant) are presented as a separate CGU "Industrial/Fused Cast", separate from the CGU Industrial/Glass. In the second quarter of 2017, the RHI Group received offers from interested parties which make a sale highly likely. Therefore, these two plants were classified as disposal groups held for sale and subsequently accounted for at fair value less disposal costs in accordance with IFRS 5 (see note (22)).

In the Raw Materials Division, all raw material producing facilities with the exception of Norway are combined in one CGU. The plant in Porsgrunn, Norway, was not included in the raw materials unit, but treated as a separate CGU because a management team was installed specifically for the coordination and implementation of the optimization measures due to the dimension and the special situation at the Porsgrunn plant. This organization goes beyond plant management and also includes sub-tasks of the administration processes.

The business units of the RHI Group to which cash flows are allocated are shown in the table below:



In the RHI Group, the impairment test is performed for the CGUs defined in the RHI Group as part of the annual planning process in the fourth quarter of the year. At each interim reporting date, impairment tests are conducted as soon as events or changes in the circumstances indicate that the carrying amount of an asset or a group of assets could exceed the recoverable amount.

Impairment test at June 30, 2017

In the first half of 2017, production was interrupted at one site of the CGU Steel/Linings and from today's perspective an extended shut-down period has to be expected. Therefore, an impairment of € 5.5 million was recognized for plant no longer necessary for operation, of which land and buildings accounted for € 4.8 million, technical plant and machinery for € 0.6 million and other plant, furniture and fixtures for € 0.1 million. The plant's orders were distributed to other production sites so that no further negative impact on the CGU Steel/Linings is to be expected.

Beyond that, no indication of impairment at the CGU level was identified after the examination of internal and external information sources on the interim reporting date on June 30, 2017. The internal information sources used included, among others, the revenue and earnings development of the CGUs; long-term market growth and market capitalization served as external sources. Therefore no calculation of the recoverable amount of the CGUs was made as of the interim reporting date.

Impairment test at December 31, 2016

The impairment test at December 31, 2016 was based on the value in use; the recoverable amount was determined using the discounted cash flow method and incorporated the terminal value. The detailed planning of the first five years is congruent with the strategic business and financial planning. Based on the detailed planning period, it was geared to a steady-state business development, which balances out possible economic or other non-sustainable fluctuations in the detailed planning period and forms the basis for the calculation of the terminal value. In the impairment test the terminal value was based on a growth rate derived from the difference of the current and the possible degree of utilization of the assets.

The net cash flows were discounted using the weighted average cost of capital (WACC). The weighted average cost of capital was calculated taking into account comparable companies (peer group); the corresponding parameters were derived from capital market information. In addition, country-specific risk premiums were considered in the weighted average cost of capital.

The weighted average cost of capital before tax was determined per legal unit and weighted according to the share of revenue of the legal units. The weighted interest rates range between 6.4% and 8.0% in the year 2016.

Composition of estimated future cash flows at December 31, 2016

The estimates of future cash flows included forecasts of the cash flows from continued use. If assets are disposed at the end of their useful life, the related cash flows were also included in the forecasts.

A simplified statement of cash flows served to determine the cash flows on the basis of strategic business and financial planning. The forecasts included cash flows from future maintenance investments. Expansion investments were only taken into account in the future cash flows where there had been a significant cash outflow, or significant payment obligations had been entered into due to services received, and it was sufficiently certain that the investment measure would be completed. All other expansion investments were not considered; this applies in particular to expansion investments that have been decided on but not begun.

Future cash flows from financing and for income taxes were generally not included. For reasons of practicability, the expected cash flows also included tax payments, therefore the values in use were determined using an after-tax weighted average cost of capital. The after-tax weighted average cost of capital was iteratively reconciled to an implicit pre-tax weighted average cost of capital, which is indicated in the notes. If the result before tax was negative in the detailed planning period, tax inflows (tax refunds) were considered regardless of whether tax loss carryforwards existed.

With respect to pension obligations, a differentiation was made between earned entitlements and entitlements yet to be earned. Provisions for pensions do not reduce the carrying amount of a CGU; accordingly, pension payouts were not included in the recoverable amounts. Expected additions to provisions for pensions were considered cash-effective with respect to service cost. The interest expense related to pension obligations represents a financing expense and was consequently not considered in the forecast of cash flows.

Working capital was included in the carrying amount of the CGU; therefore, the recoverable amount only took into account changes in working capital.

Basis for planning at December 31, 2016

CGU Steel/Linings

The basis for strategic market planning was the forecast for world steel production, which is prepared by an independent institution (CRU, London, United Kingdom). This forecast was analyzed by experts in the RHI Group and, where necessary, revised and adjusted for internal analyses and evaluations. RHI assumed a more conservative development of the global steel market for strategic business planning in the year 2016. This resulted in moderate annual average volume growth of 0.7% in the detailed planning period, with the price level remaining stable. The cost items were planned in detail for the first year of the detailed planning period taking into account cost developments for the individual types of costs at the respective sites, and adjusted for the other years in accordance with the estimates available. Overall, this led to a gross operating margin between 19.4% and 20.0% in the planning period. The planning did not take into account expansion investments. The relevant capital costs before tax amounted to 7.6% and the assumed growth for the terminal value was 0.9%. An increase in the interest rate by 41%, combined with a 40% reduction of profitability and a reduction of the growth rate to 0.0%, would have the effect that the recoverable amount corresponds exactly to the carrying amount of this unit at December 31, 2016.

CGU Steel/Flow Control

The forecast for the world steel production was also the basis for strategic market planning in the CGU Steel/Flow Control. The CGU Steel/Flow Control built on the same strategic marketing planning of world steel production as the CGU Steel/Linings. In this unit, RHI expected increasing revenue growth with an annual growth rate of 3.5% in the detailed planning period, with the growth being driven primarily by the development in India and the increasing demand for specialized customer solutions. Cost planning was carried out the same way as in the CGU Steel/Linings. The gross operating margin resulting from revenue and cost planning ranged between 23.9% and 24.4% in the detailed planning period. The planning did not include expansion investments. A weighted average cost of capital before tax of 8.0% was applied. The growth assumed for the terminal value amounted to 0.9%. In this unit, an increase in the interest rate by 10%, combined with a 14% reduction of profitability, as well as reduction of the growth rate to 0.0% would cause the recoverable amount to correspond precisely to the carrying amount of this unit at December 31, 2016.

CGU Raw Materials/Norway

This unit comprises the activities of the plant in Porsgrunn, Norway. At this site, the RHI Group produces high-grade fused magnesia, which represents an important pillar in the strategic raw material supply of the Group. As raw material prices have dropped significantly in the past, the company's high-grade products stand in direct competition with the products available in the market. External purchases are thus possible at any time and the company's own production was adjusted accordingly. Increasing demand in the area of marketing intermediate products and by-products was taken into account in strategic planning. Production costs for the first year in the detailed planning period were planned for every single phase in the production process for individual cost types and subsequently adjusted for the following years in accordance with the defined plan of measures. In the CGU Raw Materials/Norway, a weighted average cost of capital before tax of 6.5% was applied. The growth rate assumed for the terminal value amounted to 0.9%.

CGU Industrial/Glass

The market of the CGU Industrial/Glass was characterized by global excess capacities in the area of non-basic products as of December 31, 2016. Nevertheless, RHI assumed in the planning period that investments in the glass industry would increase after the subdued investment activities of the past years and that an increasing number of projects would consequently be won in the medium term, especially in the flat glass segment. However, this slight increase in volume was compensated by longer service lives/repairs. Here, the RHI Group will continue to grow in the area of service and repairs. All of this led to annual revenue growth of 3.2% in the detailed planning period, with constant volumes and generally stable prices. In the CGU Industrial/Glass, the cost items for the first year of the detailed planning period were also planned taking into account cost developments for the individual types of cost at the respective sites and adjusted for the subsequent years in accordance with existing estimates. Consequently, average gross margins between 19.8% and 21.1% were realized in the long term. A weighted average cost of capital before tax of 7.0% was applied. The growth assumed for the terminal value amounted to 0.9%.

CGU Industrial/Fused Cast

Since 2016, the plants in San Vito, Italy, and Sherbinska, Russia, have been presented as a separate CGU and have thus been removed from the CGU Industrial/Glass. These plants produce fused cast products. The weighted average cost of capital before tax applied amounted to 6.4%. The growth rate assumed for the terminal value amounted to 0.9%.

Result of the impairment test at December 31, 2016

Based on the impairment test conducted in the financial year 2016, the recoverability of assets was demonstrated in all CGUs with the exception of the CGU Raw Materials/Norway and the CGU Industrial/Fused Cast.

The amount recognized in the item impairment losses in the statement of profit or loss for the CGU Industrial/Fused Cast amounted to € 8.0 million at December 31, 2016, of which land and buildings accounted for € 3.7 million, technical plant and machinery for € 2.9 million, other plant, furniture and fixtures for € 1.0 million, plant under construction for € 0.3 million and intangible assets for € 0.1 million. The recoverable amount of this CGU was determined on the basis of the value in use and was negative as of December 31, 2016.

The carrying amount of the CGU Raw Materials/Norway was already fully written down in the previous years. The recoverable amount of the CGU Raw Materials/Norway was determined on the basis of a value in use and was negative as of December 31, 2016.

Other financial assets and liabilities

Financial assets and liabilities are initially recognized when the Group becomes a party to the contractual provisions of a financial instrument. Financial assets are derecognized when the contractual rights to payments from the financial assets no longer exist or significant risks and rewards related to the ownership of the financial assets are transferred. Financial liabilities are derecognized when the contractual obligations are settled, withdrawn or have expired.

The item other financial assets in the RHI consolidated statement of financial position includes shares in non-consolidated subsidiaries and other investments, securities, financial receivables and positive fair values of derivative financial instruments.

The item other financial liabilities includes negative fair values of derivative financial instruments.

Shares in non-consolidated subsidiaries, investments in other companies and securities are classified entirely as “available for sale” in the RHI Group. Available-for-sale financial assets are initially measured at fair value including any related transaction expenses. Subsequent measurement reflects fair value, with changes in fair value being recorded in other comprehensive income. The accumulated gains and losses from fair value measurement that are recorded under other comprehensive income are reclassified to the statement of profit or loss with the disposal of the financial assets. Impairments are charged to profit or loss. Impairment losses on equity instruments recognized to profit or loss are reversed through other comprehensive income. Reversals of impairment for debt instruments are recognized to profit and loss. Available-for-sale financial assets of minor significance are measured at cost. If there are indications that fair value is lower, the lower value is recognized.

Financial receivables are measured at amortized cost applying the effective interest method. Any doubt concerning the collectability of the receivables is reflected in the use of the lower present value of the expected future cash flows. Foreign currency receivables are translated at the closing rate.

Derivative financial instruments, which are not part of an effective hedging relationship in accordance with IAS 39 or do not meet the hedge accounting requirements, must be classified as held for trading in accordance with IFRS and measured at fair value through profit or loss. In the RHI Group, this measurement category includes derivatives related to purchase obligations, forward exchange contracts, embedded derivatives in open orders that are denominated in currencies other than the functional currency as well as derivative financial instruments in the form of interest rate swaps.

Derivative financial instruments relating to purchase obligations concern a long-term power supply contract which provides for the purchase of fixed amounts of electricity at fixed prices and for which the so-called own-use exemption (exemption for own use in accordance with IAS 39.5) was for the first time not applied anymore in the consolidated financial statements 2015. The measurement is made taking into account quoted electricity prices in the futures market. Based on the fixed amounts of electricity, the cash flows for the entire term of the contract are initially determined as the difference between forward rates and contractually fixed prices and discounted at the interim reporting date using a cost of borrowing rate corresponding to the term. The measurement effects resulting from this electricity derivative are shown as gain or loss from derivatives from supply contracts in the statement of profit or loss.

The measurement of forward exchange contracts and embedded derivatives in open orders denominated in a currency other than the functional currency is made on a case-by-case basis at the respective forward rate on the interim reporting date. These forward rates are based on spot rates, and also include forward premiums and discounts. Unrealized valuation gains or losses and results from the realization are recognized to the statement of profit or loss under other income or expenses. The underlying transactions for the derivatives are carried at amortized cost.

For derivative financial instruments, which are incorporated in an effective hedging relationship in accordance with IAS 39, the provisions regarding hedge accounting are applied. The RHI Group has concluded derivative financial instruments in the form of interest rate swaps to hedge the cash flow risk of financial liabilities carrying variable interest. Hedging transactions are shown as part of cash flow hedge accounting provided that the relevant conditions are met. The interest rate swaps as hedging instruments are measured at fair value, which corresponds to the amount which the RHI Group would receive or have to pay on the interim reporting date when the financial instrument is terminated. The fair value is calculated using the interest rates and yield curves relevant on the interim reporting date. The effective part of the fair value changes is initially recorded in other comprehensive income as an unrealized gain or loss. Only at the time of the realization of the underlying transaction, the contribution of the hedging instrument is shown in the statement of profit or loss. Ineffective parts of the fair value changes of cash flow hedges are recognized immediately in the statement of profit or loss. If the expected transaction is no longer expected to take place, the accumulated amount previously recorded in other comprehensive income is reclassified to the statement of profit or loss.

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 tax assets are recognized on temporary differences insofar as it is probable that sufficient deferred tax liabilities exist or that sufficient taxable income before the reversal of temporary differences is available for the settlement of deductible temporary differences in the planning period of five years.

Deferred taxes are recognized on temporary differences relating to shares in subsidiaries and joint ventures, 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 accounts for deferred tax assets for unused tax loss carryforwards to the extent that it is probable that a taxable income will be available within the planning period of five years, against which the loss carryforwards can be used.

The calculation of deferred taxes is based on the tax rate expected in the individual countries at the time of realization and generally reflects the enacted or substantively enacted tax rate on the interim reporting date. As in the previous year, deferred taxes of the Austrian Group companies are determined at the corporation tax rate of 25%. Tax rates from 12.5% to 37.9% were applied to foreign companies, as at December 31, 2016.

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.

Inventories

Inventories are stated at acquisition or production cost, or at net realizable value as of the interim reporting date. The determination of acquisition cost of purchased inventories is based on the moving average price method. Finished goods and work in process are valued at fixed and variable production cost. The net realizable value is the estimated selling price in the ordinary course of business minus any estimated cost to complete and to sell the goods. Impairments due to reduced usability are reflected in the calculation of the net realizable value.

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 incurred plus an appropriate mark-up for profit based on the stage of completion are recognized under receivables from construction contracts and under revenue. 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.

Trade and other current receivables

Receivables are initially measured at fair value and subsequently carried at amortized cost minus any valuation allowances. These valuation allowances are determined on an individual basis and reflect any recognizable risk of default. Specific cases of default lead to the derecognition of the relevant receivables.

Receivables denominated in foreign currencies are translated using the closing rate.

Emission certificates

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

Emission certificates allocated free of charge are not accounted for. Proceeds from the sale of these rights are recognized as income.

Cash and cash equivalents

Cash on hand, checks received and cash at banks with an original term of a maximum of three months are shown under cash and cash equivalents. Moreover, shares in money market funds, which are only exposed to insignificant value fluctuations due to their high credit rating and investments in extremely short-term money market instruments and can be converted to defined cash amounts within a few days at any time, are also recorded under cash equivalents under IAS 7.

Cash and cash equivalents denominated in foreign currencies are translated at the closing rate.

Disposal groups held for sale

Non-current assets and disposal groups which can be sold in their present state and whose sale is highly probable are classified as held for sale. Assets and liabilities which are intended to be sold together in a single transaction represent a disposal group held for sale and are shown separately from other assets and liabilities in the statement of financial position. All accumulated income and expenses recorded in other comprehensive income which are related to disposal groups classified as held for sale are presented separately in the consolidated statement of changes in equity.

Non-current assets and disposal groups which are classified as held for sale are carried at the lower of fair value less costs to sell and carrying amount. Impairments are initially allocated to existing goodwill and then to the non-current assets on a pro-rata basis, based on the carrying amount of each individual asset of the disposal group. Impairments beyond that are allocated to current assets pursuant to the liquidity principle and recognized through profit or loss in the item impairment losses. Non-current assets are not depreciated as long as they are classified as held for sale.

Financial liabilities

Liabilities to financial institutions

Liabilities to financial institutions are measured at fair value less directly attributable transaction costs at initial recognition. In subsequent measurements these liabilities are measured at amortized cost applying the effective interest method. Liabilities to financial institutions in foreign currency are translated at the closing rate.

Liabilities to fixed-term or puttable non-controlling interests

Capital shares of non-controlling interests in subsidiaries with a fixed term are recognized under financial liabilities in the consolidated statement of financial position in accordance with IAS 32. The liabilities are measured at amortized cost. The share of profit attributable to non-controlling interests is recognized under interest expenses in the statement of profit or loss. Dividend payments to non-controlling interests reduce liabilities.

Furthermore, the RHI Group has entered into purchase obligations with non-controlling shareholders of a subsidiary. Based on these agreements, the shareholders receive the right to tender their shares at any time on previously defined conditions. In this case, IAS 32 provides for carrying a liability in the amount of the probable future exercise price. The difference between the estimated liability and the carrying amount of the non-controlling interest was recognized to equity at the time of initial recognition without affecting profit or loss. Subsequently, the liability is measured at amortized cost and changes are recorded in net finance costs.

Provisions

Provisions are recognized 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 interim reporting 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 to earmarked pension plans. The related expenses are shown in the functional areas and thus in EBIT. No provisions are necessary.

Defined benefit plans require the company to provide the agreed amount of benefits to active and former employees and their dependents, with a differentiation made between pension systems financed through provisions and pension systems financed by funds.

For pension plans financed through external funds, the pension obligation according to the projected unit credit method is netted out against the fair value of the plan assets. If the plan assets are not sufficient to cover the obligation, the net obligation is recognized under provisions for pensions. However, if the plan assets exceed the obligations, the asset recognized is limited to reductions of future contribution payments to the plan and is shown under other non-current assets.

The present value of defined benefit obligations for current pensions, future pension benefits and similar obligations and the related expenses are calculated separately for each plan annually by independent qualified actuaries in accordance with the provisions of IAS 19. The present value of future benefits is based on the length of service, expected wage/salary developments and pension adjustments. For the interim consolidated financial statements as of June 30, 2017, these calculations were made for pension obligations in Austria, Germany and Mexico. The determination of other pension obligations as of June

30, 2017 was based on a forecast prepared by an actuary for the full year 2017. As of June 30, 2016, the present value of all obligations was calculated on the basis of a forecast prepared by an actuary for the full year 2016. Where there are significant changes, a remeasurement of the net debt from defined benefits for pensions is carried out and the resulting remeasurement gains/losses are recognized in equity in the reserve "defined benefit plans" without affecting profit or loss.

The expense to be recognized in a period includes current and past service costs, settlement gains and losses, interest expenses from the interest accrued on obligations, interest income from plan assets and administration costs paid from plan assets. The net interest expense is shown separately in net finance costs. All other expenses related to defined benefit plans are allocated to the costs of the relevant functional areas.

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 starting age and probability of employee turnover and actual claims. The calculation is based on local biometric parameters.

Interest rates chosen on the basis of the interest on high-quality corporate bonds issued with adequate maturities and currencies are applied to determine the present value of pension obligations. In countries where there is no sufficiently liquid market for high-quality corporate bonds, the returns on government bonds are used as a basis.

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

The fluctuation probabilities were estimated specific to age or according to seniority.

The retirement age used for the calculation is based on the respective statutory provisions of the country concerned. The calculation is based on the earliest possible retirement age according to the current statutory provisions of the respective country, among other things depending on gender and date of birth.

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.

Remeasurement gains and losses are recorded net of deferred taxes under other comprehensive income in the period incurred.

Provisions for termination benefits

Provisions for termination benefits are primarily related to obligations to employees whose employment is subject to Austrian law.

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 and ranges between two and twelve monthly salaries. These obligations are measured in accordance with IAS 19 using the projected unit credit method applying an accumulation period of 25 years. Remeasurement gains and losses are recorded directly to other comprehensive income after considering tax effects and shown in the statement of comprehensive income.

For employees who joined an Austrian company 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 like defined contribution pension plans and included under personnel expenses of the functional areas.

Other personnel provisions

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

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. Obligations related to service anniversary bonuses exist in Austrian and German Group companies. Under IAS 19 service anniversary bonuses are treated as other long-term employee benefits. Provisions for service anniversary bonuses are calculated based on the projected unit credit method. Remeasurement gains or losses are recorded in the personnel costs of the functional areas in the period incurred.

Local labor laws and other similar regulations require individual Group companies to create provisions for semi-retirement obligations. The obligations are partially covered by qualified plan assets and are reported on a net basis in the statement of financial position.

For cash-settled share-based payments for the members of the Management Board of RHI AG, a provision is recorded for the services received and measured at fair value on the date of receipt. Until the debt is settled, its fair value is recalculated at each reporting date, at June 30, 2017 and on the settlement date. All changes in fair value are recognized to profit or loss in general and administrative expenses.

Obligations for lump-sum settlements are based on company agreements in individual companies.

Provisions for warranties

Provisions for warranties are created for individual contracts at the time of the sale of the goods concerned, or after a service has been provided. The amounts of the provisions are based on the 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 prior to the interim reporting date or whose implementation was commenced prior to the interim reporting date.

Trade payables and other current liabilities

These liabilities are initially recognized at fair value, and subsequently measured at amortized cost.

Liabilities denominated in foreign currencies are translated at the closing rate.

Government grants

Government grants to promote investments are recognized as deferred income and released through profit or loss over the useful life of the relevant asset distributed on a straight-line basis.

Grants that were granted as compensation for expenses or losses are recognized to profit or loss in the periods in which the subsidized expenses are incurred. In the RHI Group, they mainly include grants for research and employee development. Grants for research are recorded as income in general and administrative expenses.

Revenue and expenses

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

Revenue is realized when ownership and risk are transferred to the customer or when a service is performed, 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.

Expenses are recognized to the statement of profit or loss 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 using the equity method 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. Current and deferred income taxes are recognized in the statement of profit or loss unless they are related to items which were recorded directly in equity or in other comprehensive income. In such a case, income taxes are also recorded in equity or other comprehensive income.

Since the financial year 2005, RHI AG has headed a corporate tax group in accordance with § 9 KStG (Austrian Corporation Tax Act). A tax compensation agreement has been in force since January 1, 2016 between the head of the group and seven Austrian group members, which are included in the RHI interim consolidated financial statements. Prior to that, profit and loss transfer agreements were in place. According to the group and tax compensation agreement, the members of the group have to pay a positive tax compensation of 20% of the taxable profit to the head of the group if the result is positive, as long as tax loss carry forwards exist with the head of the group; subsequently 25% of the taxable profit have to be paid. In the case of a tax loss of the group member, the head of the group has to pay a negative tax compensation to the member of the group, with a rate of 12.5% being applied insofar as the loss can be utilized within the group. In the case of a loss in the tax group, an unused tax loss of a group member is retained and offset against future taxable profits of the group member. When the contract is terminated, a compensation payment is agreed for unused tax losses of a group member, which were allocated to the head of the group.

In Germany, Didier-Werke Aktiengesellschaft, Wiesbaden, acts as the head of a tax corporation group. The seven subsidiary companies are obliged to transfer their profit or loss to Didier-Werke Aktiengesellschaft based on a profit and loss transfer agreement.

(8) 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 Steel segment specializes in supporting customers in the steel-producing and steel-processing industry. The Industrial segment serves customers in the glass, cement/lime, nonferrous metals and environment, energy, chemicals industries. The main activities of the two segments consist of market development, global sales of high-grade refractory bricks, mixes and special products as well as providing services at the customers' sites.

The operating activities of the segment Raw Materials primarily consist of supplying Group companies with raw materials. This includes mining magnesite and dolomite in mines owned by the Group and raw material production based on seawater, processing and finishing raw materials as well as purchasing and selling raw materials. Within the Group, raw materials are carried at market price. The globally located manufacturing sites, which process the raw materials, are combined in one organizational unit. The allocation of manufacturing cost variances of the production plants to the Steel and Industrial Divisions is based on the supply flow.

The research activities of the RHI Group are managed centrally. R&D costs are allocated directly to the three segments.

The Shared Service Center costs of the Group are allocated to the three operating segments according to the agreed Service Level Agreements. The allocation of expenses of Group management is based on external revenue.

Statements of profit or loss up to EBIT are available for each segment. The operating EBIT (EBIT adjusted for special effects) serves the Management Board of the RHI Group for internal management and as an indicator of sustainable earnings power of a business as presented in the statement of profit or loss. The profit of joint ventures is allocated to the segments. Net finance costs and income taxes are managed on a group basis and are not allocated.

Segment assets include trade receivables and inventories, which are available to the operating segments and are reported to the management for control and measurement, as well as property, plant and equipment, goodwill and other intangible assets, which are allocated to the segments based on the capacity of the assets provided to the segments. Investments in joint ventures are allocated to the segments. All other assets are not allocated. The recognition of segment assets is determined on the basis of the accounting and measurement methods applied to the IFRS consolidated financial statements.

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

(9) Discretionary decisions, assumptions and estimates

The RHI Group used forward-looking assumptions and estimates, especially with respect to business combinations, non-current assets, valuation adjustments to inventories and receivables, provisions and income taxes to a certain extent in the application of accounting and measurement methods.

The estimates are based on comparable values in the past, plan data and other findings regarding transactions to be accounted. The actual values may ultimately deviate from the assumptions and estimates made. The resulting changes in value of assets, liabilities, revenue and expenses are accounted for in the reporting period in which the change is made and in the affected future reporting periods.

Business combinations (initial consolidation)

Estimates relating to the calculation of fair values of acquired assets, liabilities and contingent liabilities are required within the context of business combinations.

If intangible assets are identified, discretionary estimates are necessary for the determination of fair values by means of discounted cash flows, especially regarding the duration and amount of future cash flows, as well as for the determination of an adequate discount rate. When determining the fair value of land, buildings and technical plant, above all the estimate of comparability of the reference objects with the objects subject to valuation is discretionary.

When making discretionary decisions in the context of purchase price allocations on major company acquisitions, the RHI Group consults with independent experts who accompany the execution of the discretionary decisions and record it in expert documents.

Impairment of intangible assets with finite useful lives and property, plant and equipment

Intangible assets with a finite 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. The carrying amounts of these assets amounted to € 537.4 million at June 30, 2017 (12/31/2016: € 591.1 million). 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 (CGU).

As part of the annual planning process, the impairment test is conducted for the CGUs defined in the RHI Group in the fourth quarter, thus taking into account all changes resulting from updates of strategic planning. As part of the impairment test as of December 31, 2016, sensitivity analyses were also performed. In their calculation one of the main parameters was changed as follows: increase in the discount rate by 10%, reduction in the form of the contribution margin by 10% and reduction of the growth rate in terminal value by 50%. In all CGUs these simulations did not result in any impairments. Likewise, in all CGUs a reduction of the discount rate by 10%, an increase in profitability in the form of the contribution margin by 10% and an increase in the growth rate in terminal value by 50% did not result in any reversals of impairments.

Impairment of goodwill

The effect of an adverse change by plus 10% in the estimated interest rates as of December 31, 2016 or by minus 10% in the contribution margin would not result in an impairment charge to the goodwill recognized (carrying amount 06/30/2017: € 37.0 million, 12/31/2016 € 37.8 million).

Impairment of other intangible assets with indefinite useful life

The effect of an adverse change by plus 10% in the estimated interest rate as of December 31, 2016 or by minus 10% in the contribution margin would not result in an impairment charge to intangible assets with indefinite useful lives recognized (carrying amount at 06/30/2017 and 12/31/2016: € 1.8 million).

Provisions for pensions and termination benefits

The present value of pension and termination benefit obligations depends on a number of factors, which are based on actuarial assumptions such as interest rates, future salary and pension increases as well as life expectancy. Due to the long-term orientation of these obligations, these assumptions are subject to significant uncertainties.

The following sensitivity analysis shows the change in present value of the pension and termination benefit obligations if one key parameter changes, while the other influences are maintained constant. In reality, however, it is rather unlikely that these influences do not correlate. The present value of the pension obligations for the sensitivities shown was calculated using the same method as for the actual present value of the pension obligations (projected unit credit method).

in € million	Change of assumption in percentage points or years	06/30/2017 Pension plans	06/30/2017 Termination benefits	12/31/2016 Pension plans	12/31/2016 Termination benefits
Present value of the obligations	–	285.7	55.0	289.2	58.5
Interest rate	+0.25	(7.6)	(1.4)	(7.6)	(1.6)
	(0.25)	7.9	1.5	8.0	1.6
Salary increase	+0.25	0.6	1.5	0.6	1.5
	(0.25)	(0.6)	(1.4)	(0.6)	(1.4)
Pension increase	+0.25	5.0	–	5.0	–
	(0.25)	(4.9)	–	(4.9)	–
Life expectancy	+1 year	12.6	–	12.9	–
	(1) year	(12.8)	–	(13.2)	–

These changes would have no immediate effect on the result of the period as remeasurement gains and losses are recorded in other comprehensive income without impact on profit or loss.

The assumptions regarding the interest rate are reviewed quarterly; all other assumptions are reviewed at the end of the year.

Other provisions

The recognition and measurement of other provisions totaling € 29.5 million (12/31/2016: € 33.6 million) were based on the best possible estimates using the information available at the reporting date. The estimates take into account the underlying legal relationships and are performed by internal experts or, when appropriate, also by external experts. Despite the best possible assumptions and estimates, cash outflows expected at the interim reporting date may deviate from actual cash outflows. As soon as additional information is available, the estimates made are reviewed and provisions are also adjusted.

Income taxes

The calculation of income taxes of RHI AG and its subsidiaries is based on the tax laws applicable in the individual countries. Due to their complexity, the tax items presented in the interim financial statements may be subject to deviating interpretations by local finance authorities.

When determining the amount of the capitalizable deferred tax claims, an estimate of the management is required regarding the amount of future taxable income and the expected time. Should the future taxable profit deviate by 10% from the assumption made on the interim reporting date within the planning period defined for the accounting and measurement of deferred taxes, the net position of deferred tax assets amounting to € 122.4 million (12/31/2016: € 131.3 million) would have to be increased by € 1.9 million (12/31/2016: € 1.8 million) or reduced by € 1.9 million (12/31/2016: € 1.7 million).

Other items

With respect to the other items of the statement of financial position, the RHI Group currently assumes that no material effects on the financial position and performance would result for the following financial years due to changes in the estimates and assumptions.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(10) Property, plant and equipment

Property plant and equipment developed as follows in the first half of 2017 and in the first half of 2016:

in € million	Real estate, land and buildings	Raw material deposits	Technical equipment, machinery	Other plant, furniture and fixtures	Prepayments made and plant under construction	Total
Cost at 12/31/2016	453.7	32.1	877.9	294.2	43.8	1,701.7
Currency translation	(6.7)	0.0	(10.3)	(4.7)	(0.2)	(21.9)
Additions	0.2	0.0	2.4	0.9	8.8	12.3
Retirements and disposals	(0.5)	0.0	(6.5)	(3.7)	0.0	(10.7)
Reclassifications	3.7	0.0	9.1	2.1	(13.6)	1.3
Reclassification as held for sale	(25.4)	(5.2)	(92.5)	(10.6)	(0.9)	(134.6)
Cost at 06/30/2017	**425.0**	**26.9**	**780.1**	**278.2**	**37.9**	**1,548.1**
Accumulated depreciation 12/31/2016	285.6	24.5	639.3	229.6	0.9	1,179.9
Currency translation	(3.5)	0.0	(6.7)	(3.7)	0.0	(13.9)
Depreciation charges	4.0	0.2	16.2	6.8	0.0	27.2
Impairment losses	4.8	0.0	2.4	0.1	0.1	7.4
Retirements and disposals	(0.5)	0.0	(6.3)	(3.5)	0.0	(10.3)
Reclassifications	0.4	0.0	0.1	0.0	(0.1)	0.4
Reclassification as held for sale	(22.4)	(3.7)	(79.9)	(10.3)	(0.3)	(116.6)
Accumulated depreciation 06/30/2017	**268.4**	**21.0**	**565.1**	**219.0**	**0.6**	**1,074.1**
Carrying amounts at 06/30/2017	**156.6**	**5.9**	**215.0**	**59.2**	**37.3**	**474.0**

in € million	Real estate, land and buildings	Raw material deposits	Technical equipment, machinery	Other plant, furniture and fixtures	Prepayments made and plant under construction	Total
Cost at 12/31/2015	448.0	31.8	877.0	286.3	49.2	1,692.3
Currency translation	(1.8)	0.0	(8.2)	(1.6)	(0.2)	(11.8)
Disposals of consolidated companies	(4.2)	0.0	(15.4)	(2.3)	0.0	(21.9)
Additions	0.5	0.0	1.6	1.0	11.8	14.9
Retirements and disposals	(0.2)	0.0	(2.3)	(0.9)	(0.7)	(4.1)
Reclassifications	2.2	0.0	6.6	3.3	(12.8)	(0.7)
Cost at 06/30/2016	**444.5**	**31.8**	**859.3**	**285.8**	**47.3**	**1,668.7**
Accumulated depreciation 12/31/2015	282.1	24.2	633.5	220.1	0.2	1,160.1
Currency translation	(0.4)	0.0	(4.9)	(0.8)	0.0	(6.1)
Disposals of consolidated companies	(4.2)	0.0	(15.4)	(2.3)	0.0	(21.9)
Depreciation charges	3.9	0.1	16.2	7.1	0.0	27.3
Impairment losses	0.2	0.0	0.0	0.0	0.0	0.2
Retirements and disposals	(0.2)	0.0	(1.9)	(0.8)	0.0	(2.9)
Reclassifications	0.1	0.0	0.0	0.0	(0.2)	(0.1)
Accumulated depreciation 06/30/2016	**281.5**	**24.3**	**627.5**	**223.3**	**0.0**	**1,156.6**
Carrying amounts at 06/30/2016	**163.0**	**7.5**	**231.8**	**62.5**	**47.3**	**512.1**

The item prepayments made and plant under construction includes plant under construction with a carrying amount of € 35.8 million at the interim reporting date (12/31/2016: € 41.7 million), with the modification of the smelter at the site in Radenthein, Austria, representing the largest investment project under construction of the first half of 2017.

As in the previous year, there are no restrictions on the sale of property, plant and equipment.

(11) Goodwill

Goodwill developed as follows:

in € million	1-6/2017	1-6/2016
Cost at beginning of period	40.2	40.1
Currency translation	(0.8)	(0.8)
Reclassification as held for sale	(0.4)	0.0
Cost at end of period	**39.0**	**39.3**
Accumulated impairment at beginning of period	(2.4)	(2.6)
Currency translation	0.0	(0.1)
Reclassification as held for sale	0.4	0.0
Accumulated impairment at end of period	**(2.0)**	**(2.7)**
Carrying amount at end of period	**37.0**	**36.6**

(12) Other intangible assets

Other intangible assets changed as follows in the first half of 2017:

in € million	Internally generated intangible assets	Other intangible assets	Total
Cost at 12/31/2016	45.9	114.0	159.9
Currency translation	(0.1)	(2.5)	(2.6)
Additions	2.0	0.2	2.2
Retirements and disposals	0.0	(0.3)	(0.3)
Reclassifications	(0.6)	(0.7)	(1.3)
Reclassification as held for sale	(0.8)	(2.4)	(3.2)
Cost at 06/30/2017	**46.4**	**108.3**	**154.7**
Accumulated amortization 12/31/2016	27.7	61.1	88.8
Currency translation	(0.1)	(1.0)	(1.1)
Amortization charges	1.9	3.2	5.1
Impairment losses	0.2	0.0	0.2
Retirements and disposals	0.0	(0.3)	(0.3)
Reclassifications	(0.6)	0.2	(0.4)
Reclassification as held for sale	(0.5)	(2.3)	(2.8)
Accumulated amortization 06/30/2017	**28.6**	**60.9**	**89.5**
Carrying amounts at 06/30/2017	**17.8**	**47.4**	**65.2**

Other intangible assets changed as follows in the first half of 2016:

in € million	Internally generated intangible assets	Other intangible assets	Total
Cost at 12/31/2015	42.2	130.5	172.7
Currency translation	(0.2)	(2.0)	(2.2)
Disposals of consolidated companies	(1.1)	(1.5)	(2.6)
Additions	1.5	0.0	1.5
Retirements and disposals	0.0	(17.4)	(17.4)
Reclassifications	0.0	0.7	0.7
Cost at 06/30/2016	**42.4**	**110.3**	**152.7**
Accumulated amortization 12/31/2015	25.5	73.0	98.5
Currency translation	(0.1)	(0.6)	(0.7)
Disposals of consolidated companies	(1.1)	(1.5)	(2.6)
Amortization charges	1.6	3.3	4.9
Impairment losses	0.0	0.0	0.0
Retirements and disposals	0.0	(17.4)	(17.4)
Reclassifications	0.0	0.1	0.1
Accumulated amortization 06/30/2016	**25.9**	**56.9**	**82.8**
Carrying amounts at 06/30/2016	**16.5**	**53.4**	**69.9**

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

Other intangible assets include in particular acquired patents, trademark rights, software, customer relations of the Indian company Orient Refractories Ltd. and land use rights. The land use rights have a carrying amount of € 22.1 million (12/31/2016: € 23.4 million) and a remaining useful life of 29 to 61 years.

As in the previous year, there are no restrictions on the sale of intangible assets.

(13) Investments in joint ventures

As in the previous year, the RHI Group holds a share of 50% in MAGNIFIN Magnesiaprodukte GmbH & Co KG, a company based in St. Jakob, Austria. The company's core business activity is the production and sale of halogen-free flame retardants for plastics. The investment in MAGNIFIN is treated as a financial investment.

MAGNIFIN is set up as an independent vehicle. The RHI Group has a residual interest in the net assets of the company and accordingly classified its share as a joint venture. The share for which no listed market price is available is accounted for using the equity method in the RHI consolidated financial statements.

MAGNIFIN generated revenue amounting to € 22.2 million in the first half of 2017 (first half of 2016: € 20.4 million). Profit before income taxes amounts to € 12.4 million (first half of 2016: € 10.6 million) and includes depreciation charges on property, plant and equipment and amortization on intangible assets of € 0.8 million (first half of 2016: € 0.8 million) and interest expenses of € 0.1 million (first half of 2016: € 0.2 million). Total comprehensive income amounts to € 12.4 million (first half of 2016: € 10.6 million).

Income taxes on the share of profit of MAGNIFIN amounting to € 1.6 million in the first half of 2017 (first half of 2016: € 1.4 million) are recognized by the head of the tax group, RHI AG, due to the legal form of the joint venture and transferred to Veitscher Vertriebsgesellschaft m.b.H. in accordance with the provisions of the tax compensation agreement.

The net assets of MAGNIFIN at the two reporting dates are shown in the table below:

in € million	06/30/2017	12/31/2016
Non-current assets	9.4	9.9
Current assets (without cash and cash equivalents)	12.6	12.9
Cash and cash equivalents	9.5	16.7
Non-current personnel provisions	(3.9)	(4.0)
Current provisions	(1.1)	(1.1)
Trade payables and other current liabilities	(3.0)	(3.2)
Net assets	**23.5**	**31.2**

The development of the carrying amount of the share in this joint venture in the RHI interim consolidated financial statements is shown below:

in € million	1-6/2017	1-6/2016
Proportional share of net assets at beginning of period	**15.6**	**14.4**
Share of profit	6.4	5.4
Dividends received	(10.2)	(7.5)
Proportional share of net assets at end of period	**11.8**	**12.3**
Goodwill	4.9	4.9
Carrying amount of investments in joint ventures	**16.7**	**17.2**

(14) Other non-current financial assets

Other non-current financial assets consist of the following items:

in € million	06/30/2017	12/31/2016
Interests in subsidiaries not consolidated	0.1	0.0
Available-for-sale investments	0.4	0.4
Available-for-sale securities and shares	15.9	15.8
Other non-current financial receivables	2.9	2.7
Other non-current financial assets	**19.3**	**18.9**

At June 30, 2017, accumulated impairments on investments, securities and shares of € 2.0 million (12/31/2016: € 2.0 million) are recognized.

(15) Other non-current assets

Other non-current assets include the following items:

in € million	06/30/2017	12/31/2016
Prepaid expenses for stripping costs	8.7	8.3
Receivables from other taxes	6.1	6.7
Plan assets from overfunded pension plans	2.1	2.1
Prepaid expenses	0.5	0.6
Other non-current assets	**17.4**	**17.7**

Prepaid expenses for stripping costs arising from mining raw materials in a surface mine are shown under non-current assets due to the planned use of the mine.

Receivables from other taxes are related to input tax credits, which are expected to be utilized in the medium term.

(16) Deferred taxes

Deferred taxes are related to the following significant balance sheet items and loss carryforwards:

in € million	06/30/2017 Deferred tax assets	06/30/2017 Deferred tax liabilities	1-6/2017 Expense/ (Income)	12/31/2016[1] Deferred tax assets	12/31/2016[1] Deferred tax liabilities	1-6/2016[1] Expense/ (Income)
Property, plant and equipment, intangible assets	19.4	34.1	(1.2)	22.3	38.5	2.0
Inventories	16.6	1.5	(0.1)	16.9	1.0	(1.8)
Trade receivables, other assets	1.5	4.0	1.4	1.6	3.1	(7.6)
Personnel provisions	52.2	0.4	1.7	53.1	0.4	2.8
Other provisions	2.9	1.1	1.4	3.9	0.7	0.5
Trade payables, other liabilities	15.2	1.4	0.9	16.5	1.1	1.1
Tax loss carryforwards	57.1	–	4.5	61.8	–	8.6
Netting	(30.2)	(30.2)	–	(31.3)	(31.3)	–
Deferred taxes	**134.7**	**12.3**	**8.6**	**144.8**	**13.5**	**5.6**

(1) Comparative values adjusted to current presentation

As of June 30,2017, subsidiaries which generated tax losses in the first half of 2017 or in the financial year 2016 recognized net deferred tax assets on temporary differences and on tax loss carryforwards of € 24.9 million (12/31/2016: € 32.3 million). These assets are considered to be unimpaired because the companies concerned are expected to generate taxable income in the future. This assessment is based on measures implemented in 2016, which will lead to an increase in taxable income in the future. On the one hand, a subsidiary was sold; on the other hand, the financing of a subsidiary was optimized.

Tax loss carryforwards totaled € 350.8 million in the RHI Group as of June 30, 2017 (12/31/2016: € 383.7 million). A significant portion of the tax loss carryforwards originates in Austria and can be carried forward indefinitely. The annual offset of the Austrian tax loss carryforwards is limited to 75% of the respective tax profit. No deferred taxes were recognized for tax loss carryforwards of € 141.1 million (12/31/2016: € 156.9 million). The main part of the non-capitalized tax losses can be carried forward indefinitely. € 17.9 million (12/31/2016: € 25.8 million) will lapse at the earliest in the year 2022 if not used by then.

In addition, no deferred tax assets were recognized for temporary differences totaling € 5.3 million (12/31/2016: € 2.2 million) as it is not sufficiently probable that they can be used. The deductible temporary differences can be carried forward indefinitely.

Taxable temporary differences of € 121.6 million (12/31/2016: € 109.3 million) were not recognized on shares in subsidiaries because the corresponding distributions of profit or the sale of the investments are not expected in the foreseeable future.

The maturity structure of deferred taxes is shown in the table below:

in € million	06/30/2017 Current	06/30/2017 Non-current	06/30/2017 **Total**	12/31/2016 Current	12/31/2016 Non-current	12/31/2016 **Total**
Deferred tax assets	36.1	98.6	**134.7**	39.0	105.8	**144.8**
Deferred tax liabilities	0.6	11.7	**12.3**	0.0	13.5	**13.5**

(17) Inventories

Inventories as presented in the statement of financial position consist of the following items:

in € million	06/30/2017	12/31/2016
Raw materials and supplies	90.3	74.5
Unfinished products and unfinished services	75.7	99.4
Finished products and goods	200.6	184.9
Prepayments made	6.4	6.5
Inventories	**373.0**	**365.3**

The inventories recognized as of June 30, 2017 totaled € 373.0 million (12/31/2016: € 365.3 million), of which € 2.4 million (12/31/2016: € 2.7 million) are carried at net realizable value.

The reversals of impairment losses recorded in the first half of 2017, netted out against impairment losses, amount to € 1.7 million and are attributable to higher turnover rates compared with 2016. In the first half of 2016, impairment losses, netted out against reversals of impairment losses, amounting to € 3.7 million had to be recognized.

As in the previous year, there are no restrictions on the disposal of inventories.

(18) Trade and other current receivables

Trade and other current receivables as presented in the statement of financial position are classified as follows:

in € million	06/30/2017	12/31/2016
Trade receivables	292.6	309.0
Receivables from long-term construction contracts	14.4	7.8
Receivables from other taxes	59.0	65.9
Prepaid share issuance costs	2.4	0.0
Prepaid expenses	2.2	2.8
Receivables from joint ventures	1.0	1.0
Receivables employees	0.8	0.8
Receivables from personnel welfare foundation	0.0	0.8
Other current receivables	14.1	11.0
Trade and other current receivables	**386.5**	**399.1**
thereof financial assets	295.2	312.1
thereof non-financial assets	91.3	87.0

Receivables from long-term construction contracts consist of the following components:

in € million	06/30/2017	12/31/2016
Contract costs incurred up to the reporting date	14.0	10.0
Profits recognized by the reporting date	1.9	0.8
Prepayments received	(1.5)	(3.0)
Receivables from long-term construction contracts	**14.4**	**7.8**

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

As of June 30, 2017, trade receivables with a total nominal value of € 34.0 million were assigned for financial liabilities, unchanged in comparison with December 31, 2016.

Accumulated valuation allowance to trade and other current receivables developed as follows:

in € million	1-6/2017	1-6/2016
Accumulated valuation allowance at beginning of period	**35.2**	**30.1**
Currency translation	(0.7)	(0.1)
Addition	3.8	3.8
Use	(0.2)	(0.3)
Reversal	(3.5)	(2.1)
Reclassification as held for sale	(2.1)	0.0
Accumulated valuation allowance at end of period	**32.5**	**31.4**

(19) Income tax receivables

Income tax receivables amounting to € 10.7 million (12/31/2016: € 9.3 million) are mainly related to tax prepayments and deductible withholding taxes.

(20) Other current financial assets

This item of the statement of financial position consists of the following components:

in € million	06/30/2017	12/31/2016
Forward exchange contracts	9.1	0.4
Other current financial receivables	1.3	1.5
Derivatives in open orders	0.0	1.1
Other current financial assets	**10.4**	**3.0**

(21) Cash and cash equivalents

This item of the statement of financial position consists of the following components:

in € million	06/30/2017	12/31/2016
Cash at banks	147.3	179.9
Money market funds	0.4	0.4
Checks	1.7	2.5
Cash on hand	0.0	0.1
Cash and cash equivalents	**149.4**	**182.9**

(22) Disposal groups held for sale

After a structured selling process had been initiated for the plants in San Vito, Italy, and Sherbinska, Russia, the RHI Group received offers from interested parties in the second quarter of 2017, which indicate that a sale in the second half of 2017 is probable. This led to a reclassification of the related assets and liabilities as a disposal group as of May 31, 2017. The resulting necessary measurement of the disposal group at fair value less costs to sell is based on a purchase price offer of an independent third party and led to an impairment of € 1.7 million. The assets and liabilities held for sale are allocated to the Industrial segment and consist of the following components:

in € million	06/30/2017
Inventories	10.9
Trade and other current receivables	1.2
Income tax receivables	0.5
Cash and cash equivalents	0.1
Assets held for sale	**12.7**
Personnel provisions	1.2
Other non-current liabilities	0.1
Trade payables and other current liabilities	5.7
Liabilities relating to assets held for sale	**7.0**

On June 28, 2017, the European Commission approved the combination of RHI and Magnesita. The decision on approval is, among other things, subject to the condition that the RHI Group sells its dolomite business in the European Economic Area, which consists of the sites in Marone, Italy, and Lugones, Spain, within six months. Currently, negotiations are being held with numerous potential buyers, and assets and liabilities have accordingly been classified as a disposal group. The reclassified assets and liabilities are allocated to the Steel segment and consist of the following components:

in € million	06/30/2017
Property, plant and equipment	18.0
Other intangible assets	0.4
Inventories	6.4
Trade and other current receivables	3.0
Income tax receivables	0.5
Cash and cash equivalents	4.4
Assets held for sale	**32.7**
Deferred tax liabilities	0.4
Personnel provisions	2.6
Trade payables and other current liabilities	9.5
Current provisions	0.2
Liabilities relating to assets held for sale	**12.7**

(23) Share capital

The fully paid-in capital of RHI AG amounts to € 289,376,212.84. As in the previous year, it consists of 39,819,039 zero par value bearer shares. One share grants a rounded calculated share of € 7.27 in capital stock, as in the previous year. All shares grant the same rights.

The shareholders are entitled to payment of the dividend adopted and generally have one voting right per share at the Annual General Meeting. There are no RHI shares with special control rights. No limitations regarding the voting rights of RHI shares, including from agreements between shareholders, are known to the company, with the exception of the voting rights of MSP Foundation.

At August 25, 2017, the following investors with significant shareholdings were known to the RHI Group: MSP Foundation, a foundation under Liechtenstein law, directly holds and its founder, Martin Schlaff, indirectly holds more than 25% via MSP Foundation of the voting rights of RHI AG. Pursuant to the stipulations of the Austrian Takeover Act, a limitation of voting rights of 26% applies. In addition, Chestnut Beteiligungsgesellschaft mbH and Silver Beteiligungsgesellschaft mbH each hold more than 5% of the voting rights. The voting rights of Chestnut Beteiligungsgesellschaft mbH and Silver Beteiligungsgesellschaft mbH are jointly exercised; consequently, the joint share in voting rights held by the two companies exceed 10%.

Employee stock ownership plan "4 plus 1"

With a resolution of the Annual General Meetings of RHI AG on May 5, 2017 and on May 4, 2016, the Management Board was authorized in accordance with § 65 para. 1 (4) as well as para. 1a and para. 1b AktG to acquire, during a period of validity of 30 months each starting on May 5, 2017 or on May 4, 2016, up to 12,000 no-par bearer shares of the company by purchasing such shares both on an exchange and by off-market transactions, in each case at the stock exchange price of the day this authorization is exercised. The acquisition cannot be effected for the purpose of trading in treasury shares. The authorization may be exercised in full or in part or even in several tranches by the company, by a subsidiary (§ 228 para. 3 UGB) or for the account of the company by third parties. The Management Board of RHI AG can decide to purchase such shares on an exchange, but the Supervisory Board subsequently has to be informed of this decision. The off-market acquisition of shares is subject to prior approval by the Supervisory Board. In accordance with § 65 para. 1b AktG the Management Board was authorized for a period of five years starting on May 5, 2017 or on May 4, 2016 to adopt another type of sale than on an exchange or via public offer for the sale or use of treasury shares, with the consent of the Supervisory Board, applying the provisions regarding the exclusion of shareholders' subscription rights mutatis mutandis, and to determine the conditions of the sale. This authorization may be exercised fully or partially or in several partial amounts by the company, a subsidiary (§ 228 para. 3 UGB) or for the account of the company by third parties for the purpose of carrying out an employee stock ownership program for employees and executives of RHI AG as well as members of the management, executives and employees of Group companies of RHI AG as part of the continuation of the voluntary employee stock ownership plan "4 plus 1". Employees receive one RHI share free of charge for four RHI shares they have purchased themselves. In the first half of 2017, 1,812 (first half of 2016: 6,626) shares were acquired over the stock exchange for the employee stock ownership plan and issued to employees. As of June 30, 2017 and December 31, 2016, no treasury shares were held by RHI AG.

Authorized capital 2015

The Management Board was authorized by resolution of the Annual General Meeting of RHI AG on May 8, 2015, in accordance with § 169 AktG (Stock Corporation Act), to increase share capital with the consent of the Supervisory Board until May 7, 2020 by up to another € 57,875,236.75 by issuing up to 7,963,807 new ordinary bearer shares (no par shares) for a cash contribution – also in several tranches – and to determine the issue price, the issue conditions and further details regarding the execution of the capital increase in agreement with the Supervisory Board, to offer the new shares to shareholders by means of indirect subscription rights in accordance with § 153 para. 6 AktG if need be. By June 30, 2017, no capital increase of share capital out of the authorized capital was carried out.

(24) Group reserves

Additional paid-in capital

Additional paid-in capital comprises premiums on the issue of shares and convertible bonds by RHI AG and has not changed in comparison with December 31, 2016. The difference to the additional paid-in capital as shown the financial statements of RHI AG is attributable to deviating regulations in the Austrian Commercial Code with respect to the accounting of convertible bonds. Due to legal regulations, additional paid-in capital cannot be distributed and can only be reversed to cover losses.

Retained earnings

The item retained earnings includes the result of the first half of 2017 and results that were earned by consolidated companies during prior periods, but not distributed. Distributable profit and dividends are generally related to the accumulated profit of RHI AG, which is determined in accordance with Austrian commercial law.

Accumulated other comprehensive income

The item cash flow hedges includes gains and losses from the effective part of cash flow hedges less tax effects. The accumulated gain or loss from the hedge allocated to reserves is only reclassified to the statement of profit or loss if the hedged transaction also influences the result or the expected transaction is no longer expected to take place.

Unrealized fair value changes of available-for-sale securities are recognized in the item available-for-sale financial instruments. Deferred tax effects are deducted, unless gains from the sale of these financial instruments are treated as tax free under the applicable tax law.

The item defined benefit plans includes the gains and losses from the remeasurement of defined benefit pension and termination benefit plans taking into account tax effects. No reclassification of these amounts to the statement of profit or loss will be made in future periods.

Currency translation includes the accumulated currency translation differences from translating the financial statements of foreign subsidiaries as well as unrealized currency translation differences from monetary items which are part of a net investment in a foreign operation, net of related income taxes. If foreign companies are deconsolidated, the currency translation differences are recognized in the statement of profit or loss as part of the gain or loss from the sale of shares in subsidiaries. In addition, when monetary items which are part of a net investment in a foreign operation are paid back, the currency translation differences of these monetary items previously recognized in other comprehensive income are reclassified to profit or loss.

In the item disposal group classified as held for sale, income and expenses recognized in other comprehensive income, which are related to disposal groups classified as held for sale, are shown separately.

(25) Non-controlling interests

Non-controlling interests hold a share of 30.4% in the listed company Orient Refractories Ltd. (in the following "ORL"), based in New Delhi, India. ORL is allocated to the Steel segment. The summarized financial information of ORL shown below corresponds to the amounts before intercompany elimination.

Based on the net assets of the company, the carrying amount of the non-controlling interests is determined as follows:

in € million	06/30/2017	12/31/2016
Non-current assets	27.1	28.9
Current assets	46.0	44.4
Non-current liabilities	(7.6)	(8.2)
Current liabilities	(13.1)	(14.8)
Net assets	**52.4**	**50.3**
Percentage of non-controlling interests	30.4%	30.4%
Carrying amount of non-controlling interests	**15.9**	**15.3**

The aggregate statement of profit or loss and statement of comprehensive income are shown below:

in € million	1-6/2017	1-6/2016
Revenue	37.6	33.9
Operating expenses, net finance costs and income tax	(33.7)	(30.2)
Profit after income tax	**3.9**	**3.7**
thereof attributable to non-controlling interests of ORL	1.2	1.1

in € million	1-6/2017	1-6/2016
Profit after income tax	3.9	3.7
Other comprehensive income	(1.9)	(1.6)
Total comprehensive income	**2.0**	**2.1**
thereof attributable to non-controlling interests of ORL	0.6	0.6

The following table shows the summarized statement of cash flows of ORL:

in € million	1-6/2017	1-6/2016
Net cash flow from operating activities	3.3	6.0
Net cash flow from investing activities	(0.4)	(0.2)
Net cash flow from financing activities	0.0	0.1
Total cash flow	**2.9**	**5.9**

Accumulated other comprehensive income attributable to non-controlling interests is solely related to currency translation differences. The development is shown in the following table:

in € million	1-6/2017	1-6/2016
Accumulated other comprehensive income at beginning of period	**0.1**	**(0.2)**
Unrealized results from currency translation	(0.6)	(0.5)
Accumulated other comprehensive income at end of period	**(0.5)**	**(0.7)**

(26) Financial liabilities

Financial liabilities include all interest-bearing liabilities of the RHI Group due to financial institutions, fixed-term and puttable non-controlling interests in Group companies and other lenders at the respective reporting date or interim reporting date.

The financial liabilities have the following contractual remaining terms:

in € million	Total 06/30/2017	Remaining term up to 1 year	2 to 5 years	over 5 years
"Schuldscheindarlehen"	253.5	55.0	139.5	59.0
Export credits and one-time financing	141.1	29.0	103.5	8.6
Utilized other credit lines	60.5	60.5	0.0	0.0
Accrued interest	2.9	2.9	0.0	0.0
Liabilities to financial institutions	458.0	147.4	243.0	67.6
Liabilities to fixed-term or puttable non-controlling interests	32.2	9.2	2.8	20.2
Other financial liabilities	3.1	1.5	1.5	0.1
Financial liabilities	**493.3**	**158.1**	**247.3**	**87.9**

in € million	Total 12/31/2016	Remaining term up to 1 year	2 to 5 years	over 5 years
"Schuldscheindarlehen"	253.5	55.0	139.5	59.0
Export credits and one-time financing	154.5	29.0	116.9	8.6
Utilized other credit lines	65.9	65.9	0.0	0.0
Accrued interest	1.6	1.6	0.0	0.0
Liabilities to financial institutions	475.5	151.5	256.4	67.6
Liabilities to fixed-term or puttable non-controlling interests	32.5	9.1	1.9	21.5
Other financial liabilities	7.7	4.5	3.1	0.1
Financial liabilities	**515.7**	**165.1**	**261.4**	**89.2**

Of the liabilities to financial institutions recognized at June 30, 2017 € 34.0 million were secured by assignment of receivables, unchanged in comparison with December 31, 2016. In case the loan agreement is not met, the bank is entitled to inflows from the receivables assigned.

The indicator net debt factor (see note (59) for its calculation) represents the covenants in the most essential loan agreements. If the value of 3.8 is exceeded, the loan conditions are renegotiated. Compliance with the covenants is reviewed on a quarterly basis.

For liabilities of € 366.1 million (12/31/2016: € 383.0 million), lenders have a termination option in the case of a change of control. In the event that certain reasons for termination exist, the lenders may declare the loan due with immediate effect and demand immediate repayment of the principal including interest, as well as the payment of other amounts payable that may have been incurred.

Taking into account interest swaps, 61% (12/31/2016: 61%) of the liabilities to financial institutions carry fixed interest and 39% (12/31/2016: 39%) carry variable interest.

With respect to the refinancing after June 30, 2017, refer to note (67).

The following table shows fixed interest terms and conditions, taking into account interest rate swaps, without liabilities from deferred interest:

Interest terms fixed until	Effective annual interest rate	Currency	06/30/2017 Carrying amount in € million	Interest terms fixed until	Effective annual interest rate	Currency	12/31/2016 Carrying amount in € million
2017	EURIBOR + margin	EUR	123.6	2017	EURIBOR + margin	EUR	125.1
	0.69%	EUR	50.0		0.69%	EUR	50.0
	Variable interest rate + margin	EUR	34.0		Variable interest rate + margin	EUR	34.0
	LIBOR + margin	USD	10.8		LIBOR + margin	USD	10.2
	Floating interest rate + margin	EUR	3.4		Floating interest rate + margin	EUR	3.4
	Interbank rate + margin	Var.	7.1		Interbank rate + margin	Var.	11.6
2018	1.13%	EUR	30.0	2018	1.13%	EUR	30.0
2019	1.49%	EUR	16.0	2019	1.49%	EUR	16.0
	3.15%	EUR	12.0		3.15%	EUR	12.0
	0.72%	EUR	10.7		0.72%	EUR	10.7
	3.25%	EUR	10.0		3.25%	EUR	15.0
	0.68%	EUR	10.0		0.68%	EUR	15.0
	1.46% + margin	EUR	10.0		1.46% + margin	EUR	10.0
	1.42% + margin	EUR	3.0		1.42% + margin	EUR	3.0
2020	3.15% + margin	EUR	24.5	2020	3.15% + margin	EUR	24.5
	3.90%	EUR	10.2		3.90%	EUR	13.6
2021	1.97%	EUR	17.0	2021	1.97%	EUR	17.0
2022	4.50%	EUR	6.0	2022	4.50%	EUR	6.0
2023	0.35% + margin	EUR	13.8	2023	0.35% + margin	EUR	13.8
2024	3.00%	EUR	53.0	2024	3.00%	EUR	53.0
			455.1				**473.9**

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

(27) Other financial liabilities

Other financial liabilities include the negative fair value of derivative financial instruments and consist of the following items:

in € million	06/30/2017 Current	06/30/2017 Non-current	06/30/2017 Total	12/31/2016 Current	12/31/2016 Non-current	12/31/2016 Total
Liabilities from derivatives from supply contracts	6.5	40.9	47.4	5.9	43.1	49.0
Liabilities from interest rate swaps	0.2	0.3	0.5	0.5	0.4	0.9
Liabilities from derivatives in open orders	1.3	0.0	1.3	0.1	0.0	0.1
Other financial liabilities	**8.0**	**41.2**	**49.2**	**6.5**	**43.5**	**50.0**

Additional explanations on derivative financial instruments are provided under note (57).

(28) Personnel provisions

Personnel provisions include the following provisions:

in € million	06/30/2017	12/31/2016
Pensions	233.4	236.8
Termination benefits	55.0	58.5
Other personnel provisions	21.6	22.1
Personnel provisions	**310.0**	**317.4**

Provisions for pensions

The net debt from pension obligations in the consolidated statement of financial position is derived as follows:

in € million	06/30/2017	12/31/2016
Present value of pension obligations	285.7	289.2
Fair value of plan assets	(56.2)	(56.4)
Funded status	**229.5**	**232.8**
Asset ceiling	1.7	1.9
Net debt from pension obligations	**231.2**	**234.7**
thereof assets from overfunded pension plans	2.2	2.1
thereof provisions for pensions	233.4	236.8

The present value of pension obligations by beneficiary groups is structured as follows:

in € million	06/30/2017	12/31/2016
Active beneficiaries	70.3	71.2
Vested terminated beneficiaries	17.1	17.9
Retirees	198.3	200.1
Present value of pension obligations	**285.7**	**289.2**

The calculation of pension obligations is based on the following actuarial assumptions:

in %	06/30/2017	12/31/2016
Interest rate	2.0%	1.9%
Future salary increase	2.3%	2.2%
Future pension increase	1.4%	1.3%

These are average values which were weighted with the present value of the respective pension obligation.

The calculation of the actuarial interest rate for the European currency area is based on a yield curve for returns of high-quality corporate bonds denominated in EUR with an average rating of AA, which is derived from pooled index values. Where there are very long-term maturities, the yield curve follows the performance of bonds without credit default risk. The interest rate was calculated at December 31, 2016, taking into account the expected future cash flows which were determined based on the current personal and commitment data. At June 30, 2017, this method of determining interest rates was applied to the actuarial calculation of pension obligations in the Austrian, German and Mexican Group companies; in other companies, the interest rate was determined by extrapolation.

As in the previous year, the calculation in Austria was based on the Pagler & Pagler AVÖ 2008 P biometric calculation principles for salaried employees. In Germany, the Heubeck 2005 G actuarial tables were used as a basis. In the other countries, country-specific mortality tables were applied.

The main pension regulations are described below:

The Austrian Group companies account for € 121.8 million (12/31/2016: € 124.4 million) of the present value of pension obligations and for € 25.8 million (12/31/2016: € 26.3 million) of the plan assets. The agreed benefits include pensions, invalidity benefits and benefits for surviving dependents. Commitments in the form of company or individual agreements depend on the length of service and the salary at the time of retirement. For the majority of commitments the amount of the company pension subsidy is limited to 75% of the final remuneration including a pension pursuant to the General Social Insurance Act (ASVG). The RHI Group has concluded pension reinsurance policies for part of the commitments. The pension claims of the beneficiaries are limited to the coverage capital required for these commitments. Pensions are predominantly paid in the form of annuities and are partially indexed. For employees joining the company after January 1, 1984, no defined benefits were granted. Rather, a defined contribution pension model is in place. In addition, there are commitments based on the deferred compensation principle, which are fully covered by pension reinsurance policies, and commitments for preretirement benefits for employees in mining operations.

The pension plans of the German Group companies account for € 120.8 million (12/31/2016: € 123.4 million) of the present value of pension obligations and for € 0.7 million (12/31/2016: € 0.7 million) of plan assets. The benefits included in company agreements comprise pensions, invalidity benefits and benefits for surviving dependents. The amount of the pension depends on the length of service for the majority of the commitments and is calculated as a percentage of the average monthly wage/salary of the last twelve months prior to retirement. In some cases commitments to fixed benefits per year of service have been made. The pensions are predominantly paid in the form of annuities and are adjusted in accordance with the development of the consumer price index for Germany. The pension plans are closed for new entrants. There is no defined contribution model on a voluntary basis. Individual commitments have been made, by now mainly to pension beneficiaries.

The following table shows the development of net debt from pension obligations:

in € million	1-6/2017	1-6/2016
Net debt from pension obligations at beginning of period	**234.7**	**243.9**
Currency translation	0.6	(1.4)
Disposals of consolidated companies	0.0	(5.6)
Pension cost	3.9	5.2
Remeasurement losses	2.0	23.2
Benefits paid	(8.6)	(9.3)
Employers' contributions to external funds	(1.4)	(0.7)
Net debt from pension obligations at end of period	**231.2**	**255.3**

The present value of pension obligations developed as follows:

in € million	1-6/2017	1-6/2016
Present value of pension obligations at beginning of period	**289.2**	**304.9**
Currency translation	0.5	(2.0)
Disposals of consolidated companies	0.0	(11.5)
Current service cost	1.6	2.0
Interest cost	2.7	3.5
Remeasurement losses		
from changes in financial assumptions	0.8	23.1
due to experience adjustments	1.4	0.0
Benefits paid	(10.8)	(11.2)
Employee contributions to external funds	0.3	0.2
Present value of pension obligations at end of period	**285.7**	**309.0**

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

in € million	1-6/2017	1-6/2016
Fair value of plan assets at beginning of period	**56.4**	**63.8**
Currency translation	(0.3)	(0.6)
Disposals of consolidated companies	0.0	(5.9)
Interest income	0.4	0.3
Income on plan assets less interest income	0.2	(0.2)
Benefits paid	(2.2)	(1.9)
Employers' contributions to external funds	1.4	0.7
Employee contributions to external funds	0.3	0.2
Fair value of plan assets at end of period	**56.2**	**56.4**

The changes in the asset ceiling are shown below:

in € million	1-6/2017	1-6/2016
Asset ceiling at beginning of period	**1.9**	**2.8**
Currency translation	(0.2)	0.0
(Gains)/losses from changes in asset ceiling less interest	0.0	(0.1)
Asset ceiling at end of period	**1.7**	**2.7**

At June 30, 2017, the weighted average duration of pension obligations amounts to 11 years (12/31/2016: 11 years).

The following amounts were recorded in the statement of profit or loss:

in € million	1-6/2017	1-6/2016
Current service cost	1.6	2.0
Interest cost	2.7	3.5
Interest income	(0.4)	(0.3)
Pension expense recognized in profit or loss	**3.9**	**5.2**

The remeasurement results recognized in other comprehensive income are shown in the table below:

in € million	1-6/2017	1-6/2016
Accumulated remeasurement losses at beginning of period	**113.3**	**102.4**
Reclassification due to disposal of defined benefit plans	0.0	1.9
Remeasurement losses on present value of pension obligations	2.2	23.1
Income on plan assets less interest income	(0.2)	0.2
Gains from changes in asset ceiling less interest	0.0	(0.1)
Accumulated remeasurement losses at end of period	**115.3**	**127.5**

The present value of plan assets is distributed to the following classes of investment:

	06/30/2017			12/31/2016		
in € million	Active market	No active market	Total	Active market	No active market	Total
Insurances	0.0	38.2	38.2	0.0	38.8	38.8
Equity instruments	5.0	0.0	5.0	5.0	0.0	5.0
Debt instruments	0.0	8.7	8.7	0.0	8.2	8.2
Cash and cash equivalents	0.0	0.3	0.3	0.0	0.3	0.3
Other assets	0.2	3.8	4.0	0.2	3.9	4.1
Fair value of plan assets	**5.2**	**51.0**	**56.2**	**5.2**	**51.2**	**56.4**

The present value of the insurances to cover the Austrian pension plans corresponds to the coverage capital. Insurance companies predominantly invest in debt instruments and to a low extent in equity instruments and properties.

Plan assets do not include own financial instruments of the Group or assets utilized by the RHI Group.

The RHI Group works with professional fund managers for the investment of plan assets. They act on the basis of specific investment guidelines adopted by the pension fund committee of the respective pension plans. The committees consist of management staff of the finance department and other qualified executives. They meet regularly in order to approve the target portfolio with the support of independent actuarial experts and to review the risks and the performance of the investments. In addition, they approve the selection or the extension of contracts of external fund managers.

The largest part of the assets is invested in pension reinsurance, which creates a low counterparty risk towards insurance companies. In addition, the Group is exposed to interest risks and longevity risks resulting from defined benefit commitments.

The Group generally endows the pension funds with the amount necessary to meet the legal minimum allocation requirements of the country in which the fund is based. Moreover, the Group makes additional allocations at its discretion from time to time. In the financial year 2017 the RHI Group expects employer contributions to external plan assets to amount to € 2.4 million and direct payments to entitled beneficiaries to amount to € 15.1 million. Employer contributions of € 3.2 million and direct pension payments of € 18.9 million had been expected for the financial year 2016; the actual payments made amounted to € 2.5 million and € 17.2 million.

Provisions for termination benefits

Provisions for termination benefits were based on the following weighted average measurement assumptions:

in %	06/30/2017	12/31/2016
Interest rate	1.8%	1.8%
Future salary increase	3.3%	2.9%

The interest rate for the measurement of termination benefit obligations in the euro area was determined taking into account the company specific duration of the portfolio.

Provisions for termination benefits developed as follows in the financial year and the previous year:

in € million	1-6/2017	1-6/2016
Provisions for termination benefits at beginning of period	**58.5**	**60.1**
Currency translation	0.0	(0.1)
Current service cost	0.8	0.8
Interest cost	0.5	0.7
Remeasurement losses/(gains)		
from changes in financial assumptions	1.0	3.6
due to experience adjustments	(0.4)	0.0
Benefits paid	(1.6)	(3.6)
Reclassification as held for sale	(3.8)	0.0
Provisions for termination benefits at end of period	**55.0**	**61.5**

Payments for termination benefits are expected to amount to € 1.7 million in the year 2017. The payments for termination benefits expected for the year 2016 amounted to € 2.5 million; the actual payments made amounted to € 5.6 million.

The following remeasurement gains and losses were recognized in other comprehensive income:

in € million	1-6/2017	1-6/2016
Accumulated remeasurement losses at beginning of period	**23.6**	**22.3**
Remeasurement losses/(gains)	0.6	3.6
Reclassification as held for sale	(1.4)	0.0
Accumulated remeasurement losses at end of period	**22.8**	**25.9**

At June 30, 2017 the weighted average duration of termination benefit obligations amounts to 11 years (12/31/2016: 11 years).)

Other personnel provisions

Other personnel provisions consist of the following items:

in € million	06/30/2017	12/31/2016
Service anniversary bonuses	18.2	18.3
Share-based payments	1.7	1.4
Semi-retirements	1.5	1.7
Lump-sum settlements	0.2	0.7
Other personnel provisions	**21.6**	**22.1**

The measurement of provisions for service anniversary bonuses is based on an average weighted interest rate of 1.6% (12/31/2016: 1.5%) and takes into account salary increases of 3.9% (12/31/2016: 3.8%).

The discount rate of provisions for semi-retirement amounts to 0.0% as of June 30, 2017 (12/31/2016: 0.0%).

The funded status of provisions for obligations to employees with semi-retirement contracts is shown in the table below:

in € million	06/30/2017	12/31/2016
Present value of semi-retirement obligations	5.1	5.1
Fair value of plan assets	(3.6)	(3.4)
Provisions for semi-retirement obligations	**1.5**	**1.7**

External plan assets are beyond the reach of all creditors and exclusively serve to meet semi-retirement obligations.

(29) Other non-current provisions

The development of non-current provisions is shown in the table below:

in € million	1-6/2017
Provisions at beginning of period	**4.5**
Currency translation	(0.1)
Reclassifications	(1.4)
Provisions at end of period	**3.0**

The provisions of € 3.0 million recognized at June 30, 2017 are primarily due to provisions for obligations related to a lease contract and to a contract for the procurement of raw materials. Currently, these provisions are expected to be used in a period from two to four years.

(30) Other non-current liabilities

Other non-current liabilities of € 5.8 million (12/31/2016: € 6.9 million) mainly include deferred income for subsidies received from third parties amounting to € 4.0 million (12/31/2016: € 4.7 million) and liabilities to employees.

(31) Trade payables and other current liabilities

Trade payables and other current liabilities included in the statement of financial position consist of the following items:

in € million	06/30/2017	12/31/2016
Trade payables	192.6	202.1
Prepayments received on orders	16.6	14.9
Liabilities employees	54.4	51.8
Taxes other than income tax	11.6	16.5
Payables from commissions	8.3	5.9
Customers with credit balances	5.3	6.0
Liabilities to subsidiaries	0.1	0.1
Liabilities to joint ventures	0.1	0.0
Other current liabilities	12.3	15.4
Trade payables and other current liabilities	**301.3**	**312.7**
thereof financial liabilities	207.1	217.3
thereof non-financial liabilities	94.2	95.4

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

(32) Income tax liabilities

Income tax liabilities amounting to € 16.2 million (12/31/2016: € 18.4 million) primarily include income taxes for the current year and previous years which have not yet been definitively audited by domestic and foreign tax authorities. Taking into account a multitude of factors, including the interpretation, commenting and case law regarding the respective tax laws as well as past experiences, adequate liabilities have been recognized as far as apparent.

(33) Current provisions

The development of current provisions is shown in the table below:

in € million	Demolition/ disposal costs, environmental damages	Warranties	Guarantees provided	Restructuring costs, other	Total
12/31/2016	**8.2**	**11.1**	**3.3**	**6.5**	**29.1**
Currency translation	0.0	(0.2)	0.0	(0.1)	(0.3)
Use	(0.2)	(3.1)	0.0	(3.7)	(7.0)
Reversal	0.0	(0.8)	(0.3)	(0.1)	(1.2)
Addition	0.0	2.9	0.0	1.2	4.1
Reclassifications	0.0	0.8	0.0	0.6	1.4
Reclassification from current liabilities	0.0	0.0	0.0	0.6	0.6
Reclassification as held for sale	0.0	(0.1)	0.0	(0.1)	(0.2)
06/30/2017	**8.0**	**10.6**	**3.0**	**4.9**	**26.5**

The item demolition and disposal costs, environmental damages includes provisions for the estimated demolition and disposal costs of plant and buildings of the former site in Duisburg, Germany, amounting to € 2.7 million (12/31/2016: € 2.8 million). It is assumed that these provisions will be used up within in the next twelve months. Furthermore, provisions for recultivation and expected refurbishment costs resulting from environmental damage at other locations exist at the two reporting dates.

Provisions for warranties include provisions for claims arising from warranties and other similar obligations from the sale of refractory products and provisions for onerous contracts.

Provisions for guarantees provided include obligations from sureties and guarantees to banks and insurance companies in the country and abroad. The exact due date of the cash outflow is uncertain at present.

The item restructuring costs, other includes provisions for restructuring costs as well as provisions for the share-based remuneration program of the members of the Management Board of RHI AG of € 1.5 million (12/31/2016: € 0.7 million), furthermore, provisions for process risks as well as several provisions, which are individually immaterial and cannot be allocated to one of the above-mentioned categories.

Provisions for restructuring costs amount to € 1.1 million as of June 30, 2017 (12/31/2016: € 2.1 million) and primarily consist of benefit obligations to employees due to termination of employment, and costs of lease obligations of the former site in Kretz. A large part of these costs is expected to be paid within twelve months.

In the context of the legal proceedings to review the cash compensation of the former minority shareholders of Didier-Werke AG, Wiesbaden, Germany, a provision amounting to € 0.6 million was in place at December 31, 2016. With a decision of January 17, 2017, the Frankfurt Higher Regional Court followed the amount of the adequate cash compensation according to an expert opinion and has set the compensation at € 102.37 per no-par share of Didier-Werke AG. This amount carried an interest rate of five percentage points above the base rate since August 26, 2010. In addition, the RHI Group had to bear the court costs, costs of the legal counsel and the out-of-court costs of the claimant. No appeals were permitted. The decision is thus final. The payment was made in February 2017. Further provisions were created for expected expenses related to further ongoing or probable legal disputes. The provision amounts, which are of minor importance individually, were determined on the basis of information and cost estimates made by the lawyers of the Group companies. It is currently uncertain when precisely the cash outflow is due.

NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(34) Revenue

Revenue is essentially generated by product deliveries. The distribution of revenue by product group, division and country is given in the explanations to segment reporting under note (53).

Revenue in the first half of 2017 includes revenues from long-term construction contracts amounting to € 37.4 million (first half of 2016: € 34.1 million).

(35) 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 material and production costs, it also includes overheads including depreciation charges on production equipment, amortization charges of intangible assets as well as impairment losses and reversals of impairment losses of inventories. Moreover, cost of sales also includes the costs of services provided by the Group or services received.

(36) Selling and marketing expenses

This item includes personnel expenses for the sales staff, commissions, as well as depreciation charges and other operating expenses related to the market and sales processes.

(37) General and administrative expenses

General and administrative expenses primarily consist of personnel expenses for the administrative functions, legal and other consulting costs, expenses for research and non-capitalizable development costs.

Research and development expenses totaled € 11.3 million in the first half of 2017 (first half of 2016: € 12.5 million), of which development costs amounting to € 2.0 million (first half of 2016: € 1.3 million) were capitalized. Income from research grants amount to € 1.1 million in the first half of 2017 (first half of 2016: € 0.7 million). Amortization and impairment of capitalized development costs amounting to € 1.9 million (first half of 2016: € 1.6 million) are recognized under cost of sales.

For the planned combination with Magnesita, which is described under note (62), external costs totaling € 15.0 million were incurred in the first half of 2017 (first half of 2016: € 0.2 million). They are primarily related to legal advisory fees and the fee for the consulting investment banks. Of the total costs, € 12.6 million (first half of 2016: € 0.2 million) were recognized in profit or loss under general and administrative expenses and € 2.4 million under trade and other current receivables in the statement of financial position since these are costs which are directly attributable to the planned issue of RHI-Magnesita shares to the controlling interests of Magnesita. They will be accounted for as a deduction from equity after the completion of the equity transaction. In the first half of 2017 € 0.9 million thereof were cash-effective and are shown in the consolidated statement of cash flows in the item capital expenses for the issue of shares.

(38) Other income

The individual components of other income are:

in € million	1-6/2017	1-6/2016
Foreign exchange gains	26.6	53.5
Gains from derivative financial instruments	8.8	1.5
Income from the disposal of non-current assets	0.3	0.3
Miscellaneous income	1.3	1.5
Other income	**37.0**	**56.8**

Income from the disposal of non-current assets predominantly includes income from the sale of land.

Miscellaneous income primarily consists of other revenue and other operating income related to prior periods.

(39) Other expenses

Other expenses include:

in € million	1-6/2017	1-6/2016
Foreign exchange losses	(42.3)	(51.0)
Losses from derivative financial instruments	(2.3)	(0.7)
Losses from the disposal of non-current assets	(0.2)	(0.1)
Miscellaneous expenses	(0.8)	(0.9)
Other expenses	**(45.6)**	**(52.7)**

The net foreign currency effects amount to € (15.7) million (first half of 2016: € 2.5 million). The net amount of gains and losses from derivative financial instruments in the operating EBIT amounts to € 6.5 million (first half of : € 0.8 million).

(40) Impairment losses

CGU Industrial/Fused Cast

The plants in San Vito, Italy, and Sherbinska, Russia, produce fused cast products. The production of such fused cast products is associated with high fixed costs, which combined with low capacity utilization burden the achievable margins and led to an impairment of € 8.0 million as of December 31, 2016. In the first half of 2017, these two plants were classified as a disposal group, which led to an additional impairment of € 1.7 million.

CGU Steel/Linings

In the first half of 2017, production was interrupted for an indefinite period at one site. The inactive plants were therefore impaired by € 5.5 million.

(41) Restructuring costs

Porsgrunn plant, Norway

The high-grade products manufactured at this site stand in direct competition with products available in the market. Due to the massive drop in raw material prices, external purchases were increased and the capacities for our own production restricted accordingly. This resulted in expenses for unused logistics services amounting to € 1.0 million in the first half of 2017, which are shown in the Raw Materials Division.

Sale RHI Monofrax LLC, USA

The sale and deconsolidation of RHI Monofrax LLC, Wilmington, USA, resulted in expenses amounting to € 4.6 million in the first half of 2016, which are recognized in the restructuring costs of the Industrial Division. For further details regarding this deconsolidation please refer to note (4) on the changes in the group of consolidated companies.

(42) Interest income

This item includes interest on cash at banks and similar income amounting to € 1.0 million (first half of 2016: € 0.7 million) and interest income on financial receivables amounting to € 0.1 million (first half of 2016: € 0.1 million). Additionally, interest income on available-for-sale securities and shares amounting to € 0.6 million was incurred in the first half of 2016.

(43) Interest expenses

This item includes interest expenses for "Schuldscheindarlehen" and bank loans, interest from interest rate swaps, tax-related interest, interest expenses attributable to non-controlling interests totaling € 1.6 million (first half of 2016: € 1.8 million) and other interest and similar expenses.

(44) Other net financial expenses

Other net financial expenses consist of the following items:

in € million	1-6/2017	1-6/2016
Interest income on plan assets	0.4	0.3
Interest expense on provisions for pensions	(2.7)	(3.5)
Interest expense on provisions for termination benefits	(0.5)	(0.7)
Interest expense on other personnel provisions	(0.1)	(0.1)
Net interest expense personnel provisions	(2.9)	(4.0)
Reversal of impairment losses on securities	0.1	0.5
Gain from the valuation of put options	0.3	0.0
Other net financial expenses	**(2.5)**	**(3.5)**

(45) Income tax

Income tax consists of the following items:

in € million	1-6/2017	1-6/2016
Current tax expense	11.6	18.4
Deferred tax expense/(income) relating to		
temporary differences	4.1	(3.0)
tax loss carryforwards	4.5	8.6
	8.6	5.6
Income tax	**20.2**	**24.0**

The current tax expense of the first half of 2017 includes tax expenses for previous periods of € 1.1 million (first half of 2016: € 0.7 million) and income relating to other periods of € 1.9 million (first half of 2016: € 0.0 million).

In addition to the income taxes recognized in the statement of profit or loss, tax income totaling € 1.6 million (first half of 2016: € 8.5 million) was recognized in other comprehensive income. Tax income totaling € 0.1 million (first half of 2016: € 0.0 million) was reclassified from other comprehensive income to the statement of profit or loss.

The reasons for the difference between the arithmetic income tax expense, which would result from the application of the Austrian corporate tax rate of 25% on the profit before income tax, and the income tax reported are shown below:

in € million	1-6/2017	1-6/2016
Profit before income tax	**45.9**	**62.9**
Arithmetic tax expense with tax rate of 25% (2016: 25%)	**11.5**	**15.7**
Different foreign tax rates	1.1	0.2
Expenses not deductible for tax purposes, non-creditable taxes	5.7	4.2
Income not subject to tax and tax advantages	(0.9)	(0.4)
Non-capitalized tax losses and temporary differences of the financial year	1.0	1.0
Utilization of previously unrecognized loss carryforwards and temporary differences	(0.5)	(0.1)
Capitalization of previously unrecognized loss carryforwards and temporary differences	(1.6)	0.0
Change in valuation allowance on deferred tax assets	3.3	2.7
Deferred income tax relating to prior periods	1.0	0.0
Current income tax relating to prior periods	(0.8)	0.7
Other	0.4	0.0
Recognized tax expense	**20.2**	**24.0**
Effective tax rate (in %)	**44.0%**	**38.2%**

(46) Expense categories

The presentation of the consolidated statement of profit or loss is based on the cost of sales method. The following table shows a classification by expense category for the first half of 2017 and the first half of 2016:

in € million	Cost of sales	Selling and marketing expenses	General and administrative expenses	Other income/ expenses	Losses derivatives/ impairment losses	Restructuring costs	Total 1-6/2017
Changes in inventories, own work capitalized	(14.8)	0.0	(2.0)	0.0	1.6	0.0	(15.2)
Cost of materials	420.8	0.2	1.6	0.0	0.0	0.0	422.6
Personnel costs	129.3	31.2	41.6	0.0	0.0	0.0	202.1
Depreciation charges(1)	31.9	0.3	2.2	0.0	5.6	0.0	40.0
Other income	(4.3)	0.0	(3.0)	(37.0)	0.0	0.0	(44.3)
Other expenses	94.3	22.5	36.4	45.6	1.2	1.0	201.0
Total	**657.2**	**54.2**	**76.8**	**8.6**	**8.4**	**1.0**	**806.2**

in € million	Cost of sales	Selling and marketing expenses	General and administrative expenses	Other income/ expenses	Gain derivatives	Restructuring costs	Total 1-6/2016
Changes in inventories, own work capitalized	(1.0)	0.0	(1.3)	0.0	0.0	0.0	(2.3)
Cost of materials	403.0	0.2	1.1	0.0	0.0	0.0	404.3
Personnel costs	132.7	29.7	42.1	0.0	0.0	0.0	204.5
Depreciation charges1)	30.0	0.1	2.1	0.2	0.0	0.0	32.4
Other income	(2.2)	0.0	(2.2)	(56.8)	(3.0)	0.0	(64.2)
Other expenses	87.1	22.1	20.6	52.5	0.0	4.6	186.9
Total	**649.6**	**52.1**	**62.4**	**(4.1)**	**(3.0)**	**4.6**	**761.6**

(1) Including impairment losses of property, plant and equipment and intangible assets

Cost of materials includes expenses for raw materials and supplies, and purchased goods of € 348.5 million (first half of 2016: € 315.2 million) as well as expenses for services received, especially energy, amounting to € 74.1 million (first half of 2016: € 89.1 million).

Amortization charges of intangible assets are largely recognized in cost of sales.

(47) Personnel costs

Personnel costs consist of the following components:

in € million	1-6/2017	1-6/2016
Wages and salaries	157.4	156.3
Pensions		
Defined benefit plans	1.6	2.0
Defined contribution plans	1.5	1.6
Termination benefits		
Defined benefit plans	0.8	0.8
Defined contribution plans	1.0	1.0
Other expenses	0.0	1.9
Fringe benefits	39.8	40.9
Personnel expenses (without interest expenses)	**202.1**	**204.5**

Personnel costs do not include amounts resulting from the interest accrued on personnel provisions. They amount to € 2.9 million (first half of 2016: € 4.0 million) and are recorded in net finance costs.

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The statement of cash flows shows how cash and cash equivalents of the Group change through cash inflows and cash outflows during the reporting period. In accordance with IAS 7, cash flows from operating activities, from investing activities and from financing activities are distinguished. Cash flows from investing and financing activities are determined on the basis of cash payment, while cash flow from operating activities is derived from the consolidated financial statements using the indirect method.

The respective monthly changes in items of the statement of financial position of companies that report in foreign currencies are translated at the closing rate of the previous month and adjusted for effects arising from changes in the group of consolidated companies or in other businesses. Therefore, the statement of cash flows cannot be derived directly from changes in items of the consolidated statement of financial position. As in the statement of financial position, cash and cash equivalents are translated at the closing rate. The effects of changes in exchange rates on cash and cash equivalents are shown separately.

(48) Net cash flow from operating activities

Net cash flow from operating activities is derived indirectly based on profit after income tax. Profit after income tax is adjusted for results which are allocable to the cash flows from investing or financing activities and for non-cash expenses and income. Other non-cash expenses and income include in particular the net interest expenses for defined benefit pension plans amounting to € 2.9 million (first half of 2016: € 4.0 million) and net remeasurement losses of monetary foreign currency positions and derivative financial instruments € 2.5 million (first half of 2016: net measurement gains of € 7.4 million). Taking into account the change in funds tied up in working capital as well as other operating assets and liabilities and income taxes paid, the result is net cash flow from operating activities.

(49) 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. The cash outflows for investments in property, plant and equipment and intangible assets differ from the additions to assets primarily through additions to assets already capitalized, which will have a cash effect in the following year.

Cash effects from business combinations or the sale of companies (net change in cash and cash equivalents from initial consolidations and deconsolidations) are shown separately. In the in the first half of 2017 and in the first half of 2016, no acquisitions of companies were carried out. The sale of the subsidiary RHI Monofrax, LLC, Wilmington, USA, as of June 6, 2016 led to a cash outflow of € 4.6 million.

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

(50) Net cash flow from financing activities

Net cash flow from financing activities includes outflows from dividend payments and interest payments. In contrast, interest on borrowings capitalized in accordance with IAS 23 is included in cash flow from investing activities, and tax-related interest is recognized in cash flow from operating activities.

The interest expenses recognized in the consolidated statement of profit or loss include non-cash accrued interest of € 2.2 million (first half of 2016: € 2.2 million).

Inflows resulting from the proceeds and repayments of loans and other financial liabilities are classified as noncurrent or current according to the term of financing.

(51) Total interest paid and interest received

Total interest paid amounts to € 5.5 million in the reporting period, which is entirely included in cash flow from financing activities. In the first half of 2016, total interest paid amounted to € 7.4 million, of which € 0.2 million was included in cash flow from investing activities and € 7.2 million in cash flow from financing activities.

Total interest received amounts to € 1.1 million in the first half of 2017 and is included in cash flow from investing activities. In the first half of 2016 total interest received amounted to € 1.4 million, of which € 0.1 million was included in cash flow from operating activities and € 1.3 million in cash flow from investing activities.

(52) Cash and cash equivalents

Cash and cash equivalents as presented in the consolidated statement of cash flows correspond to the cash and cash equivalents recognized in the statement of financial position and those included in assets held for sale. They include restricted cash totaling € 26.1 million as of June 30, 2017 (12/31/2016: € 19.8 million). Restricted cash is related to cash and cash equivalents at subsidiaries (mainly in China and India) to which the Group only has limited access due to foreign exchange and capital transfer controls. € 15.4 million (12/31/2016: € 13.5 million) are accounted for by a subsidiary with non-controlling interests.

OTHER DISCLOSURES

(53) Segment reporting

Segment reporting by operating company division

The following tables show the financial data for the operating segments for the first half of 2017 and the first half of 2016:

in € million	Steel	Industrial	Raw Materials	Reconciliation	Group 1-6/2017
External revenue	558.2	270.6	27.0	0.0	855.8
Internal revenue	0.0	0.0	100.8	(100.8)	0.0
Segment revenue	**558.2**	**270.6**	**127.8**	**(100.8)**	**855.8**
Operating EBIT	**36.2**	**21.7**	**1.1**	**0.0**	**59.0**
Result from derivatives from supply contracts	0.0	0.0	(1.2)	0.0	(1.2)
Impairment losses	(5.5)	(1.7)	0.0	0.0	(7.2)
Restructuring costs	0.0	0.0	(1.0)	0.0	(1.0)
EBIT	**30.7**	**20.0**	**(1.1)**	**0.0**	**49.6**
Net finance costs	0.0	0.0	0.0	(10.1)	(10.1)
Share of profit of joint ventures	0.0	0.0	6.4	0.0	6.4
Profit before income tax					**45.9**
Depreciation and amortization charges	(15.5)	(8.0)	(8.8)	0.0	(32.3)
Segment assets 06/30/2017	617.5	261.1	377.6	466.8	1,723.0
Investments in joint ventures 06/30/2017	0.0	0.0	16.7	0.0	16.7
					1,739.7
Investments in property, plant and equipment and intangible assets (according to non-current assets statement)	7.6	4.3	2.6	0.0	14.5

in € million	Steel	Industrial	Raw Materials	Reconciliation	Group 1-6/2016
External revenue	542.3	265.4	22.5	0.0	830.2
Internal revenue	0.0	0.0	121.3	(121.3)	0.0
Segment revenue	**542.3**	**265.4**	**143.8**	**(121.3)**	**830.2**
Operating EBIT	**47.4**	**20.3**	**2.5**	**0.0**	**70.2**
Result from derivatives from supply contracts	0.0	0.0	3.0	0.0	3.0
Restructuring costs	0.0	(4.6)	0.0	0.0	(4.6)
EBIT	**47.4**	**15.7**	**5.5**	**0.0**	**68.6**
Net finance costs	0.0	0.0	0.0	(11.1)	(11.1)
Share of profit of joint ventures	0.0	0.0	5.4	0.0	5.4
Profit before income tax					**62.9**
Depreciation and amortization charges	(15.5)	(8.2)	(8.5)	0.0	(32.2)
Segment assets 12/31/2016	645.4	269.6	397.8	458.9	1,771.7
Investments in joint ventures 12/31/2016	0.0	0.0	20.5	0.0	20.5
					1,792.2
Investments in property, plant and equipment and intangible assets (according to non-current assets statement)	7.3	4.3	4.8	0.0	16.4

Revenue amounting to € 86.4 million was realized with one customer in the first half of 2017 (first half of 2016: € 90.8 million), which is included in the Steel segment. No other single customer contributed 10% or more to consolidated revenue in the first half of 2017 or 2016. Companies which are known to be part of a group are treated as one customer.

Segment assets include the external receivables and inventories which are reported to the management for control and measurement and which are available to operating segments, as well as property, plant and equipment, goodwill and other intangible assets which are allocated to the segments based on the capacity of the assets provided to the segments. Shares in joint ventures are allocated to the segments. All other assets are recognized under reconciliation.

When allocating revenue to product groups, a distinction is made between shaped products (e.g. hydraulically pressed bricks, fused cast bricks, isostatically pressed products) and unshaped products (e.g. repair mixes, construction mixes and castables) as well as other revenue. Other includes revenue from the provision of services as well as the sale of non-Group refractory products.

In the first half of 2017, revenue is classified by product group as follows:

in € million	Steel	Industrial	Raw Materials	Group
Shaped products	349.9	200.7	0.0	550.6
Unshaped products	158.2	32.9	26.9	218.0
Other	50.1	37.0	0.1	87.2
Revenue	**558.2**	**270.6**	**27.0**	**855.8**

In the first half of 2016, revenue was classified by product group as follows:

in € million	Steel	Industrial	Raw Materials	Group
Shaped products	345.4	193.7	0.0	539.1
Unshaped products	163.3	31.5	22.4	217.2
Other	33.6	40.2	0.1	73.9
Revenue	**542.3**	**265.4**	**22.5**	**830.2**

Segment reporting by country

Revenue is classified by customer sites as follows:

in € million	1-6/2017	1-6/2016
Austria	19.3	17.6
All other countries		
India	89.1	80.9
USA	83.0	78.8
Germany	67.8	78.4
Mexico	54.7	56.0
Italy	50.8	49.0
PR China	49.9	36.1
Canada	33.8	34.2
Russia	23.9	27.1
Turkey	20.6	18.2
Other countries, each below € 20.6 million (1-6/2016: € 23.5 million)	362.9	353.9
Revenue	**855.8**	**830.2**

The carrying amounts of property, plant and equipment and intangible assets are classified as follows by the respective sites of the Group companies:

in € million	06/30/2017	12/31/2016
Austria	201.7	206.5
All other countries		
PR China	115.2	128.3
Germany	80.1	87.9
India	61.2	64.2
Turkey	32.8	34.1
Mexico	28.8	28.4
Other countries, each below € 20.0 million (1-6/2016: € 20.8 million)	56.4	81.3
Property, plant and equipment and intangible assets	**576.2**	**630.7**

(54) Earnings per share

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

	1-6/2017	1-6/2016
Share of shareholders of RHI AG in profit after income tax (in € million)	24.5	37.8
Weighted average number of shares	39,819,039	39,819,039
Earnings per share (in €)	**0.62**	**0.95**

There are 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 are identical.

(55) Dividend payments

Based on a resolution adopted by the 38th Annual General Meeting on May 5, 2017, dividends totaling € 29.9 million were paid in the first half of 2017 for the year 2016, which corresponded to a dividend of € 0.75 per share. Based on a resolution adopted by the 37th Annual General Meeting on May 4, 2016, dividends totaling € 29.9 million were paid out in the first half of 2016 for the year 2015, which corresponded to a dividend of € 0 75 per share.

(56) Additional disclosures on financial instruments

The following tables show the carrying amounts and fair values of financial assets and liabilities by measurement category and level and the allocation to the measurement category in accordance with IFRS 13. In addition, carrying amounts are shown aggregated according to measurement category.

in € million	IAS 39 Measurement category[1]	Level	(Amortized) cost	Fair value recognized in profit or loss	Fair value recognized in equity	06/30/2017[2] Carrying amount	06/30/2017[2] Fair value
Interests in subsidiaries not consolidated	FAAC	–	0.1	–	–	0.1	–
Available-for-sale investments	FAAC	–	0.4	–	–	0.4	–
Available-for-sale securities	AfS	1	–	–	15.4	15.4	15.4
Available-for-sale shares	FAAC	–	0.5	–	–	0.5	–
Other non-current financial receivables	LaR	–	2.9	–	–	2.9	–
Trade and other current receivables	LaR	–	295.2	–	–	295.2	–
Other current financial receivables	LaR	–	1.3	–	–	1.3	–
Financial assets held for trading	FAHfT	2	–	9.1	–	9.1	9.1
Cash and cash equivalents	LaR	–	149.4	–	–	149.4	–
Financial assets						**474.3**	
Non-current financial liabilities	FLAAC	2	335.2	–	–	335.2	353.9
Interest derivatives designated as cash flow hedges	–	2	–	–	0.2	0.2	0.2
Current financial liabilities	FLAAC	2	158.1	–	–	158.1	158.9
Financial liabilities held for trading	FLHfT	2	–	49.0	–	49.0	49.0
Trade payables and other current liabilities	FLAAC	–	207.1	–	–	207.1	–
Financial liabilities						**749.6**	
Aggregated according to measurement category							
Loans and receivables	LaR		448.8	–	–	448.8	
Available for sale financial instruments	AfS		–	–	15.4	15.4	
Financial assets at cost	FAAC		1.0	–	–	1.0	
Financial assets held for trading	FAHfT		–	9.1	–	9.1	
Financial liabilities measured at amortized cost	FLAAC		700.4	–	–	700.4	
Financial liabilities held for trading	FLHfT		–	49.0	–	49.0	

in € million	IAS 39 Measurement category[1]	Level	(Amortized) cost	Fair value recognized in profit or loss	Fair value recognized in equity	12/31/2016[2] Carrying amount	12/31/2016[2] Fair value
Available-for-sale investments	FAAC	–	0.4	–	–	0.4	–
Available-for-sale securities	AfS	1	–	–	15.3	15.3	15.3
Available-for-sale shares	FAAC	–	0.5	–	–	0.5	–
Other non-current financial receivables	LaR	–	2.7	–	–	2.7	–
Trade and other current receivables	LaR	–	312.1	–	–	312.1	–
Other current financial receivables	LaR	–	1.5	–	–	1.5	–
Financial assets held for trading	FAHfT	2	–	1.5	–	1.5	1.5
Cash and cash equivalents	LaR	–	182.9	–	–	182.9	–
Financial assets						**516.9**	
Non-current financial liabilities	FLAAC	2	350.6	–	–	350.6	372.1
Interest derivatives designated as cash flow hedges	–	2	–	–	0.9	0.9	0.9
Current financial liabilities	FLAAC	2	165.1	–	–	165.1	165.8
Financial liabilities held for trading	FLHfT	2	–	49.1	–	49.1	49.1
Trade payables and other current liabilities	FLAAC	–	217.3	–	–	217.3	–
Financial liabilities						**783.0**	
Aggregated according to measurement category							
Loans and receivables	LaR		499.2	–	–	499.2	
Available for sale financial instruments	AfS		–	–	15.3	15.3	
Financial assets at cost	FAAC		0.9	–	–	0.9	
Financial assets held for trading	FAHfT		–	1.5	–	1.5	
Financial liabilities measured at amortized cost	FLAAC		733.0	–	–	733.0	
Financial liabilities held for trading	FLHfT		–	49.1	–	49.1	

(1) FAAC: Financial assets at cost
AfS: Available for sale financial instruments
LaR: Loans and receivables
FAHfT: Financial assets held for trading
FLAAC: Financial liabilities measured at amortized cost
FLHfT: Financial liabilities held for trading

(2) The items trade and other non-current receivables and payables also include non-financial assets and liabilities; they are therefore not considered in the table of financial instruments. The reconciliation to the respective items of the statement of financial position is provided in notes (18) and (31).

In the RHI Group especially securities and derivative financial instruments are measured at fair value.

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between market participants in an arm's length transaction on the day of measurement. When the fair value is determined it is assumed that the transaction in which the asset is sold or the liability is transferred takes place either in the main market for the asset or liability, or in the most favorable market if there is no main market. The RHI Group considers the characteristics of the asset or liability to be measured which a market participant would consider in pricing. It is assumed that market participants act in their best economic interest.

The RHI Group takes into account the availability of observable market prices in an active market and uses the following hierarchy to determine fair value:

Level 1: Prices quoted in active markets for identical financial instruments.

Level 2: Measurement techniques in which all important data used are based on observable market data.

Level 3: Measurement techniques in which at least one significant parameter is based on non-observable market data.

The fair value of available-for-sale securities is based on price quotations at the interim reporting date (Level 1).

The fair value of interest derivatives (interest rate swaps) is determined by calculating the present value of future cash flows based on current yield curves taking into account the corresponding terms (Level 2). For two of the three existing hedging relationships, which were previously included in an effective hedging relationship in accordance with IAS 39 and to which the rules of hedge accounting were applied, the requirements for hedge accounting were no longer given as of June 30, 2017. Consequently, the fair values of these interest derivatives have to be classified as financial liabilities held for trading.

In addition, the fair value of financial assets and liabilities held for trading corresponds to the market value of the forward exchange contracts and the embedded derivatives in open orders denominated in a currency other than the functional currency, as well as the market value of a long-term power supply contract. These financial assets and liabilities held for trading are measured based on quoted forward rates (Level 2).

The RHI Group takes into account reclassifications in the measurement hierarchy at the end of the reporting period in which the changes occur. There were no shifts between the different measurement levels in the two reporting periods.

Financial liabilities are carried at amortized cost in the statement of financial position; the fair values of the financial liabilities are only shown in the notes. They are calculated at the present value of the discounted future cash flows using yield curves that are currently observable (Level 2).

Shares in non-consolidated subsidiaries of € 0.1 million (12/31/2016: € 0.0 million), available-for-sale investments of € 0.4 million (12/31/2016: € 0.4 million) and available-for-sale shares of € 0.5 million (12/31/2016: € 0.5 million) are equity instruments carried at cost for which there is no quoted price on an active market. It was not possible to derive a fair value based on comparable transactions. These investments and shares are immaterial in comparison with the total position of the Group.

The financial receivables roughly correspond to the fair value as due to the amount of the existing receivables no material deviation between the fair value and the carrying amount is assumed and the credit default risk is accounted for by forming valuation allowances.

The remaining terms of trade and other current receivables and liabilities as well as cash and cash equivalents are predominantly short. Therefore, the carrying amounts of these items approximate fair value at the interim reporting date.

At the two reporting dates, no contractual netting agreements of financial assets and liabilities were in place.

Net results by measurement category in accordance with IAS 39

The effect of financial instruments on the income and expenses recognized in the first half of 2017 and the first half of 2016 is shown in the following table, classified according to the measurement categories defined in IAS 39:

in € million	1-6/2017	1-6/2016
Net gain on available-for-sale financial assets	0.1	1.1
Net loss from loans and receivables as well as financial liabilities at amortized cost	(22.7)	(7.1)
Net gain on financial assets and financial liabilities classified as held for trading	5.0	3.8

The net gain on available-for-sale financial assets recognized in the statement of profit or loss includes income from shares and income from reversals of impairment losses.

The net loss arising from loans and receivables as well as financial liabilities includes interest income and expenses, changes in valuation allowances and losses on derecognition, foreign exchange gains and losses as well as income related to the measurement of put options.

The net gain on financial assets held for trading and financial liabilities includes unrealized results from the measurement of a long-term commodity futures contract as well as changes in the market value and realized results of forward exchange contracts, embedded derivatives in open orders in a currency other than the functional currency and interest derivatives which do not meet the requirements of hedge accounting in accordance with IAS 39.

Net finance costs include interest income of € 1.1 million (first half of 2016: € 1.3 million) and interest expenses of € 8.2 million (first half of 2016: € 8.8 million), which result from financial assets and liabilities which are not carried at fair value through profit or loss.

(57) Derivative financial instruments

Commodity futures

The RHI Group concluded a commodity futures contract for electricity for the fusion plant in Porsgrunn, Norway, in November 2011, which has been accounted for as a financial instrument in accordance with IAS 39 since December 31, 2015 because the "own-use exemption" (exemption for own use in accordance with IAS 39.5) no longer applies.

The measurement of the commodity futures contract for the entire term of the contract until the end of the year 2023 at market price leads to a financial liability of € 47.4 million at June 30, 2017 (12/31/2016: € 49.0 million). The corresponding present value of the cash flows for the agreed electricity supply totals € 90.3 million at June 30, 2017 (12/31/2016: € 97.5 million); the present value of the cash flows at market price amounts to € 42.9 million (12/31/2016: € 48.5 million).

Interest rate swaps

RHI AG has concluded interest rate swaps to hedge the cash flow risk of financial liabilities carrying variable interest rates. Financial liabilities carrying variable interest in the amount of the nominal value of the interest rate swaps were designated as hedged items. The cash flow changes of the hedged items, which result from the changes of the variable interest rates, are balanced out by the cash flow changes of the interest rate swaps. These hedging measures pursue the objective to transform variable-interest financial liabilities into fixed-interest financial liabilities, thus hedging the cash flow from the financial liabilities. Credit risks are not part of the hedge.

The term of two hedging relationships with a nominal volume of € 20.7 million at June 30, 2017 (12/31/2016: € 25.7 million) ends in the financial year 2019. The interest payments from the underlying transaction and the compensation payments from the two interest rate swaps are made quarterly at the end of the quarter. The refinancing (see note (67)) carried out in the course of the planned combination with Magnesita (see note (62)) leads to the early repayment of financial liabilities, which also include the two financial liabilities carrying variable interest which are designated as the underlying transactions for these two hedging relationships. Due to the early repayment, the expected transaction, the future variable interest payments, is no longer expected to take place. Consequently, the expense of € 0.3 million recognized in other comprehensive income was reclassified to profit or loss as of June 30, 2017 and recognized under interest expenses. The changes in the fair value of these interest rate swaps are now recognized through profit or loss. In the first half of 2016, no ineffectiveness had to be recognized through profit or loss for these two hedges.

A hedging relationship with a nominal value of € 50.0 million (12/31/2016: € 50.0 million) runs until the July 31, 2017. The interest and compensation payments for this hedging relationship are due semi-annually at the end of January and at the end of July. The interest expenses are recognized accordingly on a period basis. The effectiveness of the hedging relationship is tested prospectively and retrospectively through an effectiveness test. The terms of the interest rate swap correspond to those of underlying transaction. In the two reporting periods no hedging ineffectiveness hat to be recognized through profit or loss for this hedge.

Fixed interest rates amount to roughly 0.7% as in the previous year; the variable interest rates are based on the EURIBOR.

The fair values of the interest rate swaps totaled € (0.5) million at June 30, 2017 (12/31/2016: € (0.9) million).

Forward exchange contracts

The nominal value and fair value of forward exchange contracts are shown in the table below:

		06/30/2017			12/31/2016		
Purchase	Sale		Nominal value in million	Fair value in € million		Nominal value in million	Fair value in € million
EUR	ZAR	ZAR	100.0	(0.1)	ZAR	100.0	(0.1)
EUR	USD	USD	90.0	6.4	USD	90.0	0.4
EUR	CNY	EUR	21.7	1.0	EUR	21.7	0.1
EUR	CAD	CAD	10.0	0.3	CAD	10.0	0.0
MXN	USD	USD	10.0	1.5	USD	10.0	0.0
EUR	INR	EUR	8.9	0.0	EUR	8.9	0.0
INR	EUR	EUR	0.2	0.0	EUR	–	–
INR	USD	USD	0.5	0.0	USD	–	–
Forward exchange contracts				**9.1**			**0.4**

(58) Financial risk management

Financial risks are incorporated in the corporate risk management of the RHI Group and are centrally controlled by Group Treasury.

None of the following risks have a significant influence on the going concern of the RHI Group.

Credit risk

The maximum credit risk from recognized financial assets amounts to € 474.3 million (12/31/2016: € 516.9 million) and is primarily related to investments with banks and receivables due from customers.

The credit risk with banks related to investments (especially cash and cash equivalents) is reduced by the fact that business transactions are generally only carried out with contractual partners with a good credit rating.

In order to counteract the default risk related to these transactions, receivables from customers are hedged as far as possible through credit insurance and collateral arranged through banks (guarantees, letters of credit), even if the contractual partner has a top class credit rating. Credit and default risks are monitored continuously, and provisions are formed for risks that have occurred and for identifiable risks.

In the following, the credit risk from trade receivables is shown classified by customer industry, by foreign currency and by term.

This credit risk, which is hedged by existing credit insurance, letters of credit and bank guarantees, is shown by customer segment in the following table:

in € million	06/30/2017	12/31/2016
Segment Steel	201.0	208.6
Segment Industrial	86.2	96.0
Segment Raw Materials	5.4	4.4
Trade receivables	292.6	309.0
Credit insurance and bank guarantees	(175.9)	(181.5)
Net credit exposure	**116.7**	**127.5**

The following table shows the carrying amounts of receivables denominated in currencies other than the functional currencies of the Group companies. The carrying amounts of the receivables in the functional currency of the respective Group company are included under other functional currencies:

in € million	06/30/2017	12/31/2016
US dollar	49.2	50.1
Pound sterling	2.9	2.9
Other currencies	10.1	9.3
Other functional currencies	230.4	246.7
Trade receivables	**292.6**	**309.0**

The classification of receivables by days outstanding is shown below:

in € million	06/30/2017	12/31/2016
Neither impaired nor past due at reporting date	206.6	217.4
Not impaired at reporting date and past due in the following time frames		
Less than 30 days	21.3	20.5
Between 30 and 59 days	8.1	7.2
Between 60 and 89 days	5.3	2.7
More than 90 days	3.2	12.8
Impaired at reporting date	78.6	81.6
Valuation allowances	(30.5)	(33.2)
Trade receivables	**292.6**	**309.0**

With respect to receivables that were neither impaired nor overdue, there were no indications that the debtors would be unable to meet their payment obligations. No valuation allowance was recognized for overdue receivables amounting to € 37.9 million at June 30, 2017 (12/31/2016: € 43.2 million) and impaired receivables of € 48.1 million (12/31/2016: € 48.4 million) because the risk of default is essentially covered by credit insurance, bank guarantees and letters of credit.

Liquidity risk

Liquidity risk refers to the risk that financial obligations cannot be met when due. The Group's financial policy is based on long-term financial planning and is centrally controlled and monitored continuously in the RHI Group. The liquidity requirements resulting from budget and medium-term planning are secured by concluding appropriate financing agreements. As of June 30, 2017, the RHI Group has a credit facility of € 258.2 million (12/31/2016: € 310.8 million) at its disposal, which is unused and available immediately, as well as unused credit lines from the sale of receivables amounting to € 7.6 million (12/31/2016: € 6.8 million). These lines of credit were concluded with different Austrian and international banks in order to ensure independence of banks. The companies of the RHI Group are integrated into a clearing process managed by Central Treasury and provided with financing limits in order to minimize the need of borrowings for the Group as a whole.

Non-derivative financial instruments

An analysis of the terms of non-derivative financial liabilities based on undiscounted cash flows including the related interest payments shows the following expected cash outflows:

in € million	Carrying amount 06/30/2017	Cash outflows	Remaining term up to 1 year	Remaining term 2 to 5 years	Remaining term over 5 years
Liabilities to financial institutions					
fixed interest	207.4	227.0	25.6	130.5	70.9
variable interest	250.6	254.9	127.1	126.1	1.7
Liabilities to fixed-term or puttable non-controlling interests	32.2	172.3	9.7	11.0	151.6
Other financial liabilities	3.1	3.2	1.5	1.6	0.1
Trade payables and other current liabilities	207.1	207.1	207.1	0.0	0.0
Non-derivative financial liabilities	**700.4**	**864.5**	**371.0**	**269.2**	**224.3**

in € million	Carrying amount 12/31/2016	Cash outflows	Remaining term up to 1 year	Remaining term 2 to 5 years	Remaining term over 5 years
Liabilities to financial institutions					
fixed interest	214.6	237.6	26.0	140.6	71.0
variable interest	260.9	267.5	133.5	132.3	1.7
Liabilities to fixed-term or puttable non-controlling interests	32.5	182.2	9.1	13.0	160.1
Other financial liabilities	7.7	7.8	4.5	3.2	0.1
Trade payables and other current liabilities	217.3	217.3	217.3	0.0	0.0
Non-derivative financial liabilities	**733.0**	**912.4**	**390.4**	**289.1**	**232.9**

Derivative financial instruments

The remaining terms of derivative financial instruments based on expected undiscounted cash flow as of June 30, 2017 and December 31, 2016 are shown in the table below:

in € million	Carrying amount 06/30/2017	Cash flows	Remaining term up to 1 year	2 to 5 years	over 5 years
Receivables from derivatives with net settlement					
Financial assets held for trading	9.1	9.1	9.1	0.0	0.0
Liabilities from derivatives with net settlement					
Interest derivatives designated as cash flow hedges	0.2	0.2	0.2	0.0	0.0
Financial liabilities held for trading	49.0	51.4	7.9	32.0	11.5

in € million	Carrying amount 12/31/2016	Cash flows	Remaining term up to 1 year	2 to 5 years	over 5 years
Receivables from derivatives with net settlement					
Financial assets held for trading	1.5	1.5	1.5	0.0	0.0
Liabilities from derivatives with net settlement					
Interest derivatives designated as cash flow hedges	0.9	0.9	0.7	0.2	0.0
Financial liabilities held for trading	49.1	51.9	6.1	31.0	14.8

Foreign currency risks

Foreign currency risks arise especially where business transactions (operating activities, investments, financing) are conducted in a currency other than the functional currency of a company. They are monitored at the group level and analyzed with respect to hedging options. The net position of the Group in the respective currency serves as the basis for decisions regarding the use of hedging instruments.

Foreign currency risks according to IFRS 7 are created through financial instruments which are denominated in a currency other than the functional currency (in the following: foreign currency) and are monetary in nature. Important primary monetary financial instruments include trade receivables and payables, cash and cash equivalents as well as financial liabilities as shown in the statement of financial position. The equity instruments held are not of a monetary nature and therefore not linked to a foreign currency risk in accordance with 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 monetary items, which represent part of a net investment in a foreign operation in accordance with IAS 21, are eliminated or hedged through forward exchange contracts. Significant provisions denominated in foreign currencies are also included in the analysis of risk.

The following table shows the foreign currency positions in the major currencies as of June 30, 2017:

in € million	USD	EUR	MXN	CHF	Other	Total
Financial assets	214.6	47.6	0.3	0.4	30.4	293.3
Financial liabilities, provisions	(168.0)	(44.3)	(15.5)	(8.9)	(15.6)	(252.3)
Net foreign currency position	**46.6**	**3.3**	**(15.2)**	**(8.5)**	**14.8**	**41.0**

The foreign currency positions as of December 31, 2016 are structured as follows:

in € million	USD	EUR	MXN	CHF	Other	Total
Financial assets	207.4	64.8	0.1	0.5	30.9	303.7
Financial liabilities, provisions	(156.2)	(37.8)	(14.2)	(6.9)	(17.2)	(232.3)
Net foreign currency position	**51.2**	**27.0**	**(14.1)**	**(6.4)**	**13.7**	**71.4**

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 reporting date or the interim reporting date. It is assumed that the positions on the (interim) reporting date are representative for the entire year or the first half of the 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% appreciation or devaluation of the relevant functional currency against the following major currencies as of June 30, 2017 would have had the following effect on profit or loss and equity (both excluding income tax):

	Appreciation of 10%		Devaluation of 10%	
in € million	Gain/(loss)	Equity	Gain/(loss)	Equity
US dollar	(4.0)	(4.7)	4.6	5.5
Euro	(0.6)	5.3	0.1	(7.1)
Mexican peso	1.4	1.4	(1.7)	(1.7)
Swiss franc	0.8	0.8	(0.9)	(0.9)
Other currencies	(1.4)	(2.5)	1.6	2.9

The hypothetical effect on profit or loss at December 31, 2016 can be summarized as follows:

	Appreciation of 10%		Devaluation of 10%	
in € million	Gain/(loss)	Equity	Gain/(loss)	Equity
US dollar	(4.8)	(5.6)	5.9	6.9
Euro	(2.8)	7.7	2.7	(10.1)
Mexican peso	1.3	1.3	(1.6)	(1.6)
Swiss franc	0.6	0.6	(0.7)	(0.7)
Other currencies	(1.4)	(2.5)	1.6	3.0

Interest rate risks

The interest rate risk in the RHI Group is primarily related to financial instruments carrying variable interest rates, which may lead to fluctuations in results and cash flows. The RHI Group is predominantly exposed to interest risks in the euro area. At June 30, 2017, interest rate hedges amounting to € 70.7 million (12/31/2016: € 75.7 million) existed; a variable interest rate was converted into a fixed interest rate through an interest rate swap.

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 use the fair value option. A hypothetical change in the market interest rates for these financial instruments at the interim reporting date would have had no effect on profit or loss, or equity.

Changes in market interest rates on financial instruments designated as hedges as a part of cash flow hedges to protect against interest rate-related payment fluctuations have an effect on equity and are therefore included in the equity-related sensitivity analysis. A change in the market interest rate by

25 basis points as of June 30, 2017 would have no impact on equity. If the market interest rate as of December 31, 2016 had been 25 basis points higher or lower, equity would have been € 0.2 million higher or lower taking into account tax effects.

Changes in market interest rates influence the interest result of primary, variable-interest financial instruments whose interest payments are not designated as hedged items as a part of cash flow hedge relationships against interest rate risks. Likewise, changes in the market interest rate have an effect on the interest result of derivative financial instruments which were concluded as interest rate hedges, but do not meet the requirements of hedge accounting. If the market interest rate as of June 30, 2017 had been 25 basis points higher or lower, the interest result would have been € 0.1 million (12/31/2016: € 0.0 million) lower or higher.

Other market price risk

The RHI Group holds certificates in an investment fund amounting to € 15.4 million (12/31/2016: € 15.3 million) to cover the legally required protection of personnel provisions of Austrian Group companies. The market value of these certificates is influenced by fluctuations of the worldwide volatile stock and bond markets.

In the financial year 2015, an energy supply contract with a term until the year 2023 had to be classified as a derivative financial instrument in accordance with IAS 39 for the first time. The fair value of the financial liability amounts to € 47.4 million at June 30, 2017 (12/31/2016: € 49.0 million). If the quoted forward prices at June 30, 2017 had been 20% higher or lower, EBIT would have been € 8.6 million (12/31/2016: € 9.7 million) higher or lower. In contrast, if the borrowing cost relevant for discounting had been 25 basis points higher or lower at the (interim) reporting date, EBIT would have been € 0.4 million (12/31/2016: € 0.4 million) higher or lower.

(59) Capital management

The objectives of the capital management strategy of the RHI Group are to secure the going concern in the long term by creating a solid capital base to finance future growth, to increase company value on a sustained basis and to generate adequate returns to enable attractive dividend payments to the shareholders and to service debt. In the case of growth through acquisitions, temporary deviations may occur in the key figures presented in the following. The objective is in any case the long-term compliance with the ratios described and the sustainable value increase of the company.

The RHI Group manages its capital structure through internal targets with respect to net financial debt, equity ratio, and net gearing ratio through careful monitoring and assessment of the overall economic framework conditions, the requirements and risks related to operations and taking into account fixed strategic projects.

The capital structure key figures are shown below:

	06/30/2017	12/31/2016
Net debt (in € million)	343.9	332.8
Net debt factor	1.9	1.8
Net gearing ratio (in %)	68.5%	63.5%
Equity ratio (in %)	28.9%	29.2%

(1) Net debt/EBITDA of the last 12 months

Net financial debt, which reflects financial liabilities net of cash and cash equivalents, is controlled centrally by RHI in coordination with Corporate Treasury. The main task of the Corporate Treasury department is to secure liquidity to support business operations on a sustained basis, to use banking and financial services efficiently and to limit financial risks while at the same time optimizing earnings and costs. Due to central controlling, optimum effectiveness is accomplished by utilizing central and local instruments and opportunities.

The key performance indicator for net debt in the RHI Group is the net debt factor, which reflects the ratio of net financial liabilities to EBITDA (earnings before interest, taxes, depreciation and amortization taking into account the reversal of investment subsidies). EBITDA of the last 12 months amounts to € 177.7 million (EBITDA 2016: € 189.1 million). The net debt factor is a measure of the ability of a company to repay its debt and amounts to 1.9 at June 30, 2017. At December 31, 2016, it was 1.8. The RHI Group's target is to keep the net debt factor below 3.0.

The net gearing ratio is the ratio of net financial debt to equity; it amounts to 68.5% at June 30, 2017. At December 31, 2016, the net gearing ratio amounted to 63.5%. RHI's internal objective provides for a balanced capital structure with a minimum equity ratio of 30%. The target regarding the net gearing ratio is subsequently derived from the equity ratio.

The RHI Group controls the operating business via the profitability indicator ROACE (Return on Average Capital Employed). This indicator describes the interest on the capital employed in operating business or for an investment. In the RHI Group, ROACE designates the ratio of the net operating profit after taxes (NOPAT) to the average capital employed in the reporting period. Subsequently, the comparison of this profitability key figure with the cost of capital of the RHI Group enables statements with respect to changes in shareholder value. The internal objective of the RHI Group is a ROACE which exceeds the weighted average cost of capital (WACC) by at least 500 basis points.

in € million	06/30/2017	12/31/2016
Ø Working capital		
Ø Inventories	382.3	384.6
Ø Trade receivables	286.3	306.7
Ø Receivables from long-term construction contracts	15.6	11.8
Ø Trade payables	(185.4)	(189.8)
Ø Prepayments received on orders	(15.9)	(14.5)
	483.0	**498.8**
Ø Assets		
Ø Property, plant and equipment	493.1	527.0
Ø Goodwill and other intangible assets	104.4	110.3
	597.4	**637.3**
Average Capital Employed	**1,080.4**	**1,136.1**
EBIT	97.1	116.1
Taxes	(26.1)	(29.9)
Net Operating Profit after Taxes	**71.0**	**86.2**
Return on average capital employed (in %)	**6.6%**	**7.6%**
Ø RHI WACC (in %)	5.8%	5.6%

(1) average capital employed in the last 12 months

(2) NOPAT of the last 12 months

The ROACE amounts to 6.6% at June 30, 2017 and is below the profitability of 7.6% at December 31, 2016.

In the first half of 2017 and in the previous year, all externally imposed capital requirements were met.

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

(60) Contingent liabilities

At June 30, 2017, warranties, performance guarantees and other guarantees amount to € 32.8 million (12/31/2016: € 32.0 million), and are exclusively accounted for by third parties. The terms of contingent liabilities range between 2 months and 3 years, depending on the type of liability. Based on experiences of the past, the probability that contingent liabilities are used is considered to be low.

In addition, contingent liabilities from sureties of€ 0.5 million (12/31/2016: € 0.7 million) were recorded, of which € 0.3 million (12/31/2016: € 0.3 million) are related to contingent liabilities to creditors from joint ventures.

Individual proceedings and lawsuits which result from ordinary activities are pending as of June 30, 2017 or can potentially be exercised against the RHI Group in the future. The related risks were analyzed with a view to their probability of occurrence. This analysis showed that the proceedings and lawsuits, both individually and overall, have no significant negative influence on the financial position and performance of the RHI Group.

(61) Other financial obligations

Other financial obligations consist of the following items:

in € million	Total 06/30/2017	Remaining term up to 1 year	2 to 5 years	over 5 years
Obligations from rental and leasing contracts	58.6	12.1	29.9	16.6
Capital commitments	14.8	14.8	0.0	0.0
Other financial obligations	**73.4**	**26.9**	**29.9**	**16.6**

in € million	Total 12/31/2016	Remaining term up to 1 year	2 to 5 years	over 5 years
Obligations from rental and leasing contracts	66.7	13.8	32.6	20.3
Capital commitments	2.5	2.5	0.0	0.0
Other financial obligations	**69.2**	**16.3**	**32.6**	**20.3**

Other financial obligations are exclusively due to third parties. They are shown at nominal value.

Rental and leasing obligations for property, plant and equipment of € 9.6 million (first half of 2016: € 11.3 million) are recognized in the statement of profit or loss of the first half of 2017.

The conditions of the most important operating rental and leasing agreements can be summarized as follows:

At the company's head office in Vienna a rental agreement exists, which ends on October 28, 2020. Both contracting parties are entitled to terminate the rental agreement prematurely with a notice period of six months. However, the landlord may only exercise this right under certain conditions. The rent is adjusted to the consumer price index.

Another rental contract for offices has a term until April 30, 2020. The tenant has a two-time optional right to extend the contract by three years each. The annual rent is coupled to the development of the consumer price index.

At one production site, the area for operating a plant has been leased for the long term. The related contract ends in April 2062 and includes an extension option for another 30 years. The rent is subject to adaptation to inflation.

The Group also rents numerous mining vehicles, diggers, forklifts and the like by cancelable leasing agreements. The contracts have terms ranging from 3 to 7 years; most of them do not include a purchasing option after the contract ends.

In addition to the aforementioned financial obligations, the RHI Group also has long-term purchase obligations related to the supply with raw materials, especially for electricity, natural gas, strategic raw materials as well as for the transport of raw materials within the Group. This results in other financial obligations of the nominal value of € 154.6 million at the reporting date (12/31/2016: € 193.3 million). The remaining terms of the contracts amount to up to 7.5 years. Purchases from these arrangements are recognized in accordance with the usual course of business. Purchase contracts are regularly reviewed for imminent losses, which may occur, for example, when requirements fall below the agreed minimum purchase volume or when contractually agreed prices deviate from the current market price level. A power supply contract with a remaining term of 6.5 years is accounted for in accordance with IAS 39. As market prices on the (interim) reporting date were lower than the contractually agreed prices, this leads to a financial liability amounting to € 47.4 million (12/31/2016: € 49.0 million). This power supply contract is included in the total value of € 154.6 million at June 30, 2017 with a nominal value of € 94.9 million (12/31/2016: € 103.0 million).

(62) Planned combination with Magnesita

RHI AG and the controlling shareholders of Magnesita Refratários S.A. ("Magnesita"), investment vehicles affiliated with GP Investments ("GP") and Rhône Capital ("Rhône", and together "Magnesita's Controlling Shareholders") reached an agreement in October 2016 to combine the operations of the two companies to create a leading refractory company to be named RHI-Magnesita. In accordance with the share purchase agreement, RHI AG will acquire a controlling stake of at least 46%, but no more than 50% plus one share of the total share capital in Magnesita (the "Transaction"), with the maximum of 50% plus one share subsequently being assumed. The purchase price for the 50% stake will be paid in cash amounting to € 121 million and 5.0 million new shares. Based on the share price of RHI AG of € 32.45 at June 30, 2017, the value of the 50% stake in Magnesita amounts to € 283 million, implying a value for Magnesita's entire share capital of € 566 million. If the Transaction is terminated for reasons not under the control of Magnesita's Controlling Shareholders, an aggregate break fee of up to € 20 million is payable by RHI AG to Magnesita's Controlling Shareholders. The Transaction will be financed by additional debt and the issuance of up to 5.0 million RHI-Magnesita shares. Magnesita will continue to finance itself on a standalone basis without credit support from the RHI Group.

All RHI-Magnesita shares issued as a result of the Transaction and mandatory tender offer will be subject to a minimum 12-month lock-up period. The completion of the Transaction is amongst other things subject to (i) approvals by the relevant competition authorities – these have already been granted subject to conditions and are explained in the following, (ii) the migration of RHI AG to the Netherlands, (iii) the listing of RHI-Magnesita's shares in the Premium Segment of the Official List on the Main Market of the London Stock Exchange and (iv) RHI's shareholders not having exceeded statutory withdrawal rights in an amount of more than € 70 million in connection with organizational changes preceding the transfer of the legal domicile from Austria.

The Transaction was submitted in the USA regarding the necessary approval in October 2016 and approved by the Federal Trade Commission in November 2016 without any conditions. In late June 2017, the European Commission approved the combination of RHI and Magnesita subject to conditions. These include the sale of the RHI Group's dolomite business in the European Economic Area, which consists of the production sites in Marone, Italy, and Lugones, Spain, including brand names, sales, etc., and investments in a tunnel kiln in Marone in case the production site Lugones is not transferred. The contribution to revenue of the two RHI sites amounted to roughly € 50 million in the financial year 2016 and represents roughly 3% of the Group's revenue in the year 2016. In addition, the entire business of the Magnesita Group in the European Economic Area based in Oberhausen, Germany, which consists of the production, sale, etc. of magnesia-carbon bricks and basic mixes, has to be sold. Moreover, the buyer will receive supply contracts for sintered magnesia of up to roughly 43,000 tons. The conditions have to be met within six months. RHI and Magnesita are currently holding intensive talks with several potential buyers. The Brazilian antitrust authority CADE granted its approval regarding the planned Transaction on July 11, 2017, without imposing conditions.

At the extraordinary general meeting on August 4, 2017, the spin-off of all significant assets of RHI AG to its wholly-owned Austrian subsidiary RHI Feuerfest GmbH and the subsequent cross-border merger of RHI AG with its wholly-owned Dutch subsidiary RHI-MAG N.V. were approved. With the end of the general meeting, condition (iv) of exercising withdrawal rights not exceeding € 70 million has also been met. The listing of RHI AG on the Vienna Stock Exchange ends with the completion of the organizational changes. Completion of the acquisition by RHI-MAG N.V. of a controlling interest in Magnesita Refratários S.A. is scheduled to occur shortly after the merger becomes legally effective and after the ordinary shares of RHI-MAG N.V. have been admitted to listing on the Premium Segment of the Official List on the Main Market of the London Stock Exchange. For the planned cross-border merger of RHI AG with RHI-MAG N.V. it is required to make a cash compensation offer to exiting shareholders. On June 23, 2017, the Management Board set the price of the cash compensation at € 26.50 per share. This assessment is based on a pure stand-alone view of the RHI Group not including the synergies after closing of the planned transaction. After the merger has become legally effective, the company name of RHI-MAG N.V. will be changed to RHI-Magnesita N.V.

The new company will be managed by a European-Brazilian management team in Vienna. The Board of RHI Magnesita N.V. will consist of 19 directors and will include two executive directors, the designated CEO Stefan Borgas and the designated CFO Octavio Lopes, as well as 17 non-executive directors, six of whom will be employee representatives. Seven of the remaining eleven non-executive directors will be appointed as independent directors in accordance with the UK Corporate Governance Code of the UK Financial Reporting Council.

Following completion of the Transaction, which is expected for the end of October 2017, a mandatory tender offer will be launched by RHI-Magnesita or one of its affiliates for the remaining shares in Magnesita ("Offer"). The Offer will include the option to sell shares on the same payment terms as the Transaction as well as a cash-only alternative amounting to € 8.19 per Magnesita share (subject to certain adjustments according to the SPA). As part of the Offer, a maximum number of 5.0 million new RHI-Magnesita shares will be issued, thereby resulting in an aggregate number of no more than 10.0 million newly issued shares to finance the acquisition. Depending on the result of the mandatory tender offer, Magnesita's Controlling Shareholders have committed to purchase at least 1.5 million additional new RHI-Magnesita shares, thereby increasing their total number of RHI-Magnesita shares to a maximum of 6.5 million. RHI-Magnesita may decide to combine the Offer with a delisting offer and/or a voluntary offer to exit Magnesita from the "Novo Mercado" listing segment. The Offer will follow applicable Brazilian laws and regulations. Any RHI-Magnesita shares that are not taken up in the Offer by Magnesita's shareholders may be either placed into the market or with institutional investors.

Assuming that all free float shareholders tender their Magnesita shares in the mandatory offer on the same conditions as the controlling shareholders, the number of RHI-Magnesita shares will increase by 10 million to 49,819,039 after the closing of the Transaction. After the resolutions of the general meeting, the focus is now on the further implementation of the planned steps for the combination of RHI and Magnesita. The main focal points include meeting the merger control clearance requirements in Europe regarding the sale of three European plants and the preparation of the listing in the premium segment of the London Stock Exchange.

63. Annual average number of employees

The average number of employees of the RHI Group based on full time equivalents amounts to:

	1-6/2017	1-6/2016
Salaried employees	3,379	3,590
Waged workers	4,005	4,165
Number of employees on annual average	**7,384**	**7,755**

(64) Notes on related party transactions

Related companies include subsidiaries that are not fully consolidated, joint ventures and MSP Foundation, Liechtenstein, as a shareholder of RHI AG, since it exercises significant influence based on its share of more than 25% in RHI AG. In accordance with IAS 24, the personnel welfare foundation of Stopinc AG, Hünenberg, Switzerland, also has to be considered a related company.

Related persons are persons holding a key position in the Group (active members of the Management Board and the Supervisory Board of RHI AG) and their close relatives.

Related companies

In the first half of 2017, the Group charged electricity and stock management costs amounting to € 1.6 million (first half of 2016: € 1.1 million) to the joint venture MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria. In the current reporting period, the Group purchased raw materials in the amount of € 1.1 million (first half of 2016: € 1.0 million). Furthermore, the Group received dividend payments of € 10.2 million (12/31/2016: € 7.5 million). At June 30, 2017, receivables from MAGNIFIN amount to € 1.0 million (12/31/2016: € 1.0 million) and liabilities to € 0.1 million (12/31/2016: € 0.0 million). Neither in the current reporting period nor in the comparative period valuation allowances for receivables from this company were recorded. The balance at the end of the financial year is unsecured and will be paid in cash. To secure a pension claim of a former employee of MAGNIFIN, the RHI Group has assumed a surety amounting to € 0.3 million (12/31/2016: € 0.3 million). A resulting cash outflow is not expected. No guarantees were received.

Business transactions with non-consolidated subsidiaries are not listed as they are of minor significance.

In the first half of 2017 and in the first half of 2016 no transactions were carried out between the RHI Group and MSP Foundation, with the exception of the dividend paid.

A service relationship with respect to the company pension scheme of the employees of Stopinc AG exists between the personnel welfare foundation of Stopinc AG and the fully consolidated subsidiary Stopinc AG. Stopinc AG makes contribution payments to the plan assets of the foundation to cover pension obligations. The pension plan is recognized as a defined benefit plan and is included in note (28). At December 31, 2016 current account receivables of € 0.8 million from the personnel welfare foundation existed, for which an interest of 2.5% was charged. In first half of 2017, employer contributions amounting to € 0.2 million (first half of 2016: € 0.2 million) were made to the personnel welfare foundation. The overfunding of the pension plan is recognized as a non-current asset of € 2.1 million (12/31/2016: € 2.1 million).

Related persons

Remuneration of key management personnel of the Group, which is subject to disclosure in accordance with IAS 24, comprises the remuneration of the active Management Board and Supervisory Board of RHI AG.

The expenses for the remuneration of the Management Board in the first half of 2017 recognized in the statement of profit or loss totals € 4.0 million (first half of 2016: € 2.7 million). The expenses not including non-wage labor costs amount to € 3.6 million (first half of 2016: € 2.5 million), of which € 2.6 million (first half of 2016: € 1.8 million) were related to current benefits (fixed, variable and other earnings) and € 1.0 million (first half of 2016: € 0.7 million) to share-based remuneration. At June 30, 2017, liabilities for performance-linked variable earnings and share-based payments and accrued vacation pay for active members of the Management Board of € 3.1 million (12/31/2016: € 1.6 million) are recognized as liabilities. There are no obligations arising from post-employment benefits and legally required termination benefits towards active members of the Management Board.

In addition to the variable remuneration, the members of the Management Board of RHI AG are also entitled to share-based payments. This program is a performance-linked and share-based compensation model, in which the vesting period per tranche extends over the respective financial year. At the beginning of the program, a portion of the annual salary is defined for the members of the Management Board, which is translated into a number of virtual shares using a reference price. The relevant reference price for the remuneration program of the respective financial year corresponds to the average RHI share price from December 1 of the previous year to January 31 of the current reporting year. The actual, vested entitlement to virtual shares depends on the level of target achievement; financial criteria (operating EBIT, ROACE) determine 70% and other criteria 30% of the entitlement. The equivalent value of the number of virtual shares determined per tranche will be paid in cash in three equal portions in the following three financial years. This equivalent value in cash is determined on the basis of the average share price of the respective period from December 1 of the reporting year to January 31 of the following year.

The effects of this compensation program on the interim consolidated financial statements are shown in the table below:

	Number of virtual shares		Provision in € million		Expense in € million	
	06/30/2017	12/31/2016	06/30/2017	12/31/2016	1-6/2017	1-6/2016
Compensation program 2017	77,395	0	1.3	0.0	1.3	0.0
Compensation program 2016	50,827	73,042	1.6	1.7	0.4	0.5
Compensation program 2015	7,391	14,781	0.2	0.4	0.1	0.0
Total	**135,613**	**87,823**	**3.1**	**2.1**	**1.8**	**0.5**

In the first half of 2017 a payment of € 0.8 million was made for the compensation programs 2015 and 2016 (first half of 2016: € 0.1 million for the compensation program 2015).

For members of the Supervisory Board (capital representatives), remuneration totaling € 0.1 million (first half of 2016: € 0.1 million) was recognized through profit or loss in the first half of 2017.

Employee representatives in the Supervisory Board, who are employed by the RHI Group, do not receive compensation for their activity in the Supervisory Board. For their activity as employees in the company and the activity of their close relatives employed with the RHI Group, expenses of € 0.4 million are recognized in the first half of 2017 (first half of 2016: € 0.4 million). This group of persons received no shares in the first half of 2017 (first half of 2016: 176 shares) as part of the employee stock ownership plan “4 plus 1”.

No advance payments or loans were granted to members of the Management Board or Supervisory Board. The RHI Group did not enter into contingent liabilities on behalf of the Management Board and Supervisory Board.

Directors Dealings reports are published on the websites of RHI AG and of the Austrian Financial Market Authority. All members of the Management Board and the Supervisory Board are covered by D&O insurance in the RHI Group.

From October 16, 2015 until September 28, 2016, an unpaid consultancy agreement with a close relative of a related person was in place for the support of the initiation of the transacation with the shareholders of Magnesita Refratários S.A., which was terminated before the signing of the agreement regarding the acquisition of the company.

(65) Seasonal and cyclical influences

Explanations regarding seasonal and cyclical influences on the operating activities of the RHI Group can be found in the report of the divisions in the management report.

(66) Corporate bodies of RHI AG

Members of the Management Board

Stefan Borgas, Vienna, Chairman (since December 1, 2016)
Franz Struzl, Vienna, Chairman (until November 30, 2016)
Wolfgang Ruttenstorfer, Vienna, Chairman (on interim basis from June 26, 2016 to November 30, 2016)
Barbara Potisk-Eibensteiner, CFA, Hagenbrunn (until August 31, 2017)
Franz Buxbaum, Bad Vöslau (until December 31, 2016)
Thomas Jakowiak, Vienna (since January 1, 2016)
Gerd Schubert, Vienna (since January 1, 2017)
Reinhold Steiner, Trofaiach

Members of the Supervisory Board

Herbert Cordt, Vienna, Chairman
Helmut Draxler, Vienna, Deputy Chairman
Wolfgang Ruttenstorfer, Vienna, Deputy Chairman (until June 25, 2016; from December 1, 2016)

Hubert Gorbach, Frastanz
Alfred Gusenbauer, Vienna
Gerd Peskes, Düsseldorf, Germany
Stanislaus Prinz zu Sayn-Wittgenstein-Berleburg, Munich, Germany
David A. Schlaff, Vienna

Employee representatives:

Walter Geier, Leoben
Christian Hütter, Vienna
Roland Rabensteiner, Veitsch
Franz Reiter, St. Jakob in Haus

(67) Material events after the interim reporting date

RHI AG has adapted its financing structure in the context of the planned combination with Magnesita. In addition to obtaining acquisition financing for the purchase price of Magnesita, financial liabilities related to the "Schuldscheindarlehen" concluded in 2012 and 2014 have been refinanced. The conclusion of changed and new loan agreements is dated as of July 2017 for the majority of the volume. The main loan agreements concluded relate to syndicated financing arrangements amounting to € 477 million and a "Schuldscheindarlehen" of € 178 million. In addition, all existing export loans and one-off financing will also be refinanced in the course of the transaction in the fourth quarter of 2017.

In the first half of 2017, production was interrupted at one plant for an indefinite period. Therefore, the intention of closing the plant was communicated to the employees on August 24, 2017 and negotiations regarding a social plan were initiated.

After the interim reporting date on June 30, 2017, there were no other events of special significance which may have a significant effect on the financial position and performance of the RHI Group.

Vienna, August 25, 2017

Management Board

Stefan Borgas
CEO

Barbara Potisk-Eibensteiner
CFO

Gerd Schubert
COO
CTO R&D

Thomas Jakowiak
CSO Industrial Division

Reinhold Steiner
CSO Steel Division

The following auditor's report (Bestätigungsvermerk) has been issued in accordance with § 275 UGB in German language on the German version of the audited consolidated financial statements of RHI AG as of and for the six months ended June 30, 2017 and on the management report. The management report is not included in this Prospectus

Auditor's report

Report on the Interim Consolidated Financial Statements

Audit Opinion

We have audited the interim consolidated financial statements of RHI AG, Vienna, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at June 30, 2017, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the period from January 1 to June 30, 2017, and the notes to the interim consolidated financial statements.

In our opinion, the accompanying interim consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as at June 30, 2017, and of its financial performance and cash flows for the period from January 1 to June 30, 2017 in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with Austrian generally accepted auditing standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Interim Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with Austrian Generally Accepted Accounting Principles and professional requirements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the interim consolidated financial statements of the period from January 1 to June 30, 2017. These matters were addressed in the context of our audit of the interim consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have structured key audit matters as follows:

- Descriptions of individual key audit matters
- Audit approach
- Reference to related disclosures

(1) Deferred tax assets on tax loss carry-forwards and other deductible temporary differences

- Description of the individual key audit matter

The RHI Group capitalized deferred tax assets in a total amount of EUR 134.7m, which mainly include deferred tax assets on tax loss carry-forwards in the amount of EUR 57.1m and deductible temporary differences arising on provisions for employee benefits in the amount of EUR 52.2m. Deferred tax assets are capitalized based on the assumption that sufficient taxable income will be generated within a planning period of at least 5 years against which loss carry-forwards and other deductible temporary differences can be offset. These assumptions are based on estimates of the current and the planned taxable results and any future measures implemented by the companies concerned that will have an effect on tax.

- Audit approach

We:

– Identified, for significant companies, the process used to determine the future taxable results that serve as the basis for the calculation of deferred tax assets,

– Performed plausibility checks for significant companies to evaluate if the budgeted figures used are plausible when compared to our knowledge of the planned course of business,

– Received tax advisor confirmation letters to confirm the existence and accuracy of the tax loss carry-forwards,

– Analyzed and confirmed the accounting assumptions on the possibility to utilize tax loss carry-forwards and deductible temporary differences, and

– Audited the presentation and the disclosures in the notes to the interim consolidated financial statements.

- Reference to related disclosures

For further related information, we refer to the notes to the interim consolidated financial statements of the RHI Group item (7) on principles of accounting and measurement on deferred taxes, item (9) with regard to discretionary decisions, assumptions and estimates on income taxes, and item (16) concerning deferred taxes.

(2) Assets held for sale and liabilities with regard to assets held for sale

- Description of the individual key audit matter

On the assets side of the balance sheet, the RHI Group reports assets held for sale in the amount of EUR 45.4m and liabilities relating to assets held for sale in the amount of EUR 19.7m. These assets and liabilities are allocated to two disposal groups and are either measured at the carrying amount or at the lower fair value less cost to sell. The Company used the most likely purchase price offers from the Company's point of view to calculate the fair value. The calculation of the fair value (less cost to sell) resulted in an impairment of EUR 1.7m that was shown in the income statement. The portion of total comprehensive income reported under capital reserves was shown in a separate column.

- Audit approach

We:

– Surveyed the process applied to identify and define the disposal groups held for sale,

– Evaluated if the classification as a disposal group complies with IFRS 5,

– Recalculated the derivation of the fair value by using the underlying purchase price offers, and

– Audited the presentation and the disclosures in the notes to the interim consolidated financial statements.

- Reference to related disclosures

For further related information, we refer to the notes to the interim consolidated financial statements of the RHI Group item (7) on principles of accounting and measurement on disposal groups held for sale and to item (22) concerning disposal groups held for sale.

Responsibilities of Management and the Audit Committee for the Interim Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the interim consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Interim Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the interim consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Austrian generally accepted auditing standards, which require the application of ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these interim consolidated financial statements.

As part of an audit in accordance with Austrian generally accepted auditing standards, which require the application of ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the interim consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit 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.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the interim consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the interim consolidated financial statements, including the disclosures, and whether the interim consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the interim consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with all relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the interim consolidated financial statements of the period from January 1 to June 30, 2017 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Comments on the Condensed Interim Management Report for the Group

Pursuant to the Austrian Commercial Code, the condensed interim management report for the Group is to be audited as to whether it is consistent with the interim consolidated financial statements and as to whether the condensed interim management report for the Group was prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the condensed interim management report for the Group in accordance with the provisions of Section 87 (4) Austrian Stock Exchange Act (BörseG).

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report for the Group.

Opinion

In our opinion, the condensed interim management report for the Group was prepared in accordance with the applicable legal requirements, includes accurate disclosures pursuant to Section 87 (4) BörseG and is consistent with the interim consolidated financial statements.

Statement

Based on the findings during the audit of the interim consolidated financial statements and due to the obtained understanding concerning the Group and its circumstances no material misstatements in the condensed interim management report for the Group came to our attention.

Responsible Engagement Partner

Responsible for the proper performance of the engagement is Mr. Aslan Milla, Austrian Certified Public Accountant.

Vienna, August 25, 2017

PwC Wirtschaftsprüfung GmbH

Aslan Milla m.p.
Austrian Certified Public Accountant

This report is a translation of the original report in German, which is solely valid. Publication and sharing with third parties of the consolidated financial statements together with our auditor's opinion is only allowed if the consolidated financial statements and the management report for the Group are identical with the German audited version. This audit opinion is only applicable to the German and complete consolidated financial statements with the management report for the Group. For deviating versions, the provisions of Section 281 (2) UGB apply.

Consolidated financial statements 2016

Consolidated statement of financial position

as of 12/31/2016

in € million	Notes	12/31/2016	12/31/2015
ASSETS			
Non-current assets			
Property, plant and equipment	(10)	521.8	532.2
Goodwill	(11)	37.8	37.5
Other intangible assets	(12)	71.1	74.2
Investments in joint ventures	(13)	20.5	19.3
Other non-current financial assets	(14)	18.9	23.7
Other non-current assets	(15)	17.7	18.0
Deferred tax assets	(16)	144.8	146.1
		832.6	**851.0**
Current assets			
Inventories	(17)	365.3	403.9
Trade and other current receivables	(18)	399.1	390.0
Income tax receivables	(19)	9.3	5.9
Other current financial assets	(20)	3.0	4.0
Cash and cash equivalents	(21)	182.9	149.7
		959.6	**953.5**
		1,792.2	**1,804.5**
EQUITY AND LIABILITIES			
Equity			
Share capital	(22)	289.4	289.4
Group reserves	(23)	219.3	188.2
Equity attributable to shareholders of RHI AG		508.7	477.6
Non-controlling interests	(24)	15.3	13.8
		524.0	**491.4**
Non-current liabilities			
Non-current financial liabilities	(25)	350.6	438.0
Other non-current financial liabilities	(26)	43.5	51.3
Deferred tax liabilities	(16)	13.5	15.3
Personnel provisions	(27)	317.4	326.3
Other non-current provisions	(28)	4.5	4.3
Other non-current liabilities	(29)	6.9	7.9
		736.4	**843.1**
Current liabilities			
Current financial liabilities	(25)	165.1	109.6
Other current financial liabilities	(26)	6.5	8.5
Trade payables and other current liabilities	(30)	312.7	293.6
Income tax liabilities	(31)	18.4	25.3
Current provisions	(32)	29.1	33.0
		531.8	**470.0**
		1,792.2	**1,804.5**

Consolidated statement of profit or loss

from 01/01/2016 to 12/31/2016

in € million	Notes	2016	2015
Revenue	(33)	1,651.2	1,752.5
Cost of sales	(34)	(1,294.8)	(1,389.1)
Gross profit		**356.4**	**363.4**
Selling and marketing expenses	(35)	(105.2)	(112.1)
General and administrative expenses	(36)	(134.5)	(122.3)
Other income	(37)	92.3	76.0
Other expenses	(38)	(85.8)	(80.9)
Operating EBIT		**123.2**	**124.1**
Gain from derivatives from supply contracts	(57)	10.1	0.0
Loss from derivatives from supply contracts	(57)	0.0	(58.0)
Impairment losses	(39)	(8.6)	(31.2)
Income from restructuring	(40)	0.3	5.9
Restructuring costs	(41)	(8.9)	(3.3)
EBIT		**116.1**	**37.5**
Interest income	(42)	4.1	5.8
Interest expenses	(43)	(17.5)	(20.5)
Other net financial expenses	(44)	(7.8)	(4.6)
Net finance costs		**(21.2)**	**(19.3)**
Share of profit of joint ventures	(13)	10.9	9.2
Profit before income tax		**105.8**	**27.4**
Income tax	(45)	(29.9)	(9.8)
Profit after income tax		**75.9**	**17.6**
attributable to shareholders of RHI AG		74.0	16.0
attributable to non-controlling interests	(24)	1.9	1.6

in €			
Earnings per share (basic and diluted)	(54)	1.86	0.40

All items up to and including the operating EBIT do not include results from derivatives from supply contracts, impairment losses for cash-generating units and restructuring effects.

Consolidated statement of comprehensive income

from 01/01/2016 to 12/31/2016

in € million	Notes	2016	2015
Profit after income tax		**75.9**	**17.6**
Currency translation differences			
Unrealized results from currency translation	(6)	(1.9)	5.0
Deferred taxes thereon	(16)	(0.6)	(0.5)
Current taxes thereon		(1.9)	2.6
Reclassification reserves to profit or loss		(2.0)	(1.2)
Deferred taxes thereon	(16)	(0.1)	0.3
Current taxes thereon		(0.4)	0.0
Market valuation of cash flow hedges			
Unrealized results from fair value change	(57)	0.4	0.1
Deferred taxes thereon	(16)	(0.2)	0.0
Market valuation of available-for-sale financial instruments			
Unrealized results from fair value change	(56)	0.1	(1.0)
Deferred taxes thereon	(16)	0.0	0.4
Reclassification reserves to profit or loss	(56)	(0.1)	(4.2)
Deferred taxes thereon	(16)	0.0	0.3
Items that will be reclassified subsequently to profit or loss, if necessary		**(6.7)**	**1.8**
Remeasurement of defined benefit plans			
Remeasurement of defined benefit plans	(27)	(10.2)	13.1
Deferred taxes thereon	(16)	3.8	(4.4)
Share of other comprehensive income of joint ventures	(13)	(0.1)	0.0
Items that will not be reclassified to profit or loss		**(6.5)**	**8.7**
Other comprehensive income after income tax		**(13.2)**	**10.5**
Total comprehensive income		**62.7**	**28.1**
attributable to shareholders of RHI AG		60.5	25.8
attributable to non-controlling interests	(24)	2.2	2.3

Consolidated statement of cash flows

from 01/01/2016 to 12/31/2016

in € million	Notes	2016	2015
Profit after income tax		75.9	17.6
Adjustments for			
income tax		29.9	9.8
depreciation and amortization charges		65.1	69.3
impairment losses of property, plant and equipment and intangible assets		8.9	34.1
income from the reversal of investment subsidies		(1.0)	(0.9)
(reversals of impairment losses)/impairment losses on securities		(0.5)	0.6
losses/(gains) from the disposal of property, plant and equipment		0.3	(3.4)
gains from the disposal of securities and shares		(0.9)	(4.6)
losses from the disposal of subsidiaries		4.1	0.0
interest result		13.4	14.7
share of profit of joint ventures		(10.9)	(9.2)
other non-cash changes		(8.9)	63.7
Changes in			
inventories		29.0	24.5
trade receivables and receivables from long-term construction contracts		4.3	21.1
other receivables and assets		(10.0)	0.0
provisions		(25.2)	(24.4)
trade payables		26.9	0.2
prepayments received on orders[1]		1.4	(7.1)
other liabilities[1]		(1.5)	(2.2)
Cash flow from operating activities		**200.3**	**203.8**
Income tax paid less refunds		(37.6)	(28.4)
Net cash flow from operating activities	(48)	**162.7**	**175.4**
Cash inflows from the sale of subsidiaries net of cash		(4.6)	0.0
Investments in property, plant and equipment and intangible assets		(70.8)	(80.8)
Cash inflows from the sale of property, plant and equipment		3.5	4.8
Cash inflows from the sale of securities and shares		6.1	14.1
Dividends received from joint ventures		9.5	8.2
Investment subsidies received		0.4	0.7
Interest received		3.0	5.8
Net cash flow from investing activities	(49)	**(52.9)**	**(47.2)**

in € million	Notes	2016	2015
Dividend payments to shareholders of RHI AG		(29.9)	(29.9)
Dividend payments to non-controlling interests		(0.6)	(0.6)
Proceeds from non-current borrowings and loans		1.6	48.4
Repayments of non-current borrowings and loans		(29.0)	(118.6)
Changes in current borrowings		(5.8)	(3.4)
Interest payments		(17.0)	(20.3)
Net cash flow from financing activities	(50)	**(80.7)**	**(124.4)**
Total cash flow		**29.1**	**3.8**
Change in cash and cash equivalents		**29.1**	**3.8**
Cash and cash equivalents at beginning of year		149.7	151.1
Changes due to currency translation		4.1	(5.2)
Cash and cash equivalents at year-end	(52)	182.9	149.7
Total interest paid	(51)	17.5	20.8
Total interest received	(51)	3.2	5.8

(1) Prior-year values adjusted to current presentation.

Consolidated statement of changes in equity

from 01/01/2016 to 12/31/2016

in € million	Share capital	Group reserves									
				Accumulated other comprehensive income							
		Additional paid-in capital	Retained earnings	Cash flow hedges	Available-for-sale financial instruments	Defined benefit plans	Currency translation	Equity attributable to shareholders of RHI AG	Non-controlling interests	Total equity
Notes	(22)	(23)	(23)	(23)	(23)	(23)	(23)		(24)	
12/31/2015	**289.4**	**38.3**	**284.5**	**(0.9)**	**–**	**(91.9)**	**(41.8)**	**477.6**	**13.8**	**491.4**
Profit after income tax	**–**	**–**	**74.0**	**–**	**–**	**–**	**–**	**74.0**	**1.9**	**75.9**
Currency translation differences	–	–	–	–	–	–	(7.2)	**(7.2)**	**0.3**	**(6.9)**
Market valuation of cash flow hedges	–	–	–	0.2	–	–	–	**0.2**	**–**	**0.2**
Market valuation of available-for-sale financial instruments	–	–	–	–	–	–	–	**0.0**	**–**	**0.0**
Remeasurement of defined benefit plans	–	–	–	–	–	(6.4)	–	**(6.4)**	**–**	**(6.4)**
Share of other comprehensive income of joint ventures	–	–	–	**–**	**–**	**(0.1)**	**–**	**(0.1)**	**–**	**(0.1)**
Other comprehensive income after income tax	**–**	**–**	**–**	**0.2**	**–**	**(6.5)**	**(7.2)**	**(13.5)**	**0.3**	**(13.2)**
Total comprehensive income	**–**	**–**	**74.0**	**0.2**	**–**	**(6.5)**	**(7.2)**	**60.5**	**2.2**	**62.7**
Dividends	–	–	(29.9)	–	–	–	–	**(29.9)**	**(0.7)**	**(30.6)**
Other changes in equity	–	–	0.5	**–**	**–**	**–**	**–**	**0.5**	**–**	**0.5**
Transactions with shareholders	**–**	**–**	**(29.4)**	**–**	**–**	**–**	**–**	**(29.4)**	**(0.7)**	**(30.1)**
Reclassification due to disposal of defined benefit plans	**–**	**–**	**1.9**	**–**	**–**	**(1.9)**	**–**	**0.0**	**–**	**0.0**
12/31/2016	**289.4**	**38.3**	**331.0**	**(0.7)**	**0.0**	**(100.3)**	**(49.0)**	**508.7**	**15.3**	**524.0**

in € million	Share capital	Additional paid-in capital	Retained earnings	Cash flow hedges	Available-for-sale financial instruments	Defined benefit plans	Currency translation	Equity attributable to shareholders of RHI AG	Non-controlling interests	Total equity
		Group reserves								
				Accumulated other comprehensive income						
Notes	(22)	(23)	(23)	(23)	(23)	(23)	(23)		(24)	
12/31/2014	**289.4**	**38.3**	**307.9**	**(1.0)**	**4.5**	**(106.1)**	**(51.3)**	**481.7**	**12.2**	**493.9**
Profit after income tax	**–**	**–**	**16.0**	**–**	**–**	**–**	**–**	**16.0**	**1.6**	**17.6**
Currency translation differences	–	–	–	–	–	–	5.5	**5.5**	**0.7**	**6.2**
Market valuation of cash flow hedges	–	–	–	0.1	–	–	–	**0.1**	**–**	**0.1**
Market valuation of available-for-sale financial instruments	–	–	–	–	(4.5)	–	–	**(4.5)**	**–**	**(4.5)**
Remeasurement of defined benefit plans	–	–	–	–	–	8.7	–	**8.7**	**–**	**8.7**
Other comprehensive income after income tax	**–**	**–**	**–**	**0.1**	**(4.5)**	**8.7**	**5.5**	**9.8**	**0.7**	**10.5**
Total comprehensive income	**–**	**–**	**16.0**	**0.1**	**(4.5)**	**8.7**	**5.5**	**25.8**	**2.3**	**28.1**
Dividends	–	–	(29.9)	–	–	–	–	**(29.9)**	**(0.7)**	**(30.6)**
Transactions with shareholders	**–**	**–**	**(29.9)**	**–**	**–**	**–**	**–**	**(29.9)**	**(0.7)**	**(30.6)**
Settlement of defined benefit plans after income tax	–	–	(5.5)	–	–	5.5	–	**0.0**	**–**	**0.0**
Income taxes on currency translation differences from net investments in foreign operations	–	–	(4.0)	–	–	–	4.0	**0.0**	**–**	**0.0**
Reclassifications	**–**	**–**	**(9.5)**	**–**	**–**	**5.5**	**4.0**	**0.0**	**–**	**0.0**
12/31/2015	**289.4**	**38.3**	**284.5**	**(0.9)**	**0.0**	**(91.9)**	**(41.8)**	**477.6**	**13.8**	**491.4**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

PRINCIPLES AND METHODS

1. General

RHI is a globally operating Austrian industrial group. The core activities of the RHI Group comprise the development and production as well as the sale, installation and maintenance of high-grade refractory products and systems which are used in industrial high-temperature processes exceeding 1,200 °C. RHI supplies customers in the steel, cement, lime, glass and nonferrous metals industries. In addition, RHI products are employed in the environment (waste incineration), energy (refractory construction) and chemicals (petrochemicals) sectors.

The ultimate parent undertaking of the Group is RHI AG, a stock corporation under Austrian law. The company is registered in the commercial register under the number FN 103123b at the Commercial Court of Vienna and has its legal domicile and head office in Wienerbergstraße 9, 1100 Vienna, Austria.

The shares of RHI AG are listed on the Prime Market and the lead index ATX of the Vienna Stock Exchange.

The consolidated financial statements are prepared as of the reporting date of the annual financial statements of RHI AG. The financial year of RHI AG corresponds to the calendar year. Insofar as financial years of companies included in the consolidated financial statements do not end on the reporting date of RHI AG on December 31 due to local legal requirements, interim financial statements are prepared for the purpose of consolidation. The reporting date of the Indian subsidiaries Orient Refractories Ltd., RHI Clasil Private Limited and RHI India Private Limited is March 31.

The consolidated financial statements for the period from January 1 to December 31, 2016 were drawn up pursuant to § 245a of the Austrian Commercial Code (UGB) in accordance with all International Financial Reporting Standards (IFRSs) mandatory at the time of preparation as adopted by the European Union (EU). The additional requirements of § 245a para. 1 UGB were taken into account.

The presentation in the consolidated statement of financial position distinguishes between current and non-current assets and liabilities. Assets and liabilities are classified as current if they are due within one year or within a longer normal business cycle. Inventories as well as trade receivables and trade payables are generally presented as current items. Deferred tax assets and liabilities as well as assets and provisions for pensions and termination benefits are generally presented as non-current items.

The consolidated statement of profit or loss is drawn up in accordance with the cost of sales method. Under this method, revenue is offset against the expenses incurred to generate it, which are allocated to the functions production, sales and administration.

The EBIT (earnings before interest and taxes) and the operating EBIT (EBIT adjusted for special influences) are shown separately in the statement of profit or loss as they are important key figures of measuring performance for the RHI Group. Special influences are related in particular to the measurement of individual long-term contractual obligations, effects from impairment tests at the level of cash-generating units or from restructuring due to massive capacity adjustments, significantly changed market strategies or comprehensive reorganization in administration. The presentation chosen is to convey a true view of the earnings situation, which is comparable over time, to the users of the RHI consolidated financial statements. Extraordinary effects in the current reporting year are related to the functional segment production with € (2.5) million (2015: € (86.6) million) and other expenses with € (4.6) million.

With the exception of specific items such as available-for-sale financial assets, derivative financial instruments and plan assets for defined benefit obligations, the consolidated financial statements are prepared in accordance with the principle of historical acquisition and production costs. The measurement methods applied to the exceptions are described in the following.

The preparation of the consolidated financial statements in agreement with generally accepted accounting and valuation principles under IFRS, as adopted by the EU, requires the use of estimates and assumptions that influence the amount and presentation of assets and liabilities recognized as well as the disclosure of contingent assets and liabilities as of the reporting 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 experience from comparable 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. For computational reasons, rounding differences may occur.

The Management Board of RHI AG completed and signed the present consolidated financial statements on March 10, 2017 and released them for distribution to the Supervisory Board. The Supervisory Board is responsible for reviewing the consolidated financial statements and for stating whether it approves the consolidated financial statements.

2. Initial application of new financial reporting standards

In the financial year 2016, the following revised financial reporting standards including the resulting changes in other standards, which are also adopted by the EU, were applied for the first time:

Standard	Title	Publication (EU endorsement)	Mandatory application for RHI	Effects on RHI consolidated financial statements
Amendments of standards				
IAS 1	Disclosure Initiative	12/18/2014 (12/18/2015)	01/01/2016	No effect
IAS 16, IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	05/12/2014 (12/02/2015)	01/01/2016	No effect
IAS 16, IAS 41	Bearer Plants	06/30/2014 (11/23/2015)	01/01/2016	Not relevant
IAS 27	Equity Method in Separate Financial Statements	08/12/2014 (12/18/2015)	01/01/2016	Not relevant
IFRS 10, IFRS 12, IAS 28	Investment Entities: Applying the Consolidation Exception	12/18/2014 (09/22/2016)	01/01/2016	Not relevant
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	05/06/2014 (11/24/2015)	01/01/2016	No effect
Various	Annual Improvements to IFRSs 2010-2012 Cycle	12/12/2013 (12/17/2014)	01/01/2016	No effect
Various	Annual Improvements to IFRSs 2012-2014 Cycle	09/25/2014 (12/15/2015)	01/01/2016	No effect

The amendments to IAS 1 "Disclosure Initiative" are related to clarifications regarding the materiality of information in the components of the financial statements. Thus immaterial information need not be presented. This also applies when such information is required by other standards. Furthermore, new specifications regarding the presentation of subtotals and the structure of notes and notes regarding accounting principles have been added. Moreover, IAS 1 clarifies how to present shares of other comprehensive income of equity-accounted companies. RHI has maintained the reporting structure; in immaterial areas, reductions have been made.

3. New financial reporting standards not yet applied

The IASB issued further standards, amendments to standards and interpretations, whose application is, however, not yet mandatory for the year 2016. They were not applied early on a voluntary basis.

The following accounting standards were adopted by the EU by the time of the preparation of the RHI consolidated financial statements:

Standard	Title	Publication (EU endorsement)[1]	Mandatory application for RHI	Expected effects on RHI consolidated financial statements
New standards				
IFRS 9	Financial Instruments	07/24/2014 (11/22/2016)	01/01/2018	A reliable assessment of the effects is not possible at the moment.
IFRS 15	Revenue from Contracts with Customers	05/28/2014, 09/11/2015 (09/22/2016)	01/01/2018	A reliable assessment of the effects is not possible at the moment.

(1) according to EU Endorsement Status Report of 02/21/2017

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" includes new specifications regarding the classification and measurement of financial instruments and thus supersedes the current provisions of IAS 39 "Financial Instruments: Recognition and Measurement".

IFRS 9 applies to financial years starting on or after January 1, 2018. At present, the RHI Group intends to initially apply the new standard IFRS 9 in the first quarter of 2018.

The classification of financial assets is on the one hand coupled with the business model of the company (hold, hold and sell, trade); on the other hand, the characteristics of the cash flows related to the financial instrument are included. In the classification of financial assets IFRS 9 distinguishes between the categories "amortized cost", "fair value through other comprehensive income" (with or without reclassification to the statement of profit or loss) and "fair value through profit or loss". Measurement at amortized cost is only possible if the financial asset is held within a business model whose objective is to hold the financial asset to collect the contractual cash flow. In addition, the contractual terms of the financial asset have to give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

For financial liabilities two measurement categories continue to exist: "amortized cost" and "fair value through profit or loss". Financial liabilities are measured at fair value through profit or loss if they fall under the definition "held for trading" or they are designated in this measurement category at initial recognition. If the designation option is exercised, any profit or loss from changes in credit risk has to be recognized in other comprehensive income in the future.

IFRS 9 includes new impairment rules and places a strong focus on a future-oriented model of "expected credit losses". The new rules are applicable in particular to financial assets measured at amortized cost, debt instruments on the asset side which are measured at fair value through other comprehensive income, as well as lease receivables and contract assets in accordance with IFRS 15. The general impairment model according to IFRS 9 distinguishes between three levels, with the amount of the impairment depending on the assignment of the financial instrument to one of the three levels. For financial instruments, whose credit risk has not increased significantly since initial recognition, a loss allowance has to be recognized in the amount of the credit losses whose occurrence is expected within the next 12 months (Level 1). If the credit risk has increased significantly, but there is no objective evidence of impairment, the loss allowance must be increased to the amount of the expected losses throughout the entire remaining term (Level 2). With the occurrence of objective evidence of impairment, the net carrying amount, i.e., the gross carrying amount adjusted for the loss allowance, is the decisive reference figure (Level 3). Simplified special rules exist for trade receivables as well as for contract assets according to IFRS 15 which do not include a major financing component. In such cases, a loss allowance for full lifetime expected credit losses has to be formed at initial recognition and for the subsequent reporting dates. For trade receivables and for contract assets according to IFRS 15 which include a significant financing component as well as for lease receivables there is an option to elect the general or simplified recognition. Moreover, the new impairment rules will lead to extended disclosure requirements.

For the accounting of hedging relationships, the risk management target will be decisive in the future. The new model for hedging relationships is intended to establish a better connection between the risk management strategy, the reasons for concluding hedging transactions and hedge accounting in the financial statements. The assessment of hedge effectiveness will only be made prospectively and on a qualitative basis in the future provided that the high effectiveness can be demonstrated without a quantitative calculation. The obligation to demonstrate a minimum effectiveness within a range from 80% to 125% is replaced by a qualitative test. This test is to examine the economic correlation between the hedged item and the hedge and to ensure that the effects of the change in credit risk are not so significant that the change in value of the hedged item or the hedging instrument dominate. The designation of single risk components as hedged items is permitted under IFRS 9 insofar as the risk component can be identified independently and assessed reliably. Hedging aggregated risks or net positions is possible under IFRS 9. In addition, the disclosure requirements are extended.

The RHI Group is currently analyzing the details of the potential effects of IFRS 9. The initial application will lead to an adapted presentation of the measurement categories for financial assets as the IAS 39 measurement categories “loans and receivables” and “available-for-sale financial assets”, which have so far been relevant for the Group, will be eliminated. Depending on the classification of the financial assets in the respective measurement categories of IFRS 9, an effect on measurement may result in certain cases. Due to the new rules with respect to impairment, it will be possible to expense expected losses earlier in some cases. A reliable estimate of the quantitative effects will only be possible after the completion of the detail analysis.

The classification of financial liabilities remains unchanged according to IFRS 9. Since the RHI Group has not designated any financial liabilities as fair value through profit or loss, a first preliminary evaluation does not show any effects of the application of the requirements of IFRS 9 with respect to the classification of financial liabilities.

RHI currently applies the provisions for hedge accounting for the hedging of future cash flows of financial liabilities carrying variable interest. Based on analyses performed so far, no significant effects on the accounting of such hedging relationships are expected from the initial application of IFRS 9.

IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 provides uniform regulations for revenue recognition which are applicable to all contracts with customers. IFRS 15 supersedes IAS 18 “Revenue” and IAS 11 “Construction Contracts”. The decisive factor for revenue recognition is no longer the transfer of significant risks and rewards, but rather, when the customer obtains power over the goods and services agreed and can benefit from them.

IFRS 15 introduces a five-step model to determine revenue recognition. According to this model, the contract with the customer and the separate performance obligations therein have to be identified. Then the transaction price must be determined and allocated to the performance obligations identified.

Revenue must then be recognized separately for each performance obligation in the amount of the allocated pro-rata transaction price. For this purpose, criteria were defined which distinguish between satisfying a performance obligation either at a point in time or over time.

IFRS 15 is applicable to financial years starting on or after January 1, 2018. The RHI Group plans to apply the modified retrospective method. Under this method, IFRS 15 is applied to those contracts that are not yet complete as of January 1, 2018. The cumulative effect of the initial application will be recognized as an adjustment of the opening balance of group reserves in the item retained earnings. Currently the effects of the initial application of IFRS 15 on RHI's consolidated financial statements are being evaluated as part of a project. Based on the analyses performed so far, the possible effects are as follows:

By applying IFRS 15, additional separate performance obligations can be identified in supply contracts with customers. If contracts with customers for the delivery of products only include a single performance obligation, the Group expects that revenue is recognized when control over the asset is passed, which will consequently not result in any major effects on the consolidated financial statements.

If multiple independent performance obligations are identified in contracts with customers regarding the delivery of products, the transaction price has to be allocated to the components by reference to their relative standalone selling prices in the future. Accordingly, temporary shifts may occur in revenue recognition.

In addition to delivering products, the RHI Group also provides various services. When services represent separate performance obligations within a contract, a corresponding transaction price has to be allocated to the service component. This may influence the timing of revenue recognition. Moreover, it causes an increase in revenue from providing services at the expense of revenue from the sale of products.

In the Steel segment, multi-component contracts with variable payment arrangements are concluded in some cases. For such contracts, the transaction price depends on the customer's production performance (e.g. amount per ton of steel produced in the customer aggregate serviced). Pursuant to the current provisions on revenue recognition according to IAS 18, revenue for refractory products is recognized in the Group based on the production performance achieved by the customer. If the customer already obtains control over the refractory products with the installation of the refractory materials in the aggregate, revenue must be recognized at this time in accordance with IFRS 15. Since the consideration to be paid by the customer is completely variable, revenue in the Group must be determined on the basis of an estimate. In such cases, revenue from refractory products is recognized earlier in accordance with IFRS 15. In the consolidated statement of financial position, the receivables from the customer contract that has not yet been invoiced leads to the recognition of a contract asset. The RHI Group assumes that revenue will only be recognized earlier and thus may have an effect on the consolidated financial statements for those customer aggregates in which refractories with long service lives are applied. As far as other products or services apart from refractory products represent separate performance obligations in such multi-component contracts, a variable transaction price has to be allocated to the components by reference to their relative standalone selling prices. This may influence the timing of revenue recognition.

The initial application of IFRS 15 will lead to an adjustment of internal processes and of the IT landscape. A reliable estimate of the quantitative effects resulting from the application of the new IFRS 15 is not possible before completion of the project.

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

Standard	Title	Publication[(1)]	Mandatory application for RHI	Expected effects on RHI consolidated financial statements
New standards and interpretations				
IFRS 14	Regulatory Deferral Accounts	01/30/2014	No EU endorsement	Not relevant
IFRS 16	Leases	01/13/2016	01/01/2019	Material effects expected
IFRIC 22	Foreign Currency Transactions and Advance Consideration	12/08/2016	01/01/2018	No effect
Amendments of standards				
IAS 7	Disclosure Initiative	01/29/2016	01/01/2017	Additional notes disclosures
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	01/19/2016	01/01/2017	No effect
IAS 40	Transfers of Investment Properties	12/08/2016	01/01/2018	No effect
IFRS 2	Classification and Measurement of Share-based Payment Transactions	06/20/2016	01/01/2018	No effect
IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	09/12/2016	01/01/2018	Not relevant
IFRS 10, IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	09/11/2014	Postponed by EU	No effect
IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers	04/12/2016	01/01/2018	A reliable assessment of the effects is not possible at the moment.
Various	Annual Improvements to IFRSs 2014-2016 Cycle	12/08/2016	01/01/2017/ 01/01/2018	No effect

(1) according to EU Endorsement Status Report of 02/21/2017

IFRS 16 "Leases"

The accounting standard IFRS 16, which was issued in January 2016, supersedes IAS 17 "Leases" and the related interpretations and is applicable to financial years beginning on or after January 1, 2019. Accounting for the lessor according to IFRS 16 is comparable to the current regulations. In contrast, accounting will change fundamentally for the lessee with the application of IFRS 16. In the future, most leases will have to be recognized as assets and liabilities in the statement of financial position of the lessee, regardless of whether they are considered operating or financing leases under the previous criteria of IAS 17.

According to IFRS 16, a lessee recognizes a right of use, which represents his right to use the underlying asset, and a liability from the lease, which reflects the obligation of lease payments. Exemptions are provided for short-term leases and assets of minor value. Moreover, the type of expenses related to these leases will change since IFRS 16 replaces the straight-line expenses for operating leases with a depreciation charge for rights of use and interest expenses for liabilities from the lease. In the consolidated statement of cash flows, there is a shift from cash flow from operating activities to cash flow from financing activities since the repayment of leasing liabilities must in any case be shown as cash flow from financing activities.

As a lessee, RHI can apply IFRS 16 based on the retrospective method or the modified retrospective method with optional simplification rules; the option chosen has to be applied consistently to all leases of the Group. Subject to adoption under EU law, RHI currently intends to initially apply IFRS 16 as of January 1, 2019. At present it is still undecided which transition method the Group will choose and whether the exemption options will be used.

RHI has started to assess the possible effects on the consolidated financial statements, but can currently not determine the precise effects of the application of IFRS 16 on the reported assets and liabilities. Due to the fact that obligations from rental and leasing contracts of € 66.7 million exist in the RHI Group as of December 31, 2016 (12/31/2015: € 66.0 million) (see note (61)), RHI expects a significant extension of the statement of financial position due to the initial application of IFRS 16. Together with the resulting shift between EBIT and net finance costs as well as the shift between cash flow from operating activities and financing activities, the Group expects a significant impact on the presentation of the asset, financial and earnings position.

IAS 7 "Statements of Cash Flow: Disclosure initiative"

The amendments to IAS 7 on the statement of cash flows require additional information on changes in financial liabilities. The additional information affects both cash and non-cash changes. In order to meet the new disclosure requirements, the RHI Group intends to present a reconciliation statement of financial statements at the beginning of the year and the end of the year.

4. Group of consolidated companies

In addition to RHI AG as the parent company, the RHI consolidated financial statements include the financial statements of 77 subsidiaries (12/31/2015: 77).

As in the previous year, one joint venture is accounted for using the equity method.

Three (12/31/2015: three) subsidiaries and three (12/31/2015: four) other investments which are considered to be immaterial for the financial position and performance of the RHI Group due to their suspended or minimal business activities are not included in the consolidated financial statements.

The group of consolidated companies developed as follows:

	2016		2015	
Number of consolidated companies	Full consolidation	Equity method	Full consolidation	Equity method
Balance at beginning of year	**78**	**1**	**80**	**1**
Additions	2	0	0	0
Retirements and disposals	(2)	0	(2)	0
Balance at year-end	**78**	**1**	**78**	**1**

Changes in the group of consolidated companies in the reporting year 2016

On March 4, 2016, the subsidiary RHI United Offices Europe, S.L. (100%), based in Lugones, Spain, was established and included in the consolidated financial statements as of this date. On September 1, 2016, the subsidiary RHI United Offices America, S.A. de C.V. (100%), based in Monterrey, Mexico, was established. The purpose of these companies is the provision of internal administrative services.

With effect from May 12, 2016 the subsidiary RHI Rückversicherungs AG (100%) based in Vaduz, Liechtenstein, was liquidated.

As of June 6, 2016, all shares (100%) in RHI Monofrax, LLC, Wilmington, USA, were sold. The net assets disposed at the date of deconsolidation consist of the following items:

in € million	06/06/2016
Inventories	11.9
Trade and other current receivables	0.3
Cash and cash equivalents	4.6
Personnel provisions	(5.6)
Other non-current provisions	(0.7)
Trade payables and other current liabilities	(2.7)
Net assets disposed	**7.8**

The result from deconsolidation is determined as follows:

in € million	06/06/2016
Net assets disposed	(7.8)
Reclassification currency translation differences	3.7
Result from deconsolidation	**(4.1)**

The loss, taking into account the transaction-related costs of € 0.5 million incurred in the USA, was recognized under the item restructuring costs in the statement of profit or loss.

The selling price of USD 1 was paid in cash.

Changes in the group of consolidated companies in the previous year

With effect from January 1, 2015, the fully consolidated subsidiary Veitsch-Radex America Inc., Burlington, Canada, was merged with RHI Canada Inc., Burlington, Canada.

With effect from December 17, 2015, the subsidiary Magnesitwerk Aken Vertriebsgesellschaft mbH, Aken, Germany, was liquidated.

Companies of the RHI Group

The main operating companies of the RHI Group pursue the following core business activities:

Name and registered office of the company	Country of core activity	Core business activity
RHI AG, Austria	International	Sales, R&D, financing
Didier-Werke Aktiengesellschaft, Germany	Germany	Production
Magnesit Anonim Sirketi, Turkey	Turkey	Mining, production, sales
Orient Refractories Limited, India	India	Production, sales
RHI Canada Inc., Canada	Canada	Production, sales, provision of services
RHI GLAS GmbH, Germany	International	Sales
RHI Refractories (Dalian) Co., Ltd., PR China	PR China	Production
RHI US Ltd., USA	USA	Production, sales, provision of services
RHI-Refmex, S.A. de C.V., Mexico	Latin America	Sales
Veitsch-Radex GmbH & Co OG, Austria	Austria	Mining, production

The following list, which was drawn up in accordance with § 245a para. 1 UGB in conjunction with § 265 para. 2 UGB, shows all companies in which RHI holds a share of at least 20%:

Ser. no.	Name and registered office of the company	12/31/2016 Share–holder	12/31/2016 Share in %	12/31/2015 Share–holder	12/31/2015 Share in %
1.	RHI AG, Vienna, Austria				
	Fully consolidated subsidiaries				
2.	Betriebs- und Baugesellschaft mit beschränkter Haftung, Wiesbaden, Germany	7.	100.0	7.	100.0
3.	CJSC “RHI Podolsk Refractories”, Moscow, Russia	27.,74.	100.0	27.,74.	100.0
4.	D.S.I.P.C.-Didier Société Industrielle de Production et de Constructions, Breuillet, France	7.	100.0	7.	100.0
5.	Didier Belgium N.V., Evergem, Belgium	37.,69.	100.0	37.,69.	100.0
6.	Didier Vertriebsgesellschaft mbH, Wiesbaden, Germany	7.	100.0	7.	100.0
7.	Didier-Werke Aktiengesellschaft, Wiesbaden, Germany	1.,27.	100.0	1.,27.	100.0
8.	Dolomite Franchi S.p.A., Brescia, Italy	27.	100.0	27.	100.0
9.	Dutch Brasil Holding B.V., Arnhem, Netherlands	74.	100.0	74.	100.0
10.	Dutch MAS B.V., Arnhem, Netherlands	7.	100.0	7.	100.0
11.	Dutch US Holding B.V., Arnhem, Netherlands	74.	100.0	74.	100.0
12.	FE “VERA”, Dnepropetrovsk, Ukraine	27.	100.0	27.	100.0
13.	Full Line Supply Africa (Pty) Ltd., Sandton, South Africa(1)	47.	100.0	7.	100.0
14.	GIX International Limited, Newark, United Kingdom	79.	100.0	79.	100.0
15.	INDRESCO U.K. Ltd., Newark, United Kingdom	14.	100.0	14.	100.0
16.	INTERSTOP (Shanghai) Co., Ltd., Shanghai, PR China	73.	100.0	73.	100.0
17.	Latino America Refractories ApS, Hellerup, Denmark	79.	100.0	79.	100.0
18.	Liaoning RHI Jinding Magnesia Co., Ltd., Dashiqiao City, PR China(2)	27.	83.3	27.	83.3
19.	LLC “RHI Wostok Service”, Moscow, Russia	1.,27.	100.0	1.,27.	100.0
20.	LLC “RHI Wostok”, Moscow, Russia	1.,27.	100.0	1.,27.	100.0
21.	Lokalbahn Mixnitz-St. Erhard Aktien-Gesellschaft, Vienna, Austria	60.	100.0	60.	100.0
22.	Magnesit Anonim Sirketi, Eskisehir, Turkey(3)	27.	100.0	27.	100.0
23.	Mezubag AG, Pfäffikon, Switzerland	73.	100.0	73.	100.0
24.	Orient Refractories Limited, New Delhi, India	11.	69.6	11.	69.6
25.	Premier Periclase Limited, Drogheda, Ireland	11.	100.0	11.	100.0
26.	Producción RHI México, S. de R.L. de C.V., Ramos Arizpe, Mexico	52.,79.	100.0	52.,79.	100.0
27.	Radex Vertriebsgesellschaft m.b.H., Leoben, Austria	76.	100.0	76.	100.0
28.	REFEL S.p.A., San Vito al Tagliamento, Italy	7.	100.0	7.	100.0
29.	Refractory Intellectual Property GmbH & Co KG, Vienna, Austria	1.,30.	100.0	1.,30.	100.0
30.	Refractory Intellectual Property GmbH, Vienna, Austria	1.	100.0	1.	100.0
31.	RHI Argentina S.R.L., San Nicolás, Argentina	11.,79.	100.0	17.,79.	100.0
32.	RHI Canada Inc., Burlington, Canada	79.	100.0	79.	100.0
33.	RHI Chile S.A., Santiago, Chile	14.,79.	100.0	14.,79.	100.0
34.	RHI Clasil Private Limited, Hyderabad, India(2)	79.	53.7	79.	53.7
35.	RHI Dinaris GmbH, Wiesbaden, Germany	69.	100.0	69.	100.0
36.	RHI Finance A/S, Hellerup, Denmark	1.	100.0	1.	100.0
37.	RHI GLAS GmbH, Wiesbaden, Germany	69.	100.0	69.	100.0
38.	RHI India Private Limited, Navi Mumbai, India	9.,79.	100.0	9.,79.	100.0
39.	RHI ITALIA S.R.L., Brescia, Italy	1.	100.0	1.	100.0

		12/31/2016		12/31/2015	
Ser. no.	Name and registered office of the company	Share–holder	Share in %	Share–holder	Share in %
40.	RHI Marvo Feuerungs- und Industriebau GmbH, Gerbstedt, Germany	41.	100.0	41.	100.0
41.	RHI MARVO Feuerungs- und Industriebau GmbH, Kerpen, Germany	7.	100.0	7.	100.0
42.	RHI MARVO S.R.L., Ploiesti, Romania	27.,74.	100.0	27.,74.	100.0
43.	RHI Monofrax, LLC, Wilmington, USA	–	–	70.	100.0
44.	RHI Normag AS, Porsgrunn, Norway	27.	100.0	27.	100.0
45.	RHI Refractories (Dalian) Co., Ltd., Dalian, PR China	27.	100.0	27.	100.0
46.	RHI Refractories (Site Services) Ltd., Newark, United Kingdom	15.	100.0	15.	100.0
47.	RHI Refractories Africa (Pty) Ltd., Sandton, South Africa(4)	27.	100.0	27.	100.0
48.	RHI Refractories Andino C.A., Puerto Ordaz, Venezuela	79.	100.0	79.	100.0
49.	RHI Refractories Asia Ltd., Hongkong, PR China	72.	100.0	72.	100.0
50.	RHI Refractories Asia Pacific Pte. Ltd., Singapore	1.	100.0	1.	100.0
51.	RHI Refractories Egypt LLC., Cairo, Egypt	27.,74.	100.0	27.,74.	100.0
52.	RHI Refractories España, S.L., Lugones, Spain	7.,10.	100.0	7.,10.	100.0
53.	RHI Refractories France SA, Breuillet, France(5)	72.	100.0	72.	100.0
54.	RHI Refractories Holding Company, Wilmington, USA	79.	100.0	79.	100.0
55.	RHI Refractories Ibérica, S.L., Lugones, Spain	72.	100.0	72.	100.0
56.	RHI Refractories Italiana s.r.l., Brescia, Italy	72.	100.0	72.	100.0
57.	RHI Refractories Liaoning Co., Ltd., Bayuquan, PR China(2)	27.	66.0	27.	66.0
58.	RHI Refractories Mercosul Ltda., Sao Paulo, Brazil	74.,79.	100.0	74.,79.	100.0
59.	RHI Refractories Nord AB, Stockholm, Sweden	72.	100.0	72.	100.0
60.	RHI Refractories Raw Material GmbH, Vienna, Austria	1.,27.	100.0	1.,27.	100.0
61.	RHI Refractories Site Services GmbH, Wiesbaden, Germany	7.	100.0	7.	100.0
62.	RHI Refractories UK Limited, Clydebank, United Kingdom	7.	100.0	7.	100.0
63.	RHI Refratários Brasil Ltda, Belo Horizonte, Brazil	9.,79.	100.0	9.,79.	100.0
64.	RHI Rückversicherungs AG, Vaduz, Liechtenstein	–	–	27.	100.0
65.	RHI Sales Europe West GmbH, Mülheim-Kärlich, Germany	7.,72.	100.0	7.,72.	100.0
66.	RHI Trading (Dalian) Co., Ltd., Dalian, PR China	27.	100.0	27.	100.0
67.	RHI United Offices America, S.A. de C.V., Monterrey, Mexico	52.,68.	100.0	–	–
68.	RHI United Offices Europe, S.L., Lugones, Spain	52.	100.0	–	–
69.	RHI Urmitz AG & Co. KG, Mülheim-Kärlich, Germany	6.,7.	100.0	6.,7.	100.0
70.	RHI US Ltd., Wilmington, USA	11.	100.0	11.	100.0
71.	RHI-Refmex, S.A. de C.V., Ramos Arizpe, Mexico	52.,79.	100.0	52.,79.	100.0
72.	SAPREF AG für feuerfestes Material, Basel, Switzerland	79.	100.0	79.	100.0
73.	Stopinc Aktiengesellschaft, Hünenberg, Switzerland	7.,27.	100.0	7.,27.	100.0
74.	Veitscher Vertriebsgesellschaft m.b.H., Vienna, Austria	1.	100.0	1.	100.0
75.	Veitsch-Radex America LLC., Wilmington, USA	70.	100.0	70.	100.0
76.	Veitsch-Radex GmbH & Co OG, Vienna, Austria	1.,77.	100.0	1.,77.	100.0
77.	Veitsch-Radex GmbH, Vienna, Austria	1.	100.0	1.	100.0
78.	Veitsch-Radex Vertriebsgesellschaft m.b.H., Vienna, Austria	1.	100.0	1.	100.0
79.	VRD Americas B.V., Arnhem, Netherlands	1.,27.	100.0	1.,27.	100.0
80.	Zimmermann & Jansen GmbH, Düren, Germany	7.	100.0	7.	100.0

Ser. no.	Name and registered office of the company	12/31/2016 Share–holder	12/31/2016 Share in %	12/31/2015 Share–holder	12/31/2015 Share in %
	Subsidiaries not consolidated due to minor significance				
81.	Dr.-Ing. Petri & Co. Unterstützungsgesellschaft m.b.H., Wiesbaden, Germany	7.	100.0	7.	100.0
82.	INTERSTOP do Brasil Equipamentos Metalurgicos Ltda i.L., Barueri, Brazil	73.	100.0	73.	100.0
83.	RHI Réfractaires Algérie E.U.R.L., Sidi Amar, Algeria	53.	100.0	53.	100.0
	Equity-accounted joint ventures				
84.	MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	74.,87.	50.0	74.,87.	50.0
	Other immaterial investments, measured at cost				
85.	LLC “NSK Refractory Holding”, Moscow, Russia	27.	49.0	27.	49.0
86.	LLC “NSK Refractory”, Novokuznetsk, Russia	27.	49.0	27.	49.0
87.	MAGNIFIN Magnesiaprodukte GmbH, St. Jakob, Austria	74.	50.0	74.	50.0
88.	Società Dolomite Italiana SDI S.R.L. i.L., Brescia, Italy	–	–	8.	50.0

(1) Formerly: RHI Refractories Africa (Pty) Ltd.

(2) In accordance with IAS 32, fixed-term or puttable non-controlling interests are shown under liabilities.

(3) Further shareholders are VRD Americas B.V., Lokalbahn Mixnitz St. Erhard AG and Veitscher Vertriebsgesellschaft mbH.

(4) Formerly: Full Line Supply Africa (Pty) Ltd

(5) Further shareholders are Didier-Werke AG, RHI Dinaris GmbH and RHI GLAS GmbH.

i.L. In liquidation

5. Methods of consolidation

Subsidiaries

Subsidiaries are companies over which RHI AG exercises control. Control exists when the company has the power to decide on the relevant activities, is exposed to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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 at the date of acquisition or when control is obtained. Intangible assets which were previously not recognized in the separate financial statements of the company acquired are also measured at fair value. Intangible assets identified when a company is acquired, including for example patents, brand names and customer relations, are only measured separately at the time of acquisition if they are identifiable and are in the control of the company and a future economic benefit is expected.

For the acquisition of companies in which less than 100% of the shares are acquired, IFRS 3 allows an accounting policy choice whereby either goodwill proportionate to the share held or goodwill including the share accounted for by non-controlling interests can be recognized. This accounting policy choice can be exercised anew for any company acquisition.

The measurement at the date of acquisition can be made on a preliminary basis in justified cases. If adjustments are necessary in favor or at the expense of assets and liabilities within twelve months of the acquisition, they will be made accordingly. These adjustments are presented in the notes.

The goodwill determined 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 immediately recognized to profit or loss in other income after renewed measurement of the identifiable assets, liabilities and contingent liabilities.

Shares in net assets of subsidiaries that are not attributable to RHI AG are shown separately under equity as non-controlling interests. The basis for non-controlling interests are the equity of the subsidiary concerned after adjustment to the accounting and measurement principles of the RHI Group and proportional consolidation entries.

Transaction costs which are directly related to business combinations are expensed as incurred. Conditional components of the purchase price are recorded at fair value at the date of initial consolidation.

When additional shares are acquired in companies which are already included in the consolidated financial statements as subsidiaries, the difference between the purchase price and the proportional carrying amount in the subsidiary's net assets is offset against shareholders' equity. Gains and losses from the sale of shares are also recorded in equity unless they lead to a loss of the controlling influence.

In the case of a step acquisition and the related obtaining of a controlling interest, the difference between the carrying amount and the fair value at the date of the initial full consolidation is realized through profit or loss.

Intragroup receivables and liabilities as well as income and expenses are fully eliminated.

Intragroup results related to intragroup deliveries of non-current assets and inventories as well as transfers of shares are eliminated.

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

Subsidiaries are deconsolidated on the day control ends.

Joint ventures

Shares in joint ventures are accounted for using the equity method. A joint venture is a joint arrangement between the RHI Group and one or several other partners whereby the parties that have joint control over the arrangement have rights to the net assets of the arrangement.

At the date of acquisition, a positive difference between the acquisition costs and the share in the fair values of identified assets and liabilities of the joint venture is determined and recognized as goodwill. Goodwill is shown under the item shares in joint ventures in the statement of financial position.

The acquisition cost of investments accounted for using the equity method is increased or decreased each year to reflect the change in the equity of the individual joint venture that is attributable to the RHI Group. Unrealized intragroup results from transactions with these companies are offset against the carrying amount of the investment on a pro-rata basis during consolidation, if they are material.

RHI examines at every reporting date whether there are objective indications of an impairment of the shares in the joint ventures. If such indications exist, the required impairment is determined as the difference between the recoverable amount and the carrying amount of the joint venture and recognized in profit and loss in the item share of profit of joint ventures. If the reasons for a previously recognized impairment cease to exist, a reversal of impairment is recognized in profit or loss with the exception of goodwill.

The financial statements of the companies accounted for using the equity method are prepared in accordance with uniform accounting and measurement methods throughout the Group.

6. Foreign currency translation

Functional currency and presentation currency

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

The items included in the financial statements of each Group company are valued based on the currency of the primary economic environment in which the company operates (functional currency).

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 monetary assets and liabilities in foreign currencies at the closing rate are recognized in profit or loss under other income or expenses. Contrary to this, unrealized currency translation differences from monetary items which form part of a net investment in a foreign business are recognized in other comprehensive income in equity. Non-monetary items in foreign currency are carried at historical rates.

Group companies

The annual financial statements of foreign subsidiaries that have a functional currency differing from the Group presentation currency are translated into euros as follows:

Assets and liabilities are translated at the closing rate on the reporting date of the Group, while monthly income and expenses and consequently the profit for the year as presented in the statement of profit or loss are translated at the respective closing rates of the previous month. Differences resulting from this translation process and differences resulting from the translation of amounts carried forward from the prior year are recorded under other comprehensive income without recognition to profit or loss. Monthly cash flows are translated at the respective closing rates of the previous month. Goodwill and adjustments to the fair value of assets and liabilities related to the purchase price allocations of a subsidiary outside the European currency area are recognized as assets and liabilities of the respective subsidiary and translated at the closing rate.

The euro exchange rates of currencies important for the RHI Group are shown in the following table:

		Closing rate		Average rate(1)	
Currencies	1 € =	12/31/2016	12/31/2015	2016	2015
Brazilian real	BRL	3.42	4.33	3.90	3.64
Pound sterling	GBP	0.86	0.74	0.81	0.73
Chilean peso	CLP	700.25	773.96	748.21	724.89
Chinese renminbi yuan	CNY	7.31	7.09	7.32	6.98
Indian rupee	INR	71.43	72.35	74.31	71.33
Canadian dollar	CAD	1.42	1.52	1.47	1.41
Mexican peso	MXN	21.77	19.00	20.48	17.56
Norwegian krone	NOK	9.09	9.62	9.31	8.94
Swiss franc	CHF	1.08	1.08	1.09	1.07
South African rand	ZAR	14.33	17.00	16.40	14.02
US dollar	USD	1.05	1.09	1.11	1.11

(1) Arithmetic mean of the monthly closing rates

7. Principles of accounting and measurement

Property, plant and equipment

Property, plant and equipment is measured at acquisition or production cost, less accumulated depreciation on a systematic basis and impairments. 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.

Leased property, plant and equipment that qualifies as asset purchase financed with long-term funds is capitalized at the market value of the asset or the lower present value in accordance with IAS 17. The leased assets are depreciated on a systematic basis over the useful life. The payment obligations resulting from future lease instalments are discounted and recorded as liabilities. Current lease payments are apportioned between a finance charge and the amortization of the outstanding liability. As of the reporting date, the property, plant and equipment leased through finance leases is of small scale. All other leases are treated as operating leases. The lease payments resulting from operating leases are recorded as expenses.

The production costs of internally generated assets comprise direct costs as well as a proportional share of capitalizable production overheads and borrowing costs. If financing can be specifically allocated to an investment, the actual borrowing costs are capitalized as production costs. If no direct connection can be made, the average rate on borrowed capital of the Group is used as the capitalization rate due to the central funding of the Group.

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.

Real estate, land and plant under construction are not depreciated on a systematic basis. Depreciation of other material property, plant and equipment is based on the following useful lives in the RHI Group:

Factory and office buildings	15 to 50 years
Land improvement	8 to 30 years
Crusher machines and mixing facilities	8 to 20 years
Presses	10 to 12 years
Tunnel, rotary and shaft kilns	50 years
Other calcining and drying kilns	20 to 30 years
Cars, other plant, furniture and fixtures	3 to 35 years

The residual 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 statement of profit or loss.

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 through profit or loss immediately after a new assessment of the identified assets, liabilities and contingent liabilities.

Other intangible assets

Research costs are expensed in the year incurred and included under general and administrative expenses.

Development costs also represent expenses in the period. They are recognized under general and administrative expenses. They are only capitalized if the allocable costs of the intangible asset can be measured reliably during its development period. Moreover, capitalization requires that the product or process development can be clearly defined, is feasible in technical, economic and capacity terms and is intended for own use or sale. In addition, future cash inflows which cover not only normal costs but also the related development costs must be expected. Capitalized development costs are amortized on a straight-line basis over the expected useful life, however, over a maximum of ten years, and recognized in cost of sales.

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 predominantly amortized on a straight-line basis over a period of four years.

Purchased intangible assets are measured at acquisition cost, which also includes acquisition-related costs, less accumulated amortization and impairments. Intangible assets with a finite useful life are amortized on a straight-line basis over the expected period of useful life. The following table shows the most important useful lives:

Patents	7 to 18 years
Brand rights	20 years
Land use rights	50 or 65 years
Customer relations	6 years

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 for impairment at least annually.

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 of disposal and its value in use (present value of future cash flows). If the carrying amount is higher than the recoverable amount, an impairment loss equivalent to the resulting difference is recognized in the statement of profit or loss. If the reason for an impairment loss recognized in the past for property, plant and equipment and for other intangible assets ceases to exist, a reversal of impairment on the amortized acquisition and production costs is recognized to profit or loss.

In the case of impairments related to cash-generating units (CGU) which contain goodwill, existing goodwill is initially reduced. If the required impairment exceeds the carrying amount of the goodwill, the difference is apportioned proportionately to the remaining non-current tangible and intangible assets of the CGU. Reversals of impairment losses recognized on goodwill are not permitted and are therefore not considered. The effects of impairment tests at the CGU level are shown separately in the statement of profit or loss.

If there is an indication for an impairment of a specific asset, only this specific asset will be tested for impairment. The recoverable amount is determined through fair value. If the fair value is lower than the carrying amount, an impairment loss is recorded in the operating EBIT or, in the case of restructuring, in the restructuring costs.

Cash-generating units (CGU)

In the RHI Group the individual assets do not generate cash inflows independent of one another; therefore, no recoverable amount can be presented for individual assets. As a result, the assets are combined in CGUs, which largely generate independent cash inflows. These units are combined in strategic business units and reflect the market presence and the market appearance and are as such responsible for cash inflows.

The organizational structures of the Group reflect these units. In addition to the joint management and control of the business activities in each unit, the sales know-how, the knowledge of RHI products and, as an important added value, the combination of this specific technical knowledge and the technical services provided to customers are also incorporated in these units. The sales know-how is reflected in long-standing customer relationships or knowledge of the customer's production facilities and processes. Product knowledge is manifested in the application-oriented knowledge of chemical, physical and thermal properties of RHI products. The services offered extend over the life cycle of RHI products at the customer's plant, from the appropriate installation and support of optimal operations, to environmentally sound disposal with the customer or the sustainable reuse in RHI's production process. These factors determine cash inflow to a significant extent and consequently form the basis for the CGU structures of RHI.

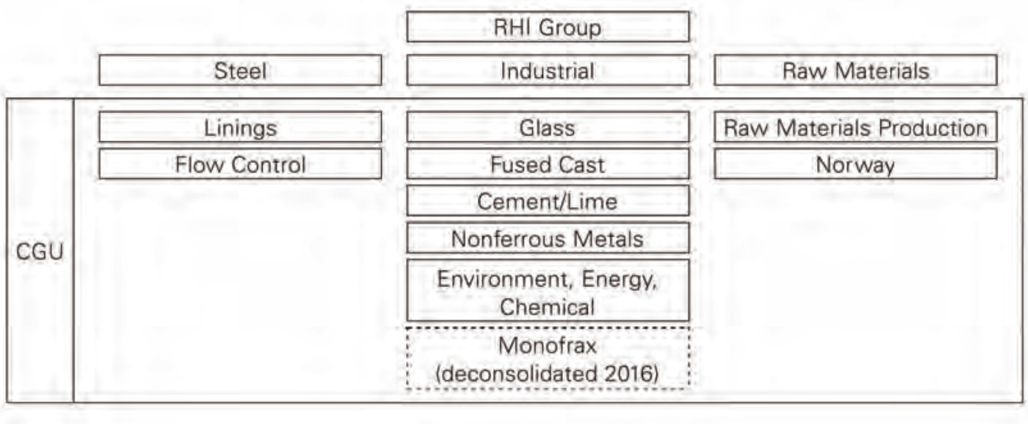
The CGUs of the strategic business unit Steel are Linings and Flow Control. These two units are determined according to the production stages in the process of steel production.

In the Industrial Division, each industry segment (cement/lime, nonferrous metals and environment, energy, chemicals) with the exception of glass forms a separate CGU. The glass segment and the related plants were also considered to be one CGU up to and including 2014. In the year 2015, the Management Board of the RHI Group decided to initiate a structured selling process for the Falconer plant of the US subsidiary RHI Monofrax, LLC. Consequently, the related cash flows were assessed for this plant and it was treated as a separate CGU Industrial/Monofrax. It was sold to the German private equity fund Callista and deconsolidated in the second quarter of 2016.

The global market environment in the glass industry is still characterized by low willingness to invest, high excess capacities and progressing market consolidation in the USA and Europe. As part of the plant concept, the Management Board of the RHI Group is evaluating whether a structured selling process will be initiated for another two companies or they continue to operate within the Group. These two companies are REFEL S.p.A., based in Italy, and CJSC "RHI Podolsk Refractories", based in Russia. In this context, the related cash flows for these plants were determined, which enables a separate consideration. Therefore, the plants of the subsidiaries REFEL S.p.A. and CJSC "RHI Podolsk Refractories" are presented as a separate CGU "Industrial/Fused Cast" in the impairment test 2016, removed from the CGU Industrial/Glass.

In the Raw Materials Division, all raw material producing facilities with the exception of Norway are combined in one CGU. The plant in Porsgrunn, Norway, was not included in the raw materials unit, but treated as a separate CGU because a management team was installed specifically for the coordination and implementation of the optimization measures due to the dimension and the special situation at the Porsgrunn plant. This organization goes beyond plant management and also includes sub-tasks of the administration processes.

The business units of the RHI Group to which cash flows are allocated are shown in the table below:



As in the previous year, the impairment test is based on the value in use; the recoverable amount is determined using the discounted cash flow method and incorporates the terminal value. The detailed planning of the first five years is congruent with the strategic business and financial planning. Based on the detailed planning period, it is geared to a steady-state business development, which balances out possible economic or other non-sustainable fluctuations in the detailed planning period and forms the basis for the calculation of the terminal value. In the impairment test 2016 the terminal value is based on a growth rate derived from the difference of the current and the possible degree of utilization of the assets.

The net cash flows are discounted using the weighted average cost of capital (WACC). The weighted average cost of capital is calculated taking into account comparable companies (peer group); the corresponding parameters are derived from capital market information. In addition, country-specific risk premiums are considered in the weighted average cost of capital.

The weighted average cost of capital before tax is determined per legal unit and weighted according to the share of revenue of the legal units. The weighted interest rates range between 6.4% and 8.0% in the year 2016. In the previous year, the interest rates determined on the same basis ranged between 6.3% and 9.7%.

Composition of estimated future cash flows

The estimates of future cash flows include forecasts of the cash flows from continued use. If assets are disposed at the end of their useful life, the related cash flows are also included in the forecasts.

A simplified statement of cash flows serves to determine the cash flows on the basis of strategic business and financial planning. The forecasts include cash flows from future maintenance investments. Expansion investments are only taken into account in the future cash flows when there has been a significant cash outflow or significant payment obligations have been entered into due to services received and it is sufficiently certain that the investment measure will be completed. All other expansion investments are not considered; this applies in particular to expansion investments that have been decided on but not begun.

Future cash flows from financing and for income taxes are generally not included. For reasons of practicability, the expected cash flows also include tax payments, therefore the values in use are determined using an after-tax weighted average cost of capital. The after-tax weighted average cost of capital is iteratively reconciled to an implicit pre-tax weighted average cost of capital, which is indicated in the notes. If the result before tax is negative in the detailed planning period, tax inflows (tax refunds) are considered regardless of whether tax loss carryforwards exist.

With respect to pension obligations, a differentiation is made between earned entitlements and entitlements yet to be earned. Provisions for pensions do not reduce the carrying value of a CGU; accordingly, pension payouts are not included in the recoverable amounts. Expected additions to provisions for pensions are considered cash-effective with respect to service cost. The interest expense related to pension obligations represents a financing expense and is consequently not considered in the forecast of cash flows.

Working capital is included in the carrying amount of the CGU; therefore, the recoverable amount only takes into account changes in working capital.

Basis for Planning

CGU Steel/Linings

The basis for strategic market planning is the forecast for world steel production, which is prepared by an independent institution (CRU, London, United Kingdom). This forecast is analyzed by experts in the RHI Group and, if necessary, revised and adjusted for internal analyses and evaluations. As in the previous year, RHI assumed a more conservative development of the global steel market for strategic business planning in the year 2016. This results in moderate annual average volume growth of 0.7% in the detailed planning period, with the price level remaining stable. The cost items are planned in detail for the first year of the detailed planning period taking into account cost developments for the individual types of costs at the respective sites, and adjusted for the other years in accordance with the estimates available. Overall, this leads to a gross operating margin between 19.4% and 20.0% in the planning period. As in 2015, the planning does not take into account expansion investments in 2016. As in the previous year, goodwill of € 9.4 million is allocated to the CGU Steel/Linings as of December 31, 2016. The relevant capital costs before tax amount to 7.6% (12/31/2015: 9.5%) and the assumed growth for the terminal value is 0.9% (12/31/2015: 0.3%). An increase in the interest rate by 41%, combined with a 40% reduction of profitability and a reduction of the growth rate to 0.0% would have the effect that the recoverable amount corresponds exactly to the carrying amount of this unit.

CGU Steel/Flow Control
The forecast for world steel production is also the basis for strategic market planning in the CGU Steel/Flow Control. The CGU Steel/Flow Control builds on the same strategic marketing planning of world steel production as the CGU Steel/Linings. In this unit, RHI expects increasing revenue growth with an annual growth rate of 3.5% in the detailed planning period, with the growth being driven primarily by the development in India and the increasing demand for specialized customer solutions. Cost planning is carried out the same way as in the CGU Steel/Linings. The gross operating margin resulting from revenue and cost planning ranges between 23.9% and 24.4% in the detailed planning period. This year's planning also does not include expansion investments. At December 31, 2016, goodwill of € 27.1 million (12/31/2015: € 26.7 million) is allocated to the CGU Steel/Flow Control, as well as an intangible asset of indefinite useful life of € 1.8 million, unchanged compared with the previous year. This asset is related to a brand name that has been acquired. The Group plans to continue using this brand name without a change. A weighted average cost of capital before tax of 8.0% (12/31/2015: 9.7%) was applied. The growth assumed for the terminal value amounts to 0.9% (12/31/2015: 0.3%). In this unit, an increase in the interest rate by 10%, combined with a 14% reduction of profitability, as well as reduction of the growth rate of to 0.0% would cause the recoverable amount to correspond precisely to the carrying amount of this unit.

CGU Raw Materials/Norway
This unit comprises the activities of the plant in Porsgrunn, Norway. At this site, RHI produces high-grade fused magnesia, which represents an important pillar in the strategic raw material supply of the Group. As raw material prices have dropped significantly in the past, the company's high-grade products stand in direct competition with the products available in the market. External purchases are thus possible at any time and the company's own production is adjusted accordingly. Increasing demand in the area of marketing intermediate products and by-products was taken into account in strategic planning. Production costs for the first year in the detailed planning period are planned for every single phase in the production process for individual cost types and subsequently adjusted for the following years in accordance with the defined plan of measures. In the CGU Raw Materials/Norway, a weighted average cost of capital before tax of 6.5% (12/31/2015: 7.3%) was applied. The growth rate assumed for the terminal value amounts to 0.9% (12/31/2015: 0.3%).

CGU Industrial/Glass
As in the previous year, the market of the CGU Industrial/Glass is characterized by global excess capacities in the area of non-basic products. Nevertheless, RHI assumes in the planning period that investments in the glass industry will now increase after the subdued investment activities of the past years and that an increasing number of projects will consequently be won in the medium term, especially in the flat glass segment. However, this slight increase in volume will be compensated by longer service lives/repairs. Here, RHI will continue to grow in the area of service and repairs. All of this will lead to annual revenue growth of 3.2% in the detailed planning period, with constant volumes and generally stable prices. In the CGU Industrial/Glass, the cost items for the first year of the detailed planning period are also planned taking into account cost developments for the individual types of cost at the respective sites and adjusted for the subsequent years in accordance with existing estimates. Consequently, average gross margins between 19.8% and 21.1% are realized in the long term.

A weighted average cost of capital before tax of 7.0% (12/31/2015: 8.9%) was applied. The growth assumed for the terminal value amounts to 0.9% (12/31/2015: 0.3%).

CGU Industrial/Fused Cast
Since 2016, the plants in San Vito, Italy, and Sherbinska in Russia have been presented as a separate CGU and have thus been removed from the CGU Industrial/Glass. These plants produce fused cast products. The weighted average cost of capital before tax applied amounts to 6.4%. The growth rate assumed for the terminal value amounts to 0.9%.

Result of impairment test

Based on the impairment test conducted in the financial year 2016, the recoverability of the assets was demonstrated in all CGUs with the exception of the CGU Raw Materials/Norway and the CGU Industrial/Fused Cast.

The carrying amount of the CGU Raw Materials/Norway was already fully written down in the previous years. The recoverable amount of the CGU Raw Materials/Norway was determined on the basis of a value in use and is negative as of December 31, 2016 as in the previous year. In 2015 an impairment loss of € 23.2 million was recognized for the CGU Raw Materials/Norway, of which € 10.4 million was related to buildings, € 7.7 million to technical plant and machinery and € 5.1 million to other plant, furniture and fixtures.

The amount recognized in the item impairment losses in the statement of profit or loss for the CGU Industrial/Fused Cast amounts to € 8.0 million, of which land and buildings account for € 3.7 million, technical plant and machinery for € 2.9 million, other plant, furniture and fixtures for € 1.0 million, plant under construction to € 0.3 million and intangible assets for € 0.1 million. The recoverable amount of this CGU was determined on the basis of the value in use and is negative as of December 31, 2016. In the previous year, the CGU Industrial/Fused Cast was included in the CGU Industrial/Glass.

In the year 2015, the impairment losses for the former CGU Industrial/Monofrax amounted to € 8.0 million, of which land and buildings accounted for € 1.5 million, technical plant and machinery for € 5.3 million, other plant, furniture and fixtures for € 0.8 million, plant under construction to € 0.2 million and intangible assets for € 0.2 million.

As in the previous year, no reversals of impairments were made in the financial year 2016.

Other financial assets and liabilities

Financial assets and liabilities are initially recognized when the Group becomes a party to the contractual provisions of a financial instrument. Financial assets are derecognized when the contractual rights to payments from the financial assets no longer exist or significant risks and rewards related to the ownership of the financial assets are transferred. Financial liabilities are derecognized when the contractual obligations are settled, withdrawn or have expired.

The item other financial assets in the consolidated statement of financial position of RHI includes shares in non-consolidated subsidiaries and other investments, securities, financial receivables and positive fair values of derivative financial instruments.

The item other financial liabilities includes negative fair values of derivative financial instruments.

Shares in non-consolidated subsidiaries, investments in other companies and securities are classified entirely as "available for sale" in the RHI Group. Available-for-sale financial assets are initially measured at fair value including any related transaction expenses. Subsequent measurement reflects fair value, with changes in fair value being recorded in other comprehensive income. The accumulated gains and losses from fair value measurement that are recorded under other comprehensive income are reclassified to the statement of profit or loss with the disposal of the financial assets. Impairments are charged to profit or loss. Impairment losses on equity instruments recognized to profit and loss are reversed through other comprehensive income. Reversals of impairment for debt instruments are recognized to profit and loss. Available-for-sale financial assets of minor significance are measured at cost. If there are indications that fair value is lower, the lower value is recognized.

Financial receivables are measured at amortized cost applying the effective interest method. Any doubt concerning the collectability of the receivables is reflected in the use of the lower present value of the expected future cash flows. Foreign currency receivables are translated at the closing rate.

Derivative financial instruments, which are not part of an effective hedging relationship in accordance with IAS 39, must be classified as held for trading in accordance with IFRS and measured at fair value through profit or loss. In the RHI Group, this measurement category includes derivatives related to purchase obligations, forward exchange contracts as well as embedded derivatives in open orders that are denominated in currencies other than the functional currency.

Derivative financial instruments relating to purchase obligations concern a long-term power supply contract which provides for the purchase of fixed amounts of electricity at fixed prices and for which the so-called own-use exemption (exemption for own use in accordance with IAS 39.5) was for the first time not applied anymore in the consolidated financial statements 2015. The measurement is made taking into account quoted electricity prices in the futures market. Based on the fixed amounts of electricity, the cash flows for the entire term of the contract are initially determined as the difference between forward rates and contractually fixed prices and discounted at the reporting date using a cost of borrowing rate corresponding to the term. The measurement effects resulting from this electricity derivative are shown as gain or loss from derivatives from supply contracts in the statement of profit or loss.

The measurement of forward exchange contracts and embedded derivatives in open orders denominated in a currency other than the functional currency is made on a case-by-case basis at the respective forward rate on the reporting date. These forward rates are based on spot rates, and also include forward premiums and discounts. Unrealized valuation gains or losses and results from the realization are recognized to the statement of profit or loss under other income or expenses. The underlying transactions for the derivatives are carried at amortized cost.

For derivative financial instruments, which are incorporated in an effective hedging relationship in accordance with IAS 39, the provisions regarding hedge accounting are applied. RHI has concluded derivative financial instruments in the form of interest rate swaps to protect the cash flow risk of financial liabilities carrying variable interest. The hedging transactions are shown as part of cash flow hedge accounting. The interest rate swaps as hedging instruments are measured at fair value, which corresponds to the amount which RHI would receive or have to pay on the reporting date when the financial instrument is terminated. The fair value is calculated using the interest rates and yield curves relevant on the reporting date. The effective part of the fair value changes is initially recorded in other comprehensive income as an unrealized gain or loss. Only at the time of the realization of the underlying transaction, the contribution of the hedging instrument is shown in the statement of profit or loss. Ineffective parts of the fair value changes of cash flow hedges are recognized immediately in the statement of profit or loss.

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 tax assets are recognized on temporary differences insofar as it is probable that sufficient deferred tax liabilities exist or that sufficient taxable income before the reversal of temporary differences is available for the settlement of deductible temporary differences in the planning period of five years.

Deferred taxes are recognized on temporary differences relating to shares in subsidiaries and joint ventures, 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 accounts for deferred tax assets for unused tax loss carryforwards to the extent that it is probable that a taxable income will be available within the planning period of five years, against which the loss carryforwards can be used.

The calculation of deferred taxes is based on the tax rate expected in the individual countries at the time of realization and generally reflects the enacted or substantively enacted tax rate on the reporting date. As in the previous year, deferred taxes of the Austrian Group companies are determined at the corporation tax rate of 25%. Tax rates from 12.5% to 37.9% (12/31/2015: 9.0% to 37.6%) were applied to foreign companies.

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.

Inventories

Inventories are stated at acquisition or production cost, or at net realizable value as of the reporting date. The determination of acquisition cost of purchased inventories is based on the moving average price method. Finished goods and work in process are valued at fixed and variable production cost. The net realizable value is the estimated selling price in the ordinary course of business minus any estimated cost to complete and to sell the goods. Impairments due to reduced usability are reflected in the calculation of the net realizable value.

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 incurred plus an appropriate mark-up for profit based on the stage of completion are recognized under receivables from construction contracts and under revenue. 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.

Trade and other current receivables

Receivables are initially measured at fair value and subsequently carried at amortized cost minus any valuation allowances. These valuation allowances are determined on an individual basis and reflect any recognizable risk of default. Specific cases of default lead to the derecognition of the relevant receivables.

Receivables denominated in foreign currencies are translated using the closing rate.

Emission certificates

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

Emission certificates allocated free of charge are not accounted for. Proceeds from the sale of these rights are recognized under revenue.

Cash and cash equivalents

Cash on hand, checks received and cash at banks with an original term of a maximum of three months are shown under cash and cash equivalents. Moreover, shares in money market funds, which are only exposed to insignificant value fluctuations due to their high credit rating and investments in extremely short-term money market instruments and can be converted to defined cash amounts within a few days at any time, are also recorded under cash equivalents under IAS 7.

Cash and cash equivalents denominated in foreign currencies are translated at the closing rate.

Financial liabilities

Liabilities to financial institutions

Liabilities to financial institutions are measured at fair value less directly attributable transaction costs at initial recognition. In subsequent measurements these liabilities are measured at amortized cost applying the effective interest method. Liabilities to financial institutions in foreign currency are translated at the closing rate.

Liabilities to fixed-term or puttable non-controlling interests

Capital shares of non-controlling interests in subsidiaries with a fixed term are recognized under financial liabilities in the consolidated statement of financial position in accordance with IAS 32. The liabilities are measured at amortized cost. The share of profit attributable to non-controlling interests is recognized under interest expenses in the statement of profit or loss. Dividend payments to non-controlling interests reduce liabilities.

Furthermore, the RHI Group has entered into purchase obligations with non-controlling shareholders of a subsidiary. Based on these agreements, the shareholders receive the right to tender their shares at any time on previously defined conditions. In this case, IAS 32 provides for carrying a liability in the amount of the probable future exercise price. The difference between the estimated liability and the carrying amount of the non-controlling interest was recognized to equity at the time of the initial recognition without affecting profit or loss. Subsequently, the liability is measured at amortized cost and changes are recorded in net finance costs.

Provisions

Provisions are recognized 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 reporting 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 to earmarked pension plans. The related expenses are shown in the functional areas and thus in EBIT. No provisions are necessary.

Defined benefit plans require the company to provide the agreed amount of benefits to active and former employees and their dependents, with a differentiation made between pension systems financed through provisions and pension systems financed by funds.

For pension plans financed through external funds, the pension obligation according to the projected unit credit method is netted out against the fair value of the plan assets. If the plan assets are not sufficient to cover the obligation, the net obligation is recognized under provisions for pensions. However, if the plan assets exceed the obligations, the asset recognized is limited to reductions of future contribution payments to the plan and is shown under other non-current assets.

The present value of defined benefit obligations for current pensions, future pension benefits and similar obligations and the related expenses are calculated separately for each plan annually by independent qualified actuaries in accordance with the provisions of IAS 19. The present value of future benefits is based on the length of service, expected wage/salary developments and pension adjustments.

The expense to be recognized in a period includes the current and past service costs, settlement gains and losses, interest expenses from the interest accrued on obligations, interest income from plan assets and administration costs paid from plan assets. The net interest expense is shown separately in net finance costs. All other expenses related to defined benefit plans are allocated to the costs of the relevant functional areas.

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 starting age and probability of employee turnover and actual claims. The calculation is based on local biometric parameters.

Interest rates chosen on the basis of the interest on high-quality corporate bonds issued with adequate maturities and currencies are applied to determine the present value of pension obligations. In countries where there is no sufficiently liquid market for high-quality corporate bonds, the returns on government bonds are used as a basis.

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

The fluctuation probabilities were estimated specific to age or according to seniority.

The retirement age used for the calculation is based on the respective statutory provisions of the country concerned. The calculation is based on the earliest possible retirement age according to the current statutory provisions of the respective country, among other things depending on gender and date of birth.

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.

Remeasurement gains and losses are recorded net of deferred taxes under other comprehensive income in the period incurred.

Provisions for termination benefits

Provisions for termination benefits are primarily related to obligations to employees whose employment is subject to Austrian law.

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 and ranges between two and twelve monthly salaries. These obligations are measured in accordance with IAS 19 using the projected unit credit method applying an accumulation period of 25 years. Remeasurement gains and losses are recorded directly to other comprehensive income after considering tax effects and shown in the statement of comprehensive income.

For employees who joined an Austrian company 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 like defined contribution pension plans and included under personnel expenses of the functional areas.

Other personnel provisions

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

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. Obligations related to service anniversary bonuses exist in Austrian and German Group companies. Under IAS 19 service anniversary bonuses are treated as other long-term employee benefits. Provisions for service anniversary bonuses are calculated based on the projected unit credit method. Remeasurement gains or losses are recorded in the personnel costs of the functional areas in the period incurred.

Local labor laws and other similar regulations require individual Group companies to create provisions for semi-retirement obligations. The obligations are partially covered by qualified plan assets and are reported on a net basis in the statement of financial position.

For cash-settled share-based payments for the members of the Management Board of RHI AG, a provision is recorded for the services received and measured at fair value on the date of receipt. Until the debt is settled, its fair value is recalculated at each reporting date and on the settlement date. All changes in fair value are recognized to profit or loss in general and administrative expenses.

Obligations for lump-sum settlements are based on company agreements in individual companies.

Provisions for warranties

Provisions for warranties are created for individual contracts at the time of the sale of the goods concerned, or after a service has been provided. The amounts of the provisions are based on the 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 prior to the reporting date or whose implementation was commenced prior to the reporting date.

Trade payables and other current liabilities

These liabilities are initially recognized at fair value, and subsequently measured at amortized cost.

Liabilities denominated in foreign currencies are translated at the closing rate.

Government grants

Government grants to promote investments are recognized as deferred income and released through profit or loss over the useful life of the relevant asset distributed on a straight-line basis.

Grants that were granted as compensation for expenses or losses are recognized to profit or loss in the periods in which the subsidized expenses are incurred. In the RHI Group, they mainly include grants for research and employee development. Grants for research are recorded as income in general and administrative expenses.

Revenue and expenses

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

Revenue is realized when ownership and risk are transferred to the customer or when a service is performed, 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.

Expenses are recognized to the statement of profit or loss 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 using the equity method 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. Current and deferred income taxes are recognized in the statement of profit or loss unless they are related to items which were recorded directly in equity or in other comprehensive income. In such a case, income taxes are also recorded in equity or other comprehensive income.

Since the financial year 2005, RHI AG has headed a corporate tax group in accordance with § 9 KStG (Austrian Corporation Tax Act). A tax compensation agreement has been in force since January 1, 2016 between the head of the group and seven Austrian group members. Prior to that, profit and loss transfer agreements were in place. According to the group and tax compensation agreement, the members of the group have to pay a positive tax compensation of 20% of the taxable profit to the head of the group if the result is positive, as long as tax loss carry forwards exist with the head of the group; subsequently 25% of the taxable profit have to be paid. In the case of a tax loss of the group member, the head of the group has to pay a negative tax compensation to the member of the group, with a rate of 12.5% being applied if the loss can be utilized within the group. In the case of a loss in the tax group, a tax loss of a group member is retained and offset against future taxable profits of the group member. When the contract is terminated, a compensation payment is agreed for unused tax losses of a group member, which are allocated to the head of the group.

In Germany, Didier-Werke Aktiengesellschaft, Wiesbaden, acts as the head of a tax corporation group. The seven subsidiary companies are obliged to transfer their profit or loss to Didier-Werke Aktiengesellschaft based on a profit and loss transfer agreement.

8. 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 Steel segment specializes in supporting customers in the steel-producing and steel-processing industry. The Industrial segment serves customers in the glass, cement/lime, nonferrous metals and environment, energy, chemicals industries. The main activities of the two segments consist of market development, global sales of high-grade refractory bricks, mixes and special products as well as providing services at the customers' sites.

The operating activities of the segment Raw Materials primarily consist of supplying Group companies with raw materials. This includes mining magnesite and dolomite in mines owned by the Group and raw material production based on seawater, processing and finishing raw materials as well as purchasing and selling raw materials. Within the Group, raw materials are carried at market price. The globally located manufacturing sites, which process the raw materials, are combined in one organizational unit. The allocation of manufacturing cost variances of the production plants to the Steel and Industrial Divisions is based on the supply flow.

The research activities of the RHI Group are managed centrally. R&D costs are allocated directly to the three segments.

The Shared Service Center costs of the Group are allocated to the three operating segments according to the agreed Service Level Agreements. The allocation of expenses of Group management is based on external revenue.

Statements of profit or loss up to EBIT are available for each segment. The operating EBIT (EBIT adjusted for special effects) serves the Management Board of the RHI Group for internal management and as an indicator of sustainable earnings power of a business as presented in the statement of profit or loss. The profit of joint ventures is allocated to the segments. Net finance costs and income taxes are managed on a group basis and are not allocated.

Segment assets include trade receivables and inventories, which are available to the operating segments and are reported to the management for control and measurement, as well as property, plant and equipment, goodwill and other intangible assets, which are allocated to the segments based on the capacity of the assets provided to the segments. Investments in joint ventures are allocated to the segments. All other assets are not allocated. The recognition of segment assets is determined on the basis of the accounting and measurement methods applied to the IFRS consolidated financial statements.

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

9. Discretionary decisions, assumptions and estimates

The RHI Group used forward-looking assumptions and estimates, especially with respect to business combinations, non-current assets, valuation adjustments to inventories and receivables, provisions and income taxes to a certain extent in the application of accounting and measurement methods.

The estimates are based on comparable values in the past, plan data and other findings regarding transactions to be accounted. The actual values may ultimately deviate from the assumptions and estimates made. The resulting changes in value of assets, liabilities, revenue and expenses are accounted for in the reporting period in which the change is made and in the affected future reporting periods.

Business combinations (initial consolidation)

Estimates relating to the calculation of fair values of acquired assets, liabilities and contingent liabilities are required within the context of business combinations.

If intangible assets are identified, discretionary estimates are necessary for the determination of fair values by means of discounted cash flows, especially regarding the duration and amount of future cash flows, as well as for the determination of an adequate discount rate. When determining the fair value of land, buildings and technical plant, above all the estimate of comparability of the reference objects with the objects subject to valuation is discretionary.

When making discretionary decisions in the context of purchase price allocations on major company acquisitions, RHI consults with independent experts who accompany the execution of the discretionary decisions and record it in expert documents.

Impairment of intangible assets with finite useful lives and property, plant and equipment

Intangible assets with a finite 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. The carrying amounts of these assets amounted to € 591.1 million at December 31, 2016 (12/31/2015: € 604.6 million). 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 (CGU).

As part of the annual planning process, the impairment test is conducted for the CGUs defined in the RHI Group, thus taking into account all changes resulting from updates of strategic planning. Sensitivity analyses are also performed as part of the impairment test. In their calculation one of the main parameters is changed as follows: increase in the discount rate by 10%, reduction in the form of the contribution margin by 10% and reduction of the growth rate in terminal value by 50%. In all CGUs these simulations do not result in impairments.

Likewise, in all CGUs a reduction of the discount rate by 10%, an increase in profitability in the form of the contribution margin by 10% and an increase in the growth rate in terminal value by 50% do not result in reversals impairments. For the carrying amount of the impaired CGU Industrial/Glass, the sensitivity analysis at December 31 of the previous year shows the following results:

in € million	Change in assumption	Impairment loss	Change in assumption	Reversal of impairment loss
Discount rate	+10%	(7.8)	(10)%	3.9
Profitability	(10)%	(8.6)	+10%	3.9
Growth rate	(50)%	(1.4)	+50%	1.8

Impairment of goodwill

The effect of an adverse change by plus 10% in the estimated interest rates as of December 31, 2016 or by minus 10% in the contribution margin would not result in an impairment charge to the goodwill recognized (carrying amount 12/31/2016: € 37.8 million, 12/31/2015: € 37.5 million).

Impairment of other intangible assets with indefinite useful life

The effect of an adverse change by plus 10% in the estimated interest rate as of December 31, 2016 or by minus 10% in the contribution margin would not result in an impairment charge to intangible assets with indefinite useful lives recognized (carrying amount at 12/31/2016 and 12/31/2015: € 1.8 million).

Provisions for pensions and termination benefits

The present value of pension and termination benefit obligations depends on a number of factors, which are based on actuarial assumptions such as interest rates, future salary and pension increases as well as life expectancy. Due to the long-term orientation of these obligations, these assumptions are subject to significant uncertainties.

The following sensitivity analysis shows the change in present value of the pension and termination benefit obligations if one key parameter changes, while the other influences are maintained constant. In reality, however, it is rather unlikely that these influences do not correlate. The present value of the pension obligations for the sensitivities shown was calculated using the same method as for the actual present value of the pension obligations (projected unit credit method).

in € million	Change of assumption in percentage points or years	12/31/2016 Pension plans	12/31/2016 Termination benefits	12/31/2015 Pension plans	12/31/2015 Termination benefits
Present value of the obligations	–	289.2	58.5	304.9	60.1
Interest rate	+0.25	(7.6)	(1.6)	(8.0)	(1.6)
	(0.25)	8.0	1.6	8.4	1.6
Salary increase	+0.25	0.6	1.5	0.6	1.5
	(0.25)	(0.6)	1.4	(0.6)	(1.4)
Pension increase	+0.25	5.0	–	5.0	–
	(0.25)	(4.9)	–	(4.8)	–
Life expectancy	+1 year	12.9	–	10.8	–
	(1) year	(13.2)	–	(10.7)	–

These changes would have no immediate effect on the result of the period as remeasurement gains and losses are recorded in other comprehensive income without impact on profit or loss.

The assumptions regarding the interest rate are reviewed quarterly; all other assumptions are reviewed at the end of the year.

Other provisions

The recognition and measurement of other provisions totaling € 33.6 million (12/31/2015: € 37.3 million) were based on the best possible estimates using the information available at the reporting date. The estimates take into account the underlying legal relationships and are performed by internal experts or, when appropriate, also by external experts. Despite the best possible assumptions and estimates, cash outflows expected at the reporting day may deviate from actual cash outflows. As soon as additional information is available, the estimates made are reviewed and provisions are also adjusted.

Income taxes

The calculation of income taxes of RHI AG and its subsidiaries is based on the tax laws applicable in the individual countries. Due to their complexity, the tax items presented in the financial statements may be subject to deviating interpretations by local finance authorities.

When determining the amount of the capitalizable deferred tax claims, an estimate of the management is required regarding the amount of future taxable income and the expected time. Should the future taxable profit deviate by 10% from the assumption made on the reporting date within the planning period defined for the accounting and measurement of deferred taxes, the net position of deferred tax assets amounting to € 131.3 million (12/31/2015: € 130.8 million) would have to be increased by € 1.8 million (12/31/2015: € 1.0 million) or reduced by € 1.7 million (12/31/2015: € 0.6 million).

Other items

With respect to the other items of the statement of financial position, RHI currently assumes that no material effects on the financial position and performance would result for the following financial years due to changes in the estimates and assumptions.

10. Property, plant and equipment

Property, plant and equipment developed as follows in the year 2016 and in the previous year:

in € million	Real estate, land and buildings	Raw material deposits	Technical equipment, machinery	Other plant, furniture and fixtures	Prepayments made and plant under construction	Total
Cost at 12/31/2015	448.0	31.8	877.0	286.3	49.2	1,692.3
Currency translation	0.2	0.0	(6.0)	(0.2)	(0.1)	(6.1)
Disposals of consolidated companies	(4.2)	0.0	(15.4)	(2.3)	0.0	(21.9)
Additions	5.9	0.3	13.7	7.6	32.8	60.3
Retirements and disposals	(5.3)	0.0	(11.0)	(4.2)	(0.7)	(21.2)
Reclassifications	9.1	0.0	19.6	7.0	(37.4)	(1.7)
Cost at 12/31/2016	**453.7**	**32.1**	**877.9**	**294.2**	**43.8**	**1,701.7**
Accumulated depreciation 12/31/2015	282.1	24.2	633.5	220.1	0.2	1,160.1
Currency translation	0.9	0.0	(3.9)	0.5	0.0	(2.5)
Disposals of consolidated companies	(4.2)	0.0	(15.4)	(2.3)	0.0	(21.9)
Depreciation charges	7.8	0.3	32.3	14.3	0.0	54.7
Impairment losses	4.0	0.0	2.9	1.0	0.9	8.8
Retirements and disposals	(5.1)	0.0	(10.1)	(4.0)	0.0	(19.2)
Reclassifications	0.1	0.0	0.0	0.0	(0.2)	(0.1)
Accumulated depreciation 12/31/2016	**285.6**	**24.5**	**639.3**	**229.6**	**0.9**	**1,179.9**
Carrying amounts at 12/31/2016	**168.1**	**7.6**	**238.6**	**64.6**	**42.9**	**521.8**

in € million	Real estate, land and buildings	Raw material deposits	Technical equipment, machinery	Other plant, furniture and fixtures	Prepayments made and plant under construction	Total
Cost 12/31/2014	441.1	31.8	863.1	280.7	43.2	1,659.9
Currency translation	0.0	0.0	6.8	1.1	0.1	8.0
Additions	4.0	0.0	14.9	9.6	48.3	76.8
Retirements and disposals	(3.4)	0.0	(33.8)	(13.9)	(0.1)	(51.2)
Reclassifications	6.3	0.0	26.0	8.8	(42.3)	(1.2)
Cost at 12/31/2015	**448.0**	**31.8**	**877.0**	**286.3**	**49.2**	**1,692.3**
Accumulated depreciation 12/31/2014	263.8	23.9	615.0	212.9	0.1	1,115.7
Currency translation	(1.2)	0.0	2.2	(0.1)	0.0	0.9
Depreciation charges	9.4	0.3	34.2	15.0	0.0	58.9
Impairment losses	13.3	0.0	14.5	5.9	0.2	33.9
Retirements and disposals	(3.2)	0.0	(32.6)	(13.5)	0.0	(49.3)
Reclassifications	0.0	0.0	0.2	(0.1)	(0.1)	0.0
Accumulated depreciation 12/31/2015	**282.1**	**24.2**	**633.5**	**220.1**	**0.2**	**1,160.1**
Carrying amounts at 12/31/2015	**165.9**	**7.6**	**243.5**	**66.2**	**49.0**	**532.2**

The additions to property, plant and equipment include capitalized borrowing costs of € 0.4 million (2015: € 0.3 million). The average capitalization rate amounted to 1.5% in the financial year 2016 (2015: 1.5%).

The item prepayments made and plant under construction includes plant under construction with a carrying amount of € 41.7 million (12/31/2015: € 48.4 million), with the modification of the smelter at the site in Radenthein, Austria, representing the largest investment project under construction of the financial year 2016.

As in the previous year, there are no restrictions on the sale of property, plant and equipment.

11. Goodwill

Goodwill developed as follows:

in € million	2016	2015
Cost at beginning of year	40.1	38.6
Currency translation	0.1	1.5
Cost at year-end	**40.2**	**40.1**
Accumulated impairment at beginning of year	(2.6)	(2.5)
Currency translation	0.2	(0.1)
Accumulated impairment at year-end	**(2.4)**	**(2.6)**
Carrying amount at year-end	**37.8**	**37.5**

12. Other intangible assets

Other intangible assets changed as follows in the financial year 2016:

in € million	Internally generated intangible assets	Other intangible assets	Total
Cost at 12/31/2015	42.2	130.5	172.7
Currency translation	(0.2)	(0.2)	(0.4)
Disposals of consolidated companies	(1.1)	(1.5)	(2.6)
Additions	5.0	1.0	6.0
Retirements and disposals	0.0	(17.5)	(17.5)
Reclassifications	0.0	1.7	1.7
Cost at 12/31/2016	**45.9**	**114.0**	**159.9**
Accumulated amortization 12/31/2015	25.5	73.0	98.5
Currency translation	(0.3)	0.1	(0.2)
Disposals of consolidated companies	(1.1)	(1.5)	(2.6)
Amortization charges	3.5	6.9	10.4
Impairment losses	0.1	0.0	0.1
Retirements and disposals	0.0	(17.5)	(17.5)
Reclassifications	0.0	0.1	0.1
Accumulated amortization 12/31/2016	**27.7**	**61.1**	**88.8**
Carrying amounts at 12/31/2016	**18.2**	**52.9**	**71.1**

Other intangible assets changed as follows in the previous year:

in € million	Internally generated intangible assets	Other intangible assets	Total
Cost 12/31/2014	37.7	130.5	168.2
Currency translation	0.1	4.9	5.0
Additions	4.7	1.1	5.8
Retirements and disposals	(0.3)	(7.2)	(7.5)
Reclassifications	0.0	1.2	1.2
Cost at 12/31/2015	**42.2**	**130.5**	**172.7**
Accumulated amortization 12/31/2014	22.3	71.9	94.2
Currency translation	0.1	1.1	1.2
Amortization charges	3.2	7.2	10.4
Impairment losses	0.2	0.0	0.2
Retirements and disposals	(0.3)	(7.2)	(7.5)
Accumulated amortization 12/31/2015	**25.5**	**73.0**	**98.5**
Carrying amounts at 12/31/2015	**16.7**	**57.5**	**74.2**

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

Other intangible assets include in particular acquired patents, trademark rights, software, customer relations of the Indian company Orient Refractories Ltd. and land use rights. The land use rights have a carrying amount of € 23.4 million (12/31/2015: € 24.0 million) and a remaining useful life of 30 to 61 years.

As in the previous year, there are no restrictions on the sale of intangible assets.

13. Investments in joint ventures

As in the previous year, the RHI Group holds a share of 50% in MAGNIFIN Magnesiaprodukte GmbH & Co KG, a company based in St. Jakob, Austria. The company's core business activity is the production and sale of halogen-free flame retardants for plastics. The investment in MAGNIFIN is treated as a financial investment.

MAGNIFIN is set up as an independent vehicle. RHI has a residual interest in the net assets of the company and accordingly classified its share as a joint venture. The share for which no listed market price is available is accounted for using the equity method in the RHI consolidated financial statements.

MAGNIFIN generated revenue amounting to € 40.0 million in the financial year 2016 (2015: € 37.8 million). Profit before income tax amounts to € 20.9 million (2015: € 18.1 million) and includes depreciation charges on property, plant and equipment and amortization charges on intangible assets of € 1.7 million (2015: € 2.0 million), interest income of € 0.0 million (2015: € 0.1 million) and interest expenses of € 0.3 million (2015: € 0.3 million).

Total comprehensive income including other comprehensive income before income tax of € (0.3) million (2015: € 0.0 million) amounts to € 20.6 million (2015: € 18.1 million).

Income taxes on the share of profit of MAGNIFIN amounting to € 2.8 million (2015: € 2.4 million) are recognized by the head of the tax group, RHI AG, due to the legal form of the joint venture and transferred to Veitscher Vertriebsgesellschaft m.b.H. in accordance with the provisions of the tax compensation agreement.

The net assets of MAGNIFIN at the two reporting dates are shown in the table below:

in € million	12/31/2016	12/31/2015
Non-current assets	9.9	8.0
Current assets (without cash and cash equivalents)	12.9	11.7
Cash and cash equivalents	16.7	17.2
Non-current personnel provisions	(4.0)	(3.9)
Current provisions	(1.1)	(1.1)
Trade payables and other current liabilities	(3.2)	(3.2)
Net assets	**31.2**	**28.7**

The development of the carrying amount of the share in this joint venture in the RHI consolidated financial statements is shown below:

in € million	2016	2015
Proportional share of net assets at beginning of year	**14.4**	**13.4**
Share of profit	10.9	9.2
Share of other comprehensive income (remeasurement losses)	(0.1)	0.0
Dividends received	(9.5)	(8.2)
Other changes in value	(0.1)	0.0
Proportional share of net assets at year-end	**15.6**	**14.4**
Goodwill	4.9	4.9
Carrying amount of investments in joint ventures	**20.5**	**19.3**

14. Other non-current financial assets

Other non-current financial assets consist of the following items:

in € million	12/31/2016	12/31/2015
Available-for-sale investments	0.4	0.5
Available-for-sale securities and shares	15.8	20.9
Other non-current financial receivables	2.7	2.3
Other non-current financial assets	**18.9**	**23.7**

At December 31, 2016 accumulated impairments on investments, securities and shares of € 2.0 million (12/31/2015: € 2.5 million) are recognized.

15. Other non-current assets

Other non-current assets include the following items:

in € million	12/31/2016	12/31/2015
Stripping costs	8.3	10.1
Receivables from other taxes	6.7	5.3
Plan assets from overfunded pension plans	2.1	2.1
Prepaid expenses	0.6	0.5
Other non-current assets	**17.7**	**18.0**

Prepaid expenses for stripping costs arising from mining raw materials in a surface mine are shown in non-current assets due to the planned use of the mine.

Receivables from other taxes are related to input tax credits, which are expected to be utilized in the medium term.

16. Deferred taxes

The net position of deferred taxes of the Group, derived from items of the statement of financial position, is calculated as follows:

in € million	12/31/2016	12/31/2015
Deferred tax assets	144.8	146.1
Deferred tax liabilities	(13.5)	(15.3)
Net position	**131.3**	**130.8**

The following table shows the development of the Group's net position:

in € million	2016	2015
Net position at beginning of year	**130.8**	**113.6**
Currency translation	1.9	(1.5)
Changes recognized in profit or loss	(3.0)	23.6
Tax rate changes recognized in profit or loss	(1.3)	(1.0)
Changes recognized in other comprehensive income	2.9	(3.9)
Net position at year-end	**131.3**	**130.8**

The change in net position classified according to the type of temporary differences and tax loss carryforwards is shown below:

in € million	Tax loss carryforwards	Non-current assets	Personnel provisions	Other provisions	Inventories, other	Total
12/31/2015	**71.6**	**(16.3)**	**51.9**	**3.1**	**20.5**	**130.8**
Currency translation	1.1	0.9	(0.4)	0.0	0.3	1.9
Changes recognized in profit or loss	(11.0)	0.2	(2.6)	0.1	10.3	(3.0)
Tax rate changes recognized in profit or loss	0.2	(1.0)	0.0	0.0	(0.5)	(1.3)
Changes recognized in other comprehensive income	(0.1)	0.0	3.8	0.0	(0.8)	2.9
12/31/2016	**61.8**	**(16.2)**	**52.7**	**3.2**	**29.8**	**131.3**

in € million	Tax loss carryforwards	Non-current assets	Personnel provisions	Other provisions	Inventories, other	Total
12/31/2014	**68.0**	**(24.1)**	**58.3**	**4.0**	**7.4**	**113.6**
Currency translation	(0.3)	(1.9)	(0.1)	0.0	0.8	(1.5)
Changes recognized in profit or loss	2.8	11.1	(1.9)	(0.9)	12.5	23.6
Tax rate changes recognized in profit or loss	0.2	(1.4)	0.0	0.0	0.2	(1.0)
Changes recognized in other comprehensive income	0.9	0.0	(4.4)	0.0	(0.4)	(3.9)
12/31/2015	**71.6**	**(16.3)**	**51.9**	**3.1**	**20.5**	**130.8**

As of December 31, 2016, subsidiaries which generated tax losses in the past year or the previous year recognized net deferred tax assets on temporary differences and on tax loss carryforwards of € 32.3 million (12/31/2015: € 21.4 million). These assets are considered to be unimpaired because the companies concerned are expected to generate taxable income in the future. This assessment is based on measures implemented in 2016, which will lead to an increase in taxable income in the future. On the one hand, a subsidiary was sold; on the other hand, the financing of a subsidiary was optimized.

Tax loss carryforwards totaled € 383.7 million in the RHI Group as of December 31, 2016 (12/31/2015: € 420.4 million). A significant portion of the tax loss carryforwards originates in Austria and can be carried forward indefinitely. The annual offset of the Austrian tax loss carryforwards is limited to 75% of the respective tax profit. No deferred taxes were recognized for tax loss carryforwards of € 156.9 million (12/31/2015: € 144.1 million). The main part of the non-capitalized tax losses can be carried forward indefinitely. € 25.8 million (12/31/2015: € 10.7 million) will lapse at the earliest in the year 2022 if not used by then.

In addition, no deferred tax assets were recognized for temporary differences totaling € 2.2 million (12/31/2015: € 3.7 million) as it is not sufficiently probable that they can be used. The deductible temporary differences can be carried forward indefinitely.

Taxable temporary differences of € 109.3 million (12/31/2015: € 100.4 million) were not recognized on shares in subsidiaries because the corresponding distributions of profit or the sale of the investments are not expected in the foreseeable future.

The maturity structure of deferred taxes is shown in the table below:

	12/31/2016			12/31/2015		
in € million	Current	Non-current	**Total**	Current	Non-current	**Total**
Deferred tax assets	39.0	105.8	**144.8**	27.7	118.4	**146.1**
Deferred tax liabilities	0.0	13.5	**13.5**	0.1	15.2	**15.3**

17. Inventories

Inventories as presented in the statement of financial position consist of the following items:

in € million	12/31/2016	12/31/2015
Raw materials and supplies	74.5	78.3
Unfinished products and unfinished services	99.4	120.3
Finished products and goods	184.9	197.2
Prepayments made	6.5	8.1
Inventories	**365.3**	**403.9**

The inventories recognized as of December 31, 2016 totaled € 365.3 million (12/31/2015: € 403.9 million), of which € 2.7 million (12/31/2015: € 4.0 million) are carried at net realizable value.

The impairment losses recorded in the financial year 2016, netted out against reversals of impairment losses, amount to € 1.1 million. In the previous year, reversals of impairment losses, netted out against impairment losses, amounting to € 2.6 million had to be recognized due to higher turnover rates compared with 2014 and the commissioning of facilities for the recovery of magnesite fine tailings and the related utilization of existing raw materials deposits.

As in the previous year, there are no restrictions on the disposal of inventories.

18. Trade and other current receivables

Trade and other current receivables as presented in the statement of financial position are classified as follows:

in € million	12/31/2016	12/31/2015
Trade receivables	309.0	304.4
Receivables from long-term construction contracts	7.8	15.7
Receivables from other taxes	65.9	49.7
Prepaid expenses	2.8	2.6
Receivables from joint ventures	1.0	1.6
Receivables employees	0.8	1.0
Receivables from personnel welfare foundation	0.8	0.8
Other current receivables	11.0	14.2
Trade and other current receivables	**399.1**	**390.0**
thereof financial assets	312.1	308.4
thereof non-financial assets	87.0	81.6

Receivables from long-term construction contracts consist of the following components:

in € million	12/31/2016	12/31/2015
Contract costs incurred up to the reporting date	10.0	24.1
Profits recognized by the reporting date	0.8	1.1
Prepayments received	(3.0)	(9.5)
Receivables from long-term construction contracts	**7.8**	**15.7**

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

As in the previous year, trade receivables with a total nominal value of € 34.0 million were assigned for financial liabilities as of December 31, 2016.

Accumulated valuation allowance to trade and other current receivables developed as follows:

in € million	2016	2015
Accumulated valuation allowance at beginning of year	**30.1**	**25.8**
Currency translation	0.4	0.4
Addition	7.4	8.6
Use	(0.3)	(0.5)
Reversal	(2.4)	(4.2)
Accumulated valuation allowance at year-end	**35.2**	**30.1**

19. Income tax receivables

Income tax receivables amounting to € 9.3 million (12/31/2015: € 5.9 million) are mainly related to tax prepayments and deductible withholding taxes.

20. Other current financial assets

This item of the statement of financial position consists of the following components:

in € million	12/31/2016	12/31/2015
Derivatives in open orders	1.1	2.3
Forward exchange contracts	0.4	0.0
Other current financial receivables	1.5	1.7
Other current financial assets	**3.0**	**4.0**

21. Cash and cash equivalents

This item of the statement of financial position consists of the following components:

in € million	12/31/2016	12/31/2015
Cash at banks	179.9	149.3
Money market funds	0.4	0.0
Checks	2.5	0.3
Cash on hand	0.1	0.1
Cash and cash equivalents	**182.9**	**149.7**

22. Share capital

The fully paid-in capital of RHI AG amounts to € 289,376,212.84. As in the previous year, it consists of 39,819,039 zero par value bearer shares. One share grants a rounded calculated share of € 7.27 in capital stock, as in the previous year. All shares grant the same rights.

The shareholders are entitled to payment of the dividend adopted and generally have one voting right per share at the Annual General Meeting. There are no RHI shares with special control rights. No limitations regarding the voting rights of RHI shares, including from agreements between shareholders, are known to the company, with the exception of the voting rights of MSP Foundation.

At March 10, 2017, the following investors with significant shareholdings were known to RHI: MSP Foundation, a foundation under Liechtenstein law, directly holds and its founder, Martin Schlaff, indirectly holds more than 25% via MSP Foundation of the voting rights of RHI AG. Pursuant to the stipulations of the Austrian Takeover Act, a limitation of voting rights of 26% applies. In addition, Chestnut Beteiligungsgesellschaft mbH and Silver Beteiligungsgesellschaft mbH each hold more than 5% of the voting rights. The voting rights of Chestnut Beteiligungsgesellschaft mbH and Silver Beteiligungsgesellschaft mbH are jointly exercised; consequently, the joint share in voting rights held by the two companies exceed 10%.

Employee stock ownership plan "4 plus 1"

With a resolution of the Annual General Meeting of RHI AG on May 4, 2016, the Management Board was authorized in accordance with § 65 para. 1 (4) as well as para. 1a and para. 1b AktG to acquire, during a period of validity of 30 months starting on May 4, 2016, up to 12,000 no-par bearer shares of the company by purchasing such shares both on an exchange and by off-market transactions, in each case at the stock exchange price of the day this authorization is exercised. The acquisition cannot be effected for the purpose of trading in treasury shares. The authorization may be exercised in full or in part or even in several tranches by the company, by a subsidiary (§ 228 para. 3 UGB) or for the account of the company by third parties. The Management Board of RHI AG can decide to purchase such shares on an exchange, but the Supervisory Board subsequently has to be informed of this decision. The off-market acquisition of shares is subject to prior approval by the Supervisory Board. In accordance with § 65 para. 1b AktG the Management Board was authorized for a period of five years starting on May 4, 2016 to adopt another type of sale than on an exchange or via public offer for the sale or use of treasury shares, with the consent of the Supervisory Board, applying the provisions regarding the exclusion of shareholders' subscription rights mutatis mutandis, and to determine the conditions of the sale. This authorization may be exercised fully or partially or in several partial amounts by the company, a subsidiary (§ 228 para. 3 UGB) or for the account of the company by third parties for the purpose of carrying out an employee stock ownership program for employees and executives of RHI AG as well as members of the management, executives and employees of Group companies of RHI AG as part of the continuation of the voluntary employee stock ownership plan "4 plus 1". Employees receive one RHI share free of charge for four RHI shares they have purchased themselves. In the year 2016, 7,998 (2015: 7,294) shares were acquired over the stock exchange for the employee stock ownership plan and issued to employees. As of December 31, 2016 and December 31, 2015, no treasury shares were held by RHI AG.

Authorized capital 2015

The Management Board was authorized by resolution of the Annual General Meeting of RHI AG on May 8, 2015, in accordance with § 169 AktG (Stock Corporation Act), to increase share capital with the consent of the Supervisory Board until May 7, 2020 by up to another € 57,875,236.75 by issuing up to 7,963,807 new ordinary bearer shares (no par shares) for a cash contribution – also in several tranches – and to determine the issue price, the issue conditions and further details regarding the execution of the capital increase in agreement with the Supervisory Board, to offer the new shares to shareholders by means of indirect subscription rights in accordance with § 153 para. 6 AktG if need be. By December 31, 2016 no capital increase of share capital out of the authorized capital was carried out.

23. Group reserves

Additional paid-in capital

Additional paid-in capital comprises premiums on the issue of shares and convertible bonds by RHI AG and has not changed in comparison with December 31, 2015. The difference to the additional paid-in capital as shown the financial statements of RHI AG is attributable to deviating regulations in the Austrian Commercial Code with respect to the accounting of convertible bonds. Due to legal regulations, additional paid-in capital cannot be distributed and can only be reversed to cover losses.

Retained earnings

The item retained earnings includes the result of the financial year and results that were earned by consolidated companies during prior periods, but not distributed. Distributable profit and dividends are generally related to the accumulated profit of RHI AG, which is determined in accordance with Austrian commercial law.

Accumulated other comprehensive income

The item cash flow hedges includes gains and losses from the effective part of cash flow hedges less tax effects. The accumulated gain or loss from the hedge allocated to reserves is only reclassified to the statement of profit or loss if the hedged transaction also influences the result or is terminated.

Unrealized fair value changes of available-for-sale securities and shares in other investments are recognized in the item available-for-sale financial instruments. Deferred tax effects are deducted, unless gains from the sale of these financial instruments are treated as tax free under the applicable tax law.

The item defined benefit plans includes the gains and losses from the remeasurement of defined benefit pension and termination benefit plans taking into account tax effects. No reclassification of these amounts to the statement of profit or loss will be made in future periods.

Currency translation includes the accumulated currency translation differences from translating the financial statements of foreign subsidiaries as well as unrealized currency translation differences from monetary items which are part of a net investment in a foreign operation, net of related income taxes. If foreign companies are deconsolidated, the currency translation differences are recognized in the statement of profit or loss as part of the gain or loss from the sale of shares in subsidiaries. In addition, when monetary items which are part of a net investment in a foreign operation are paid back, the currency translation differences of these monetary items previously recognized in other comprehensive income are reclassified to profit or loss.

24. Non-controlling interests

Non-controlling interests hold a share of 30.4% in the listed company Orient Refractories Ltd. (in the following “ORL”), based in New Delhi, India. ORL is allocated to the Steel segment. The summarized financial information of ORL shown below corresponds to the amounts before intercompany elimination.

Based on the net assets of the company, the carrying amount of the non-controlling interests is determined as follows:

in € million	12/31/2016	12/31/2015
Non-current assets	28.9	30.6
Current assets	44.4	33.4
Non-current liabilities	(8.2)	(9.1)
Current liabilities	(14.8)	(9.4)
Net assets	**50.3**	**45.5**
Percentage of non-controlling interests	30.4%	30.4%
Carrying amount of non-controlling interests	**15.3**	**13.8**

The aggregate statement of profit or loss and statement of comprehensive income are shown below:

in € million	2016	2015
Revenue	68.6	62.0
Operating expenses, net finance costs and income tax	(62.2)	(56.7)
Profit after income tax	**6.4**	**5.3**
thereof attributable to non-controlling interests of ORL	1.9	1.6

in € million	2016	2015
Profit after income tax	6.4	5.3
Other comprehensive income	0.8	2.3
Total comprehensive income	**7.2**	**7.6**
thereof attributable to non-controlling interests of ORL	2.2	2.3

The following table shows the summarized statement of cash flows of ORL:

in € million	2016	2015
Net cash flow from operating activities	7.9	10.4
Net cash flow from investing activities	(0.5)	(1.6)
Net cash flow from financing activities	(2.3)	(2.9)
Total cash flow	**5.1**	**5.9**

Net cash flow from financing activities includes dividend payments to non-controlling interests amounting to € 0.6 million (2015: € 0.6 million).

Accumulated other comprehensive income attributable to non-controlling interests is solely related to currency translation differences. The development is shown in the following table:

in € million	2016	2015
Accumulated other comprehensive income at beginning of year	**(0.2)**	**(0.9)**
Unrealized results from currency translation	0.3	0.7
Accumulated other comprehensive income at year-end	**0.1**	**(0.2)**

25. Financial liabilities

Financial liabilities include all interest-bearing liabilities of the RHI Group due to financial institutions, fixed-term and puttable non-controlling interests in Group companies and other lenders at the respective reporting date.

The financial liabilities have the following contractual remaining terms:

in € million	Total 12/31/2016	Remaining term up to 1 year	2 to 5 years	over 5 years
"Schuldscheindarlehen"	253.5	55.0	139.5	59.0
Export credits and one-time financing	154.5	29.0	116.9	8.6
Utilized other credit lines	65.9	65.9	0.0	0.0
Accrued interest	1.6	1.6	0.0	0.0
Liabilities to financial institutions	475.5	151.5	256.4	67.6
Liabilities to fixed-term or puttable non-controlling interests	32.5	9.1	1.9	21.5
Other financial liabilities	7.7	4.5	3.1	0.1
Financial liabilities	**515.7**	**165.1**	**261.4**	**89.2**

in € million	Total 12/31/2015	Remaining term up to 1 year	2 to 5 years	over 5 years
"Schuldscheindarlehen"	253.5	0.0	156.5	97.0
Export credits and one-time financing	183.5	29.0	145.0	9.5
Utilized other credit lines	71.6	71.6	0.0	0.0
Accrued interest	1.6	1.6	0.0	0.0
Liabilities to financial institutions	510.2	102.2	301.5	106.5
Liabilities to fixed-term or puttable non-controlling interests	31.3	7.4	1.7	22.2
Other financial liabilities	6.1	0.0	6.0	0.1
Financial liabilities	**547.6**	**109.6**	**309.2**	**128.8**

Of the liabilities to financial institutions recognized at December 31, 2016 € 34.0 million were secured by assignment of receivables, unchanged in comparison with the previous year. In case the loan agreement is not met, the bank is entitled to inflows from the receivables assigned.

The indicator net debt factor (see note (59) for its calculation) represents the covenants in the most important loan agreements. If the value of 3.8 is exceeded, the loan conditions are renegotiated. Compliance with the covenants is reviewed on a quarterly basis.

For liabilities of € 383.0 million (12/31/2015: € 407.0 million), lenders have a termination option in the case of a change of control. In the event that certain reasons for termination exist, the lenders may declare the loan due with immediate effect and demand immediate repayment of the principal including interest, as well as the payment of other amounts payable that may have been incurred.

Taking into account interest swaps, 61% (12/31/2015: 62%) of the liabilities to financial institutions carry fixed interest and 39% (12/31/2015: 38%) carry variable interest.

The following table shows fixed interest terms and conditions, taking into account interest rate swaps, without liabilities from deferred interest:

Interest terms fixed until	Effective annual interest rate	Currency	12/31/2016 Carrying amount in € million	Interest terms fixed until	Effective annual interest rate	Currency	12/31/2015 Carrying amount in € million
2017	EURIBOR + margin	EUR	125.1	2016	EURIBOR + margin	EUR	123.2
	Variable interest rate + margin	EUR	34.0		Variable interest rate + margin	EUR	34.0
	Floating interest rate + margin	EUR	3.4		Floating interest rate + margin	EUR	6.8
	LIBOR + margin	USD	10.2		LIBOR + margin	USD	9.1
	Interbank rate + margin	Var.	11.6		Interbank rate + margin	Var.	20.3
	0.69%	EUR	50.0	2017	0.69%	EUR	50.0
2018	1.13%	EUR	30.0	2018	1.13%	EUR	30.0
2019	1.49%	EUR	16.0	2019	1.49%	EUR	16.0
	3.25%	EUR	15.0		3.25%	EUR	20.0
	0.68%	EUR	15.0		0.68%	EUR	20.0
	3.15%	EUR	12.0		3.15%	EUR	16.0
	0.72%	EUR	10.7		0.72%	EUR	14.3
	1.46% + margin	EUR	10.0		1.46% + margin	EUR	10.0
	1.42% + margin	EUR	3.0		1.42% + margin	EUR	3.0
2020	3.15% + margin	EUR	24.5	2020	3.15% + margin	EUR	32.5
	3.90%	EUR	13.6		3.90%	EUR	13.6
2021	1.97%	EUR	17.0	2021	1.97%	EUR	17.0
2022	4.50%	EUR	6.0	2022	4.50%	EUR	6.0
2023	0.35% + margin	EUR	13.8	2023	0.35% + margin	EUR	13.8
2024	3.00%	EUR	53.0	2024	3.00%	EUR	53.0
			473.9				**508.6**

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

26. Other financial liabilities

Other financial liabilities include the negative fair value of derivative financial instruments and consist of the following items:

in € million	12/31/2016 Current	Non-current	Total	12/31/2015 Current	Non-current	Total
Liabilities from derivatives from supply contracts	5.9	43.1	49.0	8.0	50.0	58.0
Liabilities from interest rate swaps	0.5	0.4	0.9	0.0	1.3	1.3
Liabilities from derivatives in open orders	0.1	0.0	0.1	0.0	0.0	0.0
Liabilities from forward exchange contracts	0.0	0.0	0.0	0.5	0.0	0.5
Other financial liabilities	**6.5**	**43.5**	**50.0**	**8.5**	**51.3**	**59.8**

Additional explanations on derivative financial instruments are provided under note (57).

27. Personnel provisions

Personnel provisions include the following provisions:

in € million	12/31/2016	12/31/2015
Pensions	236.8	246.1
Termination benefits	58.5	60.1
Other personnel provisions	22.1	20.1
Personnel provisions	**317.4**	**326.3**

Provisions for pensions

The net debt from pension obligations in the consolidated statement of financial position is derived as follows:

in € million	12/31/2016	12/31/2015
Present value of pension obligations	289.2	304.9
Fair value of plan assets	(56.4)	(63.8)
Funded status	**232.8**	**241.1**
Asset ceiling	1.9	2.8
Net debt from pension obligations	**234.7**	**243.9**
thereof assets from overfunded pension plans	2.1	2.1
thereof provisions for pensions	236.8	246.1

The present value of pension obligations by beneficiary groups is structured as follows:

in € million	12/31/2016	12/31/2015
Active beneficiaries	71.2	76.6
Vested terminated beneficiaries	17.9	21.7
Retirees	200.1	206.6
Present value of pension obligations	**289.2**	**304.9**

The calculation of pension obligations is based on the following actuarial assumptions:

in %	12/31/2016	12/31/2015
Interest rate	1.9%	2.5%
Future salary increase	2.2%	2.0%
Future pension increase	1.3%	1.5%

These are average values which were weighted with the present value of the respective pension obligation.

The calculation of the actuarial interest rate for the European currency area is based on a yield curve for returns of high-quality corporate bonds denominated in EUR with an average rating of AA, which is derived from pooled index values. Where there are very long-term maturities, the yield curve follows the performance of bonds without credit default risk. The interest rate is calculated annually at December 31, taking into account the expected future cash flows which were determined based on the current personal and commitment data.

As in the previous year, the calculation in Austria was based on the Pagler & Pagler AVÖ 2008 P biometric calculation principles for salaried employees. In Germany, the Heubeck 2005 G actuarial tables were used as a basis. In the other countries, country-specific mortality tables were applied.

The main pension regulations are described below:

The Austrian Group companies account for € 124.4 million (12/31/2015: € 128.5 million) of the present value of pension obligations and for € 26.3 million (12/31/2015: € 26.1 million) of the plan assets. The agreed benefits include pensions, invalidity benefits and benefits for surviving dependents. Commitments in the form of company or individual agreements depend on the length of service and the salary at the time of retirement. For the majority of commitments the amount of the company pension subsidy is limited to 75% of the final remuneration including a pension pursuant to the General Social Insurance Act (ASVG). RHI has concluded pension reinsurance policies for part of the commitments. The pension claims of the beneficiaries are limited to the coverage capital required for these commitments. Pensions are predominantly paid in the form of annuities and are partially indexed. For employees joining the company after January 1, 1984, no defined benefits were granted. Rather, a defined contribution pension model is in place. In addition, there are commitments based on the deferred compensation principle, which are fully covered by pension reinsurance policies, and commitments for preretirement benefits for employees in mining operations.

The pension plans of the German Group companies account for € 123.4 million (12/31/2015: € 120.2 million) of the present value of pension obligations and for € 0.7 million (12/31/2015: € 0.7 million) of plan assets. The benefits included in company agreements comprise pensions, invalidity benefits and benefits for surviving dependents. The amount of the pension depends on the length of service for the majority of the commitments and is calculated as a percentage of the average monthly wage/salary of the last twelve months prior to retirement. In some cases commitments to fixed benefits per year of service have been made. The pensions are predominantly paid in the form of annuities and are adjusted in accordance with the development of the consumer price index for Germany. The pension plans are closed for new entrants. There is no defined contribution model on a voluntary basis. Individual commitments have been made, with major part of them being retired beneficiaries.

The defined benefit plan in the United Kingdom was terminated in the previous year. The pension benefits were settled by the acquisition of individual policies of an external insurance company. For the complete settlement of the benefits, additional contributions amounting to € 3.0 million were paid. The expenses resulting from settlement amounted to € 0.1 million.

The following table shows the development of net debt from pension obligations:

in € million	2016	2015
Net debt from pension obligations at beginning of year	**243.9**	**266.8**
Currency translation	(2.2)	(0.2)
Disposals of consolidated companies	(5.6)	0.0
Pension cost	9.3	9.3
Remeasurement losses/(gains)	9.0	(8.2)
Benefits paid	(17.2)	(17.5)
Employers' contributions to external funds	(2.5)	(6.3)
Net debt from pension obligations at year-end	**234.7**	**243.9**

The present value of pension obligations developed as follows:

in € million	2016	2015
Present value of pension obligations at beginning of year	**304.9**	**353.1**
Currency translation	(2.8)	5.9
Disposals of consolidated companies	(11.5)	0.0
Current service cost	3.5	4.0
Past service cost	0.0	(1.0)
Losses on settlement	0.0	0.1
Interest cost	6.8	8.1
Remeasurement losses/(gains)		
from changes in demographic assumptions	(0.3)	0.0
from changes in financial assumptions	10.3	(8.7)
due to experience adjustments	(1.1)	(0.3)
Benefits paid	(21.0)	(23.8)
Employee contributions to external funds	0.4	0.4
Disposal due to settlement	0.0	(32.9)
Present value of pension obligations at year-end	**289.2**	**304.9**

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

in € million	2016	2015
Fair value of plan assets at beginning of year	**63.8**	**87.9**
Currency translation	(0.5)	6.3
Disposals of consolidated companies	(5.9)	0.0
Interest income	1.1	2.0
Administrative costs (paid from plan assets)	(0.1)	(0.1)
Income on plan assets less interest income	(1.1)	0.2
Benefits paid	(3.8)	(6.3)
Employers' contributions to external funds	2.5	6.3
Employee contributions to external funds	0.4	0.4
Disposal due to settlement	0.0	(32.9)
Fair value of plan assets at year-end	**56.4**	**63.8**

The changes in the asset ceiling are shown below:

in € million	2016	2015
Asset ceiling at beginning of year	**2.8**	**1.6**
Currency translation	0.1	0.2
(Gains)/losses from changes in asset ceiling less interest	(1.0)	1.0
Asset ceiling at year-end	**1.9**	**2.8**

At December 31, 2016 the weighted average duration of pension obligations amounts to 11 years (12/31/2015: 11 years).

The following amounts were recorded in the statement of profit or loss:

in € million	2016	2015
Current service cost	3.5	4.0
Negative past service cost	0.0	(1.0)
Losses on settlement	0.0	0.1
Interest cost	6.8	8.1
Interest income	(1.1)	(2.0)
Administrative costs (paid from plan assets)	0.1	0.1
Pension expense recognized in profit or loss	**9.3**	**9.3**

The remeasurement results recognized in other comprehensive income are shown in the table below:

in € million	2016	2015
Accumulated remeasurement losses at beginning of year	**102.4**	**116.7**
Reclassification due to settlement of defined benefit plans	0.0	(6.1)
Reclassification due to disposal of defined benefit plans	1.9	0.0
Remeasurement losses/(gains) on present value of pension obligations	8.9	(9.0)
Income on plan assets less interest income	1.1	(0.2)
(Gains)/losses from changes in asset ceiling less interest	(1.0)	1.0
Accumulated remeasurement losses at year-end	**113.3**	**102.4**

The present value of plan assets is distributed to the following classes of investment:

in € million	12/31/2016 Active market	No active market	Total	12/31/2015 Active market	No active market	Total
Insurances	0.0	38.8	38.8	0.0	39.0	39.0
Equity instruments	5.0	0.0	5.0	9.6	0.0	9.6
Debt instruments	0.0	8.2	8.2	1.5	9.2	10.7
Cash and cash equivalents	0.0	0.3	0.3	0.2	0.2	0.4
Other assets	0.2	3.9	4.1	0.3	3.8	4.1
Fair value of plan assets	**5.2**	**51.2**	**56.4**	**11.6**	**52.2**	**63.8**

The present value of the insurances to cover the Austrian pension plans corresponds to the coverage capital. Insurance companies predominantly invest in debt instruments and to a low extent in equity instruments and properties.

Plan assets do not include own financial instruments of the Group or assets utilized by the RHI Group.

RHI works with professional fund managers for the investment of plan assets. They act on the basis of specific investment guidelines adopted by the pension fund committee of the respective pension plans. The committees consist of management staff of the finance department and other qualified executives. They meet regularly in order to approve the target portfolio with the support of independent actuarial experts and to review the risks and the performance of the investments. In addition, they approve the selection or the extension of contracts of external fund managers.

The largest part of the assets is invested in pension reinsurance, which creates a low counterparty risk towards insurance companies. In addition, the Group is exposed to interest risks and longevity risks resulting from defined benefit commitments.

The Group generally endows the pension funds with the amount necessary to meet the legal minimum allocation requirements of the country in which the fund is based. Moreover, the Group makes additional allocations at its discretion from time to time. In the financial year 2017 RHI expects employer contributions to external plan assets to amount to € 2.4 million and direct payments to entitled beneficiaries to amount to € 15.1 million. In the previous year, employer contributions of € 3.2 million and direct pension payments of € 18.9 million had been expected for the financial year 2016.

Provisions for termination benefits

Provisions for termination benefits were based on the following weighted average measurement assumptions:

in %	12/31/2016	12/31/2015
Interest rate	1.8%	2.3%
Future salary increase	2.9%	2.8%

The interest rate for the measurement of termination benefit obligations in the euro area was determined taking into account the company specific duration of the portfolio.

Provisions for termination benefits developed as follows in the financial year and the previous year:

in € million	2016	2015
Provisions for termination benefits at beginning of year	**60.1**	**66.0**
Currency translation	0.0	(0.1)
Current service cost	1.5	1.7
Interest cost	1.3	1.4
Remeasurement losses/(gains)		
from changes in financial assumptions	2.9	(3.7)
due to experience adjustments	(1.7)	(1.2)
Benefits paid	(5.6)	(4.0)
Provisions for termination benefits at year-end	**58.5**	**60.1**

Payments for termination benefits are expected to amount to € 1.9 million in the year 2017. In the previous year, the payments for termination benefits expected for the year 2016 amounted to € 2.5 million.

The following remeasurement gains and losses were recognized in other comprehensive income:

in € million	2016	2015
Accumulated remeasurement losses at beginning of year	**22.3**	**27.2**
Remeasurement losses/(gains)(1)	1.3	(4.9)
Accumulated remeasurement losses at year-end	**23.6**	**22.3**

(1) Including € 0.1 million (2015: € 0.0 million) from a joint venture accounted for using the equity method

At December 31, 2016 the weighted average duration of termination benefit obligations amounts to 11 years (12/31/2015: 11 years).

Other personnel provisions

Other personnel provisions consist of the following items:

in € million	12/31/2016	12/31/2015
Service anniversary bonuses	18.3	18.1
Semi-retirements	1.7	1.5
Share-based payments	1.4	0.3
Lump-sum settlements	0.7	0.2
Other personnel provisions	**22.1**	**20.1**

The measurement of provisions for service anniversary bonuses is based on an average weighted interest rate of 1.5% (12/31/2015: 2.1%) and takes into account salary increases of 3.8% (12/31/2015: 4.1%).

The discount rate of provisions for semi-retirement amounts to 0.0% as of December 31, 2016 (12/31/2015: 0.1%).

The funded status of provisions for obligations to employees with semi-retirement contracts is shown in the table below:

in € million	12/31/2016	12/31/2015
Present value of semi-retirement obligations	5.1	4.6
Fair value of plan assets	(3.4)	(3.1)
Provisions for semi-retirement obligations	**1.7**	**1.5**

External plan assets are beyond the reach of all creditors and exclusively serve to meet semi-retirement obligations.

28. Other non-current provisions

The development of non-current provisions is shown in the table below:

in € million	2016
Provisions at beginning of year	**4.3**
Disposals of consolidated companies	(0.7)
Use	(0.1)
Addition	1.8
Reclassifications	(0.8)
Provisions at year-end	**4.5**

The provisions of € 4.5 million recognized at December 31, 2016 are primarily due to provisions for obligations related to a lease contract and to contracts for the procurement of raw materials and logistics services. Currently, these provisions are expected to be used in a period from two to four years.

29. Other non-current liabilities

Other non-current liabilities of € 6.9 million (12/31/2015: € 7.9 million) include deferred income for subsidies received from third parties amounting to € 4.7 million (12/31/2015: € 5.3 million) and liabilities to employees.

30. Trade payables and other current liabilities

Trade payables and other current liabilities included in the statement of financial position consist of the following items:

in € million	12/31/2016	12/31/2015
Trade payables	202.1	177.4
Prepayments received on orders	14.9	14.0
Liabilities employees	51.8	53.7
Taxes other than income tax	16.5	17.1
Customers with credit balances	6.0	3.8
Payables from commissions	5.9	7.8
Liabilities to subsidiaries	0.1	0.1
Other current liabilities	15.4	19.7
Trade payables and other current liabilities	**312.7**	**293.6**
thereof financial liabilities	217.3	196.9
thereof non-financial liabilities	95.4	96.7

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

31. Income tax liabilities

Income tax liabilities amounting to € 18.4 million (12/31/2015: € 25.3 million) primarily include income taxes for the current year and previous years which have not yet been definitively audited by domestic and foreign tax authorities. Taking into account a multitude of factors, including the interpretation, commenting and case law regarding the respective tax laws as well as past experiences, adequate liabilities have been recognized as far as apparent.

32. Current provisions

The development of current provisions is shown in the table below:

in € million	Demolition/ disposal costs, environmental damages	Warranties	Guarantees provided	Restructuring costs, other	Total
12/31/2015	**9.3**	**10.6**	**7.4**	**5.7**	**33.0**
Currency translation	0.0	0.3	0.0	0.1	0.4
Use	(1.2)	(4.6)	(3.7)	(2.7)	(12.2)
Reversal	0.0	(2.2)	(0.5)	(1.0)	(3.7)
Addition	0.1	7.0	0.1	3.4	10.6
Reclassifications	0.0	0.0	0.0	0.8	0.8
Reclassification from current liabilities	0.0	0.0	0.0	0.2	0.2
12/31/2016	**8.2**	**11.1**	**3.3**	**6.5**	**29.1**

The item demolition and disposal costs, environmental damages includes provisions for the estimated demolition and disposal costs of plant and buildings of the former site in Duisburg, Germany amounting to € 2.8 million (12/31/2015: € 3.4 million). It is assumed that these provisions will be used up within in the next twelve months. Furthermore, provisions for recultivation and expected refurbishment costs resulting from environmental damage at other locations exist at the two reporting dates.

Provisions for warranties include provisions for claims arising from warranties and other similar obligations from the sale of refractory products and provisions for onerous contracts.

Provisions for guarantees provided include obligations from sureties and guarantees to banks and insurance companies in the country and abroad. The exact due date of the cash outflow is uncertain at present.

The item restructuring costs, other includes provisions for restructuring costs as well as provisions for the share-based remuneration program of the members of the Management Board of RHI AG of € 0.7 million (12/31/2015: € 0.1 million), which are paid in February, furthermore, provisions for process risks as well as several provisions, which are individually immaterial and cannot be allocated to one of the above-mentioned categories.

Provisions for restructuring costs amount to € 2.1 million as of December 31, 2016 (12/31/2015: € 2.0 million) and primarily consist of benefit obligations to employees due to termination of employment, and costs of lease obligations of the former site in Kretz. A large part of these costs is expected to be paid within twelve months.

In the context of the legal proceedings to review the cash compensation of the former minority shareholders of Didier-Werke AG, Wiesbaden, Germany, a provision amounting to € 0.6 million is in place at December 31, 2016 (12/31/2015: € 1.2 million). With a decision of January 17, 2017, the Frankfurt Higher Regional Court followed the amount of the adequate cash compensation according to an expert opinion and has set the compensation at € 102.37 per no-par share of Didier-Werke AG. This amount carries an interest rate of five percentage points above the base rate since August 26, 2010. In addition, RHI has to bear the court costs, costs of the legal counsel and the out-of-court costs of the claimant. No appeals are permitted. The decision is final. Further provisions were created for expected expenses related to further ongoing or probable legal disputes. The provision amounts, which are of minor importance individually, were determined on the basis of information and cost estimates made by the lawyers of the Group companies. It is currently uncertain when precisely the cash outflow is due.

NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

33. Revenue

Revenue is essentially generated by product deliveries. The distribution of revenue by product group, division and country is given in the explanations to segment reporting under note (53).

Revenue includes revenues from long-term construction contracts amounting to € 58.7 million (2015: € 83.7 million).

34. 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 material and production costs, it also includes overheads including depreciation charges on production equipment, amortization charges of intangible assets as well as impairment losses and reversals of impairment losses of inventories. Moreover, cost of sales also includes the costs of services provided by the Group or services received.

35. Selling and marketing expenses

This item includes personnel expenses for the sales staff, commissions, as well as depreciation charges and other operating expenses related to the market and sales processes.

36. General and administrative expenses

General and administrative expenses primarily consist of personnel expenses for the administrative functions, legal and other consulting costs, expenses for research and non-capitalizable development costs.

Research and development expenses totaled € 23.9 million (2015: € 23.4 million), of which development costs amounting to € 4.8 million (2015: € 4.6 million) were capitalized. Income from research grants amounted to € 4.0 million (2015: € 3.2 million) in the reporting year 2016. Amortization and impairment of development costs amounting to € 3.4 million (2015: € 3.0 million) are recognized under cost of sales.

For the planned combination of RHI and Magnesita, which is described under note (62), external costs amounting to € 12.1 million were incurred in the financial year 2016. They are primarily related to legal advisory costs and the fee for the consulting investment bank.

37. Other income

The individual components of other income are:

in € million	2016	2015
Foreign exchange gains	85.0	67.7
Gains from derivative financial instruments	2.7	2.3
Income from the disposal of non-current assets	0.9	3.9
Miscellaneous income	3.7	2.1
Other income	**92.3**	**76.0**

Income from the disposal of non-current assets predominantly includes income from the sale of land.

Miscellaneous income primarily consists of other revenue and other operating income related to prior periods.

38. Other expenses

Other expenses include:

in € million	2016	2015
Foreign exchange losses	(76.9)	(64.3)
Losses from derivative financial instruments	(6.8)	(14.6)
Losses from the disposal of non-current assets	(0.5)	(0.8)
Miscellaneous expenses	(1.6)	(1.2)
Other expenses	**(85.8)**	**(80.9)**

The net foreign currency effects amount to € 8.1 million (2015: € 3.4 million). The net amount of gains and losses from derivative financial instruments in the operating EBIT amounts to € (4.1) million (2015: € (12.3) million). This amount includes realized effects from forward exchange contracts of € (3.6) million (2015: € (13.3) million).

39. Impairment losses

CGU Industrial/Fused Cast

The plants San Vito, Italy, and Sherbinska, Russia, have been presented as a separate CGU since 2016 and have thus been removed from the CGU Industrial/Glass. These plants produce fused cast products. The production of such fused cast products is associated with high fixed costs, which combined with low capacity utilization burden the achievable margins. As part of the plant concept, the Management Board of the RHI Group is evaluating whether a structured selling process will be initiated for these plants or they will continue to operate within the Group. The impairment on the existing property, plant and equipment and intangible assets recognized in 2016 amounts to € 8.0 million.

CGU Industrial/Monofrax

In the previous year an impairment on the property, plant and equipment and intangible assets of this CGU amounting to € 8.0 million was recognized.

CGU Raw Materials/Norway

The investments made in 2016 totaling € 0.6 million were fully written down. In the previous year, an impairment of € 23.2 million was recognized.

40. Income from restructuring

Duisburg plant, Germany

The liquidation of the provisions created for the closure of the plant in Duisburg, Germany, in the previous years resulted in income of € 0.3 million in 2016 (2015: € 4.3 million), of which the Steel Division accounts for € 0.2 million (2015: € 2.4 million) and the Industrial Division for € 0.1 million (2015: € 1.9 million). The former production site itself was sold in early 2016. The transfer of ownership is subject to the buyer of the property paying the consideration in full.

Kretz site, Germany

At the site in Kretz, Germany, magnesite raw materials were treated at a leased plant until 2014. As part of the optimization of the raw material treatment throughout the Group, the Management Board of RHI AG decided to terminate operations at this site because significant investments would have been necessary due to additional official regulations. The lease was terminated with effect from December 31, 2015. Provisions were formed for all payments still due. The employees of this site were transferred to other sites of the RHI Group or given notice in the year 2015. No income from restructuring or restructuring costs were recognized in the reporting year. In the previous year, income of € 1.6 million was recognized and fully allocated to the Raw Materials Division.

41. Restructuring costs

Sale RHI Monofrax LLC, USA

The sale and deconsolidation of RHI Monofrax LLC, Wilmington, USA, resulted in expenses amounting to € 4.6 million in 2016, which are recognized in the restructuring costs of the Industrial Division. For further details regarding this deconsolidation please refer to note (4) on the changes in the consolidated group.

Porsgrunn plant, Norway

The high-grade products manufactured at this site stand in direct competition with products available in the market. Due to the massive drop in raw material prices, external purchases were increased and the capacities for our own production restricted accordingly. This results in expenses amounting to € 4.2 million in the Raw Materials Division, which comprise personnel costs of € 1.4 million and costs from purchase contracts for the delivery of raw material and provision of logistics services of € 2.8 million.

Clydebank plant, United Kingdom

As part of the plant concept, the Management Board of RHI AG decided in 2015 to concentrate the activities of the two Scottish plants for isostatically pressed products at the site in Bonnybridge. The Clydebank site was closed at the end of the year 2016. This resulted in personnel costs of € 0.1 million in 2016 (2015: personnel costs of € 0.4 million, impairment losses on buildings of € 1.4 million and impairment losses on technical plant and machinery of € 1.5 million). These costs are allocated to the Steel Division in their entirety in both years. The recoverable amount (fair value less cost of disposal, level 3 pursuant to IFRS 13) amounts to € 1.1 million at December 31, 2016 (12/31/2015: € 1.3 million)

42. Interest income

This item includes interest on cash at banks and similar income amounting to € 2.9 million (2015: € 1.4 million), interest income on financial receivables amounting to € 0.2 million (2015: € 0.2 million) and interest income on available-for-sale securities and shares amounting to € 1.0 million (2015: € 4.2 million), of which € 0.4 million (2015: € 4.0 million) is accounted for by impaired securities.

43. Interest expenses

This item includes interest expenses for "Schuldscheindarlehen" and bank loans less capitalized interest on borrowings, interest from interest rate swaps, tax-related interest, interest expenses attributable to non-controlling interests totaling € 3.4 million (2015: € 3.3 million) and other interest and similar expenses.

44. Other net financial expenses

Other net financial expenses consist of the following items:

in € million	2016	2015
Interest income on plan assets	1.1	2.0
Interest expense on provisions for pensions	(6.8)	(8.1)
Interest expense on provisions for termination benefits	(1.3)	(1.4)
Interest expense on other personnel provisions	(0.4)	(0.5)
Net interest expense personnel provisions	(7.4)	(8.0)
Gains from the disposal of securities and shares	0.9	4.6
Reversal of impairment losses/(impairment losses) on securities	0.5	(0.6)
Expenses from the valuation of put options	(1.8)	(0.6)
Other net financial expenses	**(7.8)**	**(4.6)**

45. Income tax

Income tax consists of the following items:

in € million	2016	2015
Current tax expense	25.6	32.4
Deferred tax expense/(income) relating to		
temporary differences	(6.5)	(19.6)
tax loss carryforwards	10.8	(3.0)
	4.3	(22.6)
Income tax	**29.9**	**9.8**

The current tax expense of the year 2016 includes tax expenses for previous periods of € 1.8 million (2015: € 4.0 million) and income from income tax relating to other periods of € 8.2 million (2015: € 0.9 million). Of this total, € 6.3 million are attributable to the reversal of a provision related to a tax audit in Turkey. On the one hand, this was possible because of the completion of the audit in the third quarter of 2016; on the other hand, a change in legislation was used for the subsequent years.

In addition to the income taxes recognized in the statement of profit or loss, tax income totaling € 1.1 million (2015: tax expense of € 1.9 million), which is attributable to other comprehensive income was also recognized in other comprehensive income. Tax income totaling € 0.5 million (2015: tax expense of € 0.6 million) was reclassified from other comprehensive income to the statement of profit or loss.

The reasons for the difference between the arithmetic income tax expense, which would result from the application of the Austrian corporate tax rate of 25% on the profit before income tax, and the income tax reported are shown below:

in € million	2016	2015
Profit before income tax	**105.8**	**27.4**
Arithmetic tax expense with tax rate of 25% (2015: 25%)	**26.5**	**6.9**
Different foreign tax rates	1.2	(0.6)
Expenses not deductible for tax purposes, non-creditable taxes	12.5	8.4
Income not subject to tax and tax advantages	(2.2)	(3.9)
Non-capitalized tax losses and temporary differences of the financial year	2.1	5.8
Utilization of previously unrecognized loss carryforwards and temporary differences	(0.6)	(3.3)
Capitalization of previously unrecognized loss carryforwards and temporary differences	(0.5)	(6.2)
Change in valuation allowance on deferred tax assets	1.4	0.9
Deferred tax expense due to tax rate changes	1.3	1.0
Deferred income tax relating to prior periods	(4.4)	(2.1)
Current income tax relating to prior periods	(6.4)	3.1
Other	(1.0)	(0.2)
Recognized tax expense	**29.9**	**9.8**
Effective tax rate (in %)	**28.3%**	**35.8%**

Deferred tax expense due to tax rates changes is primarily attributable to a reduction of the tax rate in Norway in both reporting years (applicable tax rate 12/31/2016: 24.0%, 12/31/2015: 25.0%, 12/31/2014: 27.0%).

46. Expense categories

The presentation of the consolidated statement of profit or loss is based on the cost of sales method. The following table shows a classification by expense category for the financial year 2016 and the previous year:

in € million	Cost of sales	Selling and marketing expenses	General and administrative expenses	Other income/ expenses	Gain derivatives/ impairment loss	Income/ costs from restructuring	Total 2016
Changes in inventories, own work capitalized	22.6	0.0	(4.8)	0.0	0.0	0.0	17.8
Cost of materials	781.4	0.4	2.7	0.0	0.0	1.2	785.7
Personnel costs	253.5	58.4	85.3	0.0	0.0	1.5	398.7
Depreciation charges(1)	60.5	0.5	4.2	0.2	8.6	0.0	74.0
Other income	(14.7)	0.0	(8.2)	(92.3)	0.0	0.0	(115.2)
Other expenses	191.5	45.9	55.3	85.6	(10.1)	5.9	374.1
Total	**1,294.8**	**105.2**	**134.5**	**(6.5)**	**(1.5)**	**8.6**	**1,535.1**

in € million	Cost of sales	Selling and marketing expenses	General and administrative expenses	Other income/ expenses	Losses derivatives/ impairment loss	Income/ costs from restructuring	Total 2015
Changes in inventories, own work capitalized	8.7	0.0	(4.6)	0.0	0.0	0.0	4.1
Cost of materials	857.9	0.5	2.5	0.0	0.0	0.0	860.9
Personnel costs	267.1	59.5	81.5	0.0	0.0	0.4	408.5
Depreciation charges(1)	64.4	0.7	4.2	0.0	31.2	2.9	103.4
Other income	(10.9)	0.0	(7.2)	(76.0)	0.0	0.0	(94.1)
Other expenses	201.9	51.4	45.9	80.9	58.0	(5.9)	432.2
Total	**1,389.1**	**112.1**	**122.3**	**4.9**	**89.2**	**(2.6)**	**1,715.0**

(1) Including impairment losses on property, plant and equipment and intangible assets

Cost of materials includes expenses for raw materials and supplies, and purchased goods of € 620.3 million (2015: € 669.2 million) as well as expenses for services received, especially energy, amounting to € 165.4 million (2015: € 191.7 million).

Amortization charges of intangible assets are largely recognized in cost of sales.

47. Personnel costs

Personnel costs consist of the following components:

in € million	2016	2015
Wages and salaries	305.8	312.5
Pensions		
Defined benefit plans	3.6	3.2
Defined contribution plans	3.1	3.1
Termination benefits		
Defined benefit plans	1.5	1.7
Defined contribution plans	1.9	1.9
Other expenses	4.1	3.0
Fringe benefits	78.7	83.1
Personnel expenses (without interest expenses)	**398.7**	**408.5**

Personnel costs do not include amounts resulting from the interest accrued on personnel provisions. They amount to € 7.4 million (2015: € 8.0 million) and are recorded in net finance costs.

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The statement of cash flows shows how cash and cash equivalents of the Group change through cash inflows and cash outflows during the reporting year. In accordance with IAS 7, cash flows from operating activities, from investing activities and from financing activities are distinguished. Cash flows from investing and financing activities are determined on the basis of cash payment, while cash flow from operating activities is derived from the consolidated financial statements using the indirect method.

The respective monthly changes in items of the statement of financial position of companies that report in foreign currencies are translated at the closing rate of the previous month and adjusted for effects arising from changes in the group of consolidated companies or in other businesses. Therefore, the statement of cash flows cannot be derived directly from changes in items of the consolidated statement of financial position. As in the statement of financial position, cash and cash equivalents are translated at the closing rate. The effects of changes in exchange rates on cash and cash equivalents are shown separately.

48. Net cash flow from operating activities

Net cash flow from operating activities is derived indirectly based on profit after income tax. Profit after income tax is adjusted for results which are allocable to the cash flows from investing or financing activities and for non-cash expenses and income. Other non-cash expenses and income include in particular the net interest expenses for defined benefit pension plans amounting to € 7.4 million (2015: € 8.0 million), net remeasurement gains of monetary foreign currency positions and derivative financial instruments of € 21.9 million (2015: net remeasurement losses of € 61.3 million) and non-cash funding of provisions for restructuring amounting to € 1.0 million (2015: reversal of € 2.0 million). Taking into account the change in funds tied up in working capital as well as other operating assets and liabilities and income taxes paid, the result is net cash flow from operating activities.

49. 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. The cash outflows for investments in property, plant and equipment and intangible assets differ from the additions to assets primarily through additions to assets already capitalized, which will have a cash effect in the following year.

Cash effects from business combinations or the sale of companies (net change in cash and cash equivalents from initial consolidations and deconsolidations) are shown separately. In the reporting year 2016, no acquisitions of companies were carried out. The sale of the subsidiary RHI Monofrax, LLC, Wilmington, USA, as of June 6, 2016 led to a cash outflow of € 4.6 million.

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

50. Net cash flow from financing activities

Net cash flow from financing activities includes outflows from dividend payments and interest payments. In contrast, interest on borrowings capitalized in accordance with IAS 23 is included in cash flow from investing activities, and tax-related interest is recognized in cash flow from operating activities.

The interest expenses recognized in the consolidated statement of profit or loss include non-cash accrued interest of € 1.6 million (2015: € 1.6 million).

Inflows resulting from the proceeds and repayments of loans and other financial liabilities are classified as non-current or current according to the term of financing.

51. Total interest paid and interest received

Total interest paid amounts to € 17.5 million in the reporting period (2015: € 20.8 million), of which € 0.0 million (2015: € 0.2 million) are included in cash flow from operating activities, € 0.5 million (2015: € 0.3 million) in cash flow from investing activities and € 17.0 million (2015: € 20.3 million) in cash flow from financing activities.

Total interest received amounts to € 3.2 million for the financial year 2016 (2015: € 5.8 million), of which € 0.2 million (2015: € 0.0 million) are included in cash flow from operating activities and € 3.0 million (2015: € 5.8 million) in cash flow from investing activities.

52. Cash and cash equivalents

Cash and cash equivalents as presented in the consolidated statement of cash flows correspond to the cash and cash equivalents recognized in the statement of financial position. They include restricted cash totaling € 19.8 million at December 31, 2016 (12/31/2015: € 21.9 million). Restricted cash is related to cash and cash equivalents at subsidiaries (mainly in China, India and South Africa) to which the company only has limited access due to foreign exchange and capital transfer controls. € 13.5 million (12/31/2015: € 8.4 million) are accounted for by a subsidiary with non-controlling interests. At December 31, 2015, the RHI Group was not authorized to use cash amounting to € 2.0 million due to a pending lawsuit. The proceedings were completed in the financial year 2016.

OTHER DISCLOSURES

53. Segment reporting

Segment reporting by operating company division

The following tables show the financial data for the operating segments for the year 2016 and the previous year:

in € million	Steel	Industrial	Raw Materials	Reconciliation	Group 2016
External revenue	1,071.4	538.6	41.2	0.0	1,651.2
Internal revenue	0.0	0.0	224.8	(224.8)	0.0
Segment revenue	**1,071.4**	**538.6**	**266.0**	**(224.8)**	**1,651.2**
Operating EBIT	**76.2**	**44.5**	**2.5**	**0.0**	**123.2**
Gain from derivatives from supply contracts	0.0	0.0	10.1	0.0	10.1
Impairment losses	0.0	(8.0)	(0.6)	0.0	(8.6)
Income from restructuring	0.2	0.1	0.0	0.0	0.3
Restructuring costs	(0.1)	(4.6)	(4.2)	0.0	(8.9)
EBIT	**76.3**	**32.0**	**7.8**	**0.0**	**116.1**
Net finance costs	0.0	0.0	0.0	(21.2)	(21.2)
Share of profit of joint ventures	0.0	0.0	10.9	0.0	10.9
Profit before income tax					**105.8**
Depreciation and amortization charges	(31.3)	(16.5)	(17.3)	0.0	(65.1)
Segment assets 12/31/2016	645.4	269.6	397.8	458.9	1,771.7
Investments in joint ventures 12/31/2016	0.0	0.0	20.5	0.0	20.5
					1,792.2
Investments in property, plant and equipment and intangible assets (according to non-current assets statement)	28.7	16.7	20.9	0.0	66.3

in € million	Steel	Industrial	Raw Materials	Reconciliation	Group 2015
External revenue	1,099.9	614.6	38.0	0.0	1,752.5
Internal revenue	0.0	0.0	234.6	(234.6)	0.0
Segment revenue	**1,099.9**	**614.6**	**272.6**	**(234.6)**	**1,752.5**
Operating EBIT	**64.3**	**65.0**	**(5.2)**	**0.0**	**124.1**
Loss from derivatives from supply contracts	0.0	0.0	(58.0)	0.0	(58.0)
Impairment losses	0.0	(8.0)	(23.2)	0.0	(31.2)
Income from restructuring	2.4	1.9	1.6	0.0	5.9
Restructuring costs	(3.3)	0.0	0.0	0.0	(3.3)
EBIT	**63.4**	**58.9**	**(84.8)**	**0.0**	**37.5**
Net finance costs	0.0	0.0	0.0	(19.3)	(19.3)
Share of profit of joint ventures	0.0	0.0	9.2	0.0	9.2
Profit before income tax					**27.4**
Depreciation and amortization charges	(31.5)	(18.2)	(19.6)	0.0	(69.3)
Segment assets 12/31/2015	647.0	291.3	429.6	417.3	1,785.2
Investments in joint ventures 12/31/2015	0.0	0.0	19.3	0.0	19.3
					1,804.5
Investments in property, plant and equipment and intangible assets (according to non-current assets statement)	44.5	21.7	16.4	0.0	82.6

Revenue amounting to € 183.9 million (2015: € 197.1 million) was realized with one customer in 2016, which is included in the Steel segment. No other single customer contributed 10% or more to consolidated revenue in 2016 or 2015. Companies which are known to be part of a group are treated as one customer.

Segment assets include the external receivables and inventories which are reported to the management for control and measurement and which are available to operating segments, as well as property, plant and equipment, goodwill and other intangible assets which are allocated to the segments based on the capacity of the assets provided to the segments. Shares in joint ventures are allocated to the segments. All other assets are recognized under reconciliation.

When allocating revenue to product groups, a distinction is made between shaped products (e.g. hydraulically pressed bricks, fused cast bricks, isostatically pressed products) and unshaped products (e.g. repair mixes, construction mixes and castables) as well as other revenue. Other includes revenue from the provision of services as well as the sale of non-Group refractory products.

In the reporting year, revenue is classified by product group as follows:

in € million	Steel	Industrial	Raw Materials	Group
Shaped products	675.6	403.8	0.0	1,079.4
Unshaped products	314.8	61.5	40.9	417.2
Other	81.0	73.3	0.3	154.6
Revenue	**1,071.4**	**538.6**	**41.2**	**1,651.2**

In 2015, revenue by was classified by product group as follows:

in € million	Steel	Industrial	Raw Materials	Group
Shaped products	695.6	462.3	0.0	1,157.9
Unshaped products	304.6	58.3	37.8	400.7
Other	99.7	94.0	0.2	193.9
Revenue	**1,099.9**	**614.6**	**38.0**	**1,752.5**

Segment reporting by country

Revenue is classified by customer sites as follows:

in € million	2016	2015
Austria	36.9	37.0
All other countries		
India	170.7	186.2
USA	151.2	164.9
Germany	142.7	142.0
Mexico	113.6	106.7
Italy	93.2	92.2
PR China	88.9	103.3
Canada	60.8	93.2
Russia	49.1	57.5
Saudi Arabia	41.5	47.2
Other countries, each below € 39.3 million (2015: € 45.3 million)	702.6	722.3
Revenue	**1,651.2**	**1,752.5**

The carrying amounts of property, plant and equipment and intangible assets are classified as follows by the respective sites of the Group companies:

in € million	12/31/2016	12/31/2015
Austria	206.5	195.8
All other countries		
PR China	128.3	142.1
Germany	87.9	86.9
India	64.2	64.7
Turkey	34.1	34.8
Mexico	28.4	30.8
Other countries, each below € 20.8 million (12/31/2015: € 21.5 million)	81.3	88.8
Property, plant and equipment and intangible assets	**630.7**	**643.9**

54. Earnings per share

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

	2016	2015
Share of shareholders of RHI AG in profit after income tax (in € million)	74.0	16.0
Weighted average number of shares	39,819,039	39,819,039
Earnings per share (in €)	**1.86**	**0.40**

There are 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 are identical.

55. Dividend payments and proposed dividend

In accordance with the Stock Corporation Act, the dividend payable to the shareholders of RHI AG is based on the accumulated profit as shown in the annual financial statements of RHI AG, which are prepared in accordance with the Austrian Commercial Code. Accumulated profit developed as follows in the financial year 2016:

in € million	2016
Accumulated profit carried forward	613.6
Dividend payments	(29.9)
Profit for the year	114.7
Accumulated profit 12/31/2016	**698.4**
Proposed dividend	(29.9)
Profit carryforward	**668.5**

Based on a resolution adopted by the 37 th Annual General Meeting on May 4, 2016, dividends totaling € 29.9 million were paid out in the financial year 2016 for the year 2015, which corresponded to a dividend of € 0.75 per share.

At the 38th Annual General Meeting on May 5, 2017, the Management Board will propose a dividend of € 0.75 per share for the financial year 2016, which corresponds to a dividend payment of € 29.9 million. The proposed dividend is subject to the approval by the Annual General Meeting and was not recognized as a liability in the consolidated financial statements 2016.

Dividend payments to the shareholders of RHI AG have no income tax consequences for RHI AG.

56. Additional disclosures on financial instruments

The following tables show the carrying amounts and fair values of financial assets and liabilities by measurement category and level and the allocation to the measurement category in accordance with IFRS 13. In addition, carrying amounts are shown aggregated according to measurement category.

in € million	IAS 39 Measurement category(1)	Level	(Amortized) cost	Fair value recognized in profit/ loss	Fair value recognized in equity	12/31/2016(2) Carrying amount	Fair value
Available-for-sale investments	FAAC	–	0.4	–	–	0.4	–
Available-for-sale securities	AfS	1	–	–	15.3	15.3	15.3
Available-for-sale shares	FAAC	–	0.5	–	–	0.5	–
Other non-current financial receivables	LaR	–	2.7	–	–	2.7	–
Trade and other current receivables	LaR	–	312.1	–	–	312.1	–
Other current financial receivables	LaR	–	1.5	–	–	1.5	–
Financial assets held for trading	FAHfT	2	–	1.5	–	1.5	1.5
Cash and cash equivalents	LaR	–	182.9	–	–	182.9	–
Financial assets						**516.9**	
Non-current financial liabilities	FLAAC	2	350.6	–	–	350.6	372.1
Interest derivatives designated as cash flow hedges	–	2	–	–	0.9	0.9	0.9
Current financial liabilities	FLAAC	2	165.1	–	–	165.1	165.8
Financial liabilities held for trading	FLHfT	2	–	49.1	–	49.1	49.1
Trade payables and other current liabilities	FLAAC	–	217.3	–	–	217.3	–
Financial liabilities						**783.0**	
Aggregated according to measurement category							
Loans and receivables	LaR		499.2	–	–	499.2	
Available for sale financial instruments	AfS		–	–	15.3	15.3	
Financial assets at cost	FAAC		0.9	–	–	0.9	
Financial assets held for trading	FAHfT		–	1.5	–	1.5	
Financial liabilities measured at amortized cost	FLAAC		733.0	–	–	733.0	
Financial liabilities held for trading	FLHfT		–	49.1	–	49.1	

in € million	IAS 39 Measurement category(1)	Level	(Amortized) cost	Fair value recognized in profit/ loss	recognized in equity	12/31/2015(2) Carrying amount	Fair value
Available-for-sale investments	FAAC	–	0.5	–	–	0.5	–
Available-for-sale securities	AfS	1	–	–	20.4	20.4	20.4
Available-for-sale shares	FAAC	–	0.5	–	–	0.5	–
Other non-current financial receivables	LaR	–	2.3	–	–	2.3	–
Trade and other current receivables	LaR	–	308.4	–	–	308.4	–
Other current financial receivables	LaR	–	1.7	–	–	1.7	–
Financial assets held for trading	FAHfT	2	–	2.3	–	2.3	2.3
Cash and cash equivalents	LaR	–	149.7	–	–	149.7	–
Financial assets						**485.8**	
Non-current financial liabilities	FLAAC	2	438.0	–	–	438.0	461.3
Interest derivatives designated as cash flow hedges	–	2	–	–	1.3	1.3	1.3
Current financial liabilities	FLAAC	2	109.6	–	–	109.6	110.1
Financial liabilities held for trading	FLHfT	2	–	58.5	–	58.5	58.5
Trade payables and other current liabilities	FLAAC	–	196.9	–	–	196.9	–
Financial liabilities						**804.3**	
Aggregated according to measurement category							
Loans and receivables	LaR		462.1	–	–	462.1	
Available for sale financial instruments	AfS		–	–	20.4	20.4	
Financial assets at cost	FAAC		1.0	–	–	1.0	
Financial assets held for trading	FAHfT		–	2.3	–	2.3	
Financial liabilities measured at amortized cost	FLAAC		744.5	–	–	744.5	
Financial liabilities held for trading	FLHfT		–	58.5	–	58.5	

(1) FAAC: Financial assets at cost

AfS: Available for sale financial instruments

LaR: Loans and receivables

FAHfT: Financial assets held for trading

FLAAC: Financial liabilities measured at amortized cost

FLHfT: Financial liabilities held for trading

(2) The items trade and other non-current receivables and payables also include non-financial assets and liabilities; they are therefore not considered in the table of financial instruments. The reconciliation to the respective items of the statement of financial position is provided in notes (18) and (30).

In the RHI Group especially securities and derivative financial instruments are measured at fair value.

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between market participants in an arm's length transaction on the day of measurement. When the fair value is determined it is assumed that the transaction in which the asset is sold or the liability is transferred takes place either in the main market for the asset or liability, or in the most favorable market if there is no main market. RHI considers the characteristics of the asset or liability to be measured which a market participant would consider in pricing. It is assumed that market participants act in their best economic interest.

RHI takes into account the availability of observable market prices in an active market and uses the following hierarchy to determine fair value:

Level 1: Prices quoted in active markets for identical financial instruments.

Level 2: Measurement techniques in which all important data used are based on observable market data.

Level 3: Measurement techniques in which at least one significant parameter is based on non-observable market data.

The fair value of available-for-sale securities is based on price quotations at the reporting date (Level 1). Due to the sale of securities in the year 2016, income of € 0.1 million (2015: income of € 1.3 million), which was previously recognized in other comprehensive income, had to be reclassified to the statement of profit or loss.

The fair value of interest derivatives in a hedging relationship (interest rate swaps) is determined by calculating the present value of future cash flows based on current yield curves taking into account the corresponding terms (Level 2).

The fair value of financial assets and liabilities held for trading corresponds to the market value of the forward exchange contracts and the embedded derivatives in open orders denominated in a currency other than the functional currency, as well as the market value of a long-term power supply contract, which had to be classified as a derivative financial instrument for the first time in the financial year 2015. These financial assets and liabilities held for trading are measured based on quoted forward rates (Level 2).

The available-for-sale shares in a residential property company (Level 3), which are not listed, were sold in their entirety in the second quarter of 2015; the measurement performed was already based on the selling price. The development of Level 3 fair values in the financial year 2015 is presented below:

in € million	01/01/ – 12/31/2015
Fair values at beginning of year	**2.2**
Unrealized results from fair value change recognized in other comprehensive income	0.7
Reclassification to statement of profit or loss due to disposal	(2.9)
Fair values at year-end	**0.0**

RHI takes into account reclassifications in the measurement hierarchy at the end of the reporting period in which the changes occur. There were no shifts between the different measurement levels in the two reporting periods.

Financial liabilities are carried at amortized cost in the statement of financial position; the fair values of the financial liabilities are only shown in the notes. They are calculated at the present value of the discounted future cash flows using yield curves that are currently observable (Level 2).

Available-for-sale investments of € 0.4 million (12/31/2015: € 0.5 million) and available-for-sale shares of € 0.5 million (12/31/2015: € 0.5 million) are equity instruments carried at cost for which there is no quoted price on an active market. It was not possible to derive a fair value based on comparable transactions. These investments and shares are immaterial in comparison with the total position of the Group.

The financial receivables roughly correspond to the fair value as due to the amount of the existing receivables no material deviation between the fair value and the carrying amount is assumed and the credit default risk is accounted for by forming valuation allowances.

The remaining terms of trade and other current receivables and liabilities as well as cash and cash equivalents are predominantly short. Therefore, the carrying amounts of these items approximate fair value at the reporting date.

At the two reporting dates, no contractual netting agreement of financial assets and liabilities were in place.

Net results by measurement category in accordance with IAS 39

The effect of financial instruments on the income and expenses recognized in the reporting years 2016 and 2015 is shown in the following table, classified according to the measurement categories defined in IAS 39:

in € million	2016	2015
Net gain on available-for-sale financial assets		
recognized in the statement of profit or loss	2.4	8.2
recognized in other comprehensive income	0.1	(1.0)
reclassified from other comprehensive income to the statement of profit or loss	(0.1)	(4.2)
	2.4	3.0
Net loss from loans and receivables as well as financial liabilities at amortized cost	(13.1)	(19.7)
Net gain/loss on financial assets and financial liabilities classified as held for trading	6.0	(70.3)

The net gain on available-for-sale financial assets recognized in the statement of profit or loss includes income from securities and shares, income from the disposal of securities and shares, income realized from changes in market value originally recognized in other comprehensive income as well as income from reversals of impairment losses and impairment losses.

The net loss arising from loans and receivables as well as financial liabilities includes interest income and expenses, changes in valuation allowances and losses on derecognition, foreign exchange gains and losses as well as expenses related to the measurement of put options.

The net result of financial assets held for trading and financial liabilities includes unrealized results from the measurement of a long-term commodity futures contract as well as changes in the market value and realized results of forward exchange contracts and embedded derivatives in open orders in a currency other than the functional currency of RHI.

Net finance costs include interest income amounting to € 3.1 million (2015: € 5.8 million) and interest expenses of € 17.0 million (2015: € 19.4 million), which result from financial assets and liabilities which are not carried at fair value through profit or loss.

57. Derivative financial instruments

Commodity futures

The RHI Group concluded a commodity futures contract for electricity for the fusion plant in Porsgrunn, Norway, based on the business plan in November 2011. At the end of 2015, incidents at this site led to a more conservative estimate of future production volumes. In addition, the grade concept for finished products provides for increased use of external raw materials as a result of the plummeting raw material prices. In the current reporting year the production portfolio at the Porsgrunn plant was changed. As the so-called own-use exemption (exemption for own use in accordance with IAS 39.5) no longer applies, the long-term energy supply contract had to be qualified as a financial instrument in accordance with IAS 39 for the first time as of December 31, 2015.

The measurement of the entire term of the contract until the end of the year 2023 at market price level leads to a financial liability of € 49.0 million at December 31, 2016 (12/31/2015: € 58.0 million). The corresponding present value of the cash flows for the agreed electricity supply totals € 97.5 million at December 31, 2016 (12/31/2015: € 103.2 million); the present value of the cash flow at market price amounts to € 48.5 million (12/31/2015: € 45.2 million).

Interest rate swaps

RHI AG has concluded interest rate swaps to hedge the cash flow risk of financial liabilities carrying variable interest rates. Financial liabilities carrying variable interest in the amount of the nominal value of the interest rate swaps were designated as hedged items. The cash flow changes of the hedged items, which result from the changes of the variable interest rates, are balanced out by the cash flow changes of the interest rate swaps. These hedging measures pursue the objective to transform variable-interest financial liabilities into fixed-interest financial liabilities, thus hedging the cash flow from the financial liabilities. Credit risks are not part of the hedge.

The term of two hedging relationships with a nominal volume of € 25.7 million at the reporting date (12/31/2015: € 34.3 million) ends in the financial year 2019. The interest payments from the underlying transaction and the compensation payments from the two interest rate swaps are made quarterly at the end of the quarter.

A hedging relationship with a nominal value of € 50.0 million (12/31/2015: € 50.0 million) runs until the July 31, 2017. The interest and compensation payments for this hedging relationship are due semi-annually at the end of January and at the end of July. The interest expenses are recognized accordingly on a period basis.

Fixed interest rates amount to roughly 0.7% as in the previous year; the variable interest rates are based on the EURIBOR.

The effectiveness of a hedging relationship is tested on a prospective and retrospective basis. The conditions of the interest rate swaps correspond to the conditions of the underlying transaction. In the two reporting years no hedge ineffectiveness had to be recognized through profit or loss.

The fair values of the interest rate swaps totaled € (0.9) million at the reporting date (12/31/2015: € (1.3) million).

Forward exchange contracts

The nominal value and fair value of forward exchange contracts are shown in the table below:

		12/31/2016			12/31/2015		
Purchase	Sale	Nominal value in million		Fair value in € million	Nominal value in million		Fair value in € million
EUR	ZAR	ZAR	100.0	(0.1)		–	–
EUR	USD	USD	90.0	0.4	USD	24.0	0.0
EUR	CNY	EUR	21.7	0.1	EUR	25.7	(0.2)
EUR	CAD	CAD	10.0	0.0	CAD	10.0	0.0
MXN	USD	USD	10.0	0.0	USD	5.0	(0.1)
EUR	INR	EUR	8.9	0.0	EUR	6.3	(0.1)
NOK	EUR	EUR	–	–	EUR	11.5	(0.1)
INR	USD	USD	–	–	USD	0.2	0.0
Forward exchange contracts				**0.4**			**(0.5)**

58. Financial risk management

Financial risks are incorporated in RHI's corporate risk management and are centrally controlled by Group Treasury.

None of the following risks have a significant influence on the going concern of the RHI Group.

Credit risks

The maximum credit risk from recognized financial assets amounts to € 516.9 million (12/31/2015: € 485.8 million) and is primarily related to investments with banks and receivables due from customers.

The credit risk with banks related to investments (especially cash and cash equivalents) is reduced by the fact that business transactions are generally only carried out with contractual partners with a good credit rating.

In order to counteract the default risk related to these transactions, receivables from customers are hedged as far as possible through credit insurance and collateral arranged through banks (guarantees, letters of credit), even if the contractual partner has a top class credit rating. Credit and default risks are monitored continuously, and provisions are formed for risks that have occurred and for identifiable risks.

In the following, the credit risk from trade receivables is shown classified by customer industry, by foreign currency and by term.

This credit risk, which is hedged by existing credit insurance, letters of credit and bank guarantees, is shown by customer segment in the following table:

in € million	12/31/2016	12/31/2015
Segment Steel	208.6	203.4
Segment Industrial	96.0	96.0
Segment Raw Materials	4.4	5.0
Trade receivables	309.0	304.4
Credit insurance and bank guarantees	(181.5)	(184.4)
Net credit exposure	**127.5**	**120.0**

The following table shows the carrying amounts of receivables denominated in currencies other than the functional currencies of the Group companies. The carrying amounts of the receivables in the functional currency of the respective Group company are included under other functional currencies:

in € million	12/31/2016	12/31/2015
US dollar	50.1	48.2
Pound sterling	2.9	4.3
Other currencies	9.3	7.9
Other functional currencies	246.7	244.0
Trade receivables	**309.0**	**304.4**

The classification of receivables by days outstanding is shown below:

in € million	12/31/2016	12/31/2015
Neither impaired nor past due at reporting date	217.4	197.7
Not impaired at reporting date and past due in the following time frames		
Less than 30 days	20.5	25.7
Between 30 and 59 days	7.2	7.8
Between 60 and 89 days	2.7	3.4
More than 90 days	12.8	14.2
Impaired at reporting date	81.6	84.6
Valuation allowances	(33.2)	(29.0)
Trade receivables	**309.0**	**304.4**

With respect to receivables that were neither impaired nor overdue, there were no indications at the reporting date that the debtors would be unable to meet their payment obligations. No valuation allowance was recognized for overdue receivables amounting to € 43.2 million at the reporting date (12/31/2015: € 51.1 million) and impaired receivables of € 48.8 million (12/31/2015: € 55.6 million) because the risk of default is essentially covered by credit insurance, bank guarantees and letters of credit.

Liquidity risk

Liquidity risk refers to the risk that financial obligations cannot be met when due. The Group's financial policy is based on long-term financial planning and is centrally controlled and monitored continuously at RHI. The liquidity requirements resulting from budget and medium-term planning are secured by concluding appropriate financing agreements. As of December 31, 2016, the RHI Group has a credit facility of € 310.8 million (12/31/2015: € 339.1 million) at its disposal, which is unused and available immediately, as well as unused credit lines from the sale of receivables amounting to € 6.8 million

(12/31/2015: € 7.2 million). These lines of credit were concluded with different Austrian and international banks in order to ensure independence of banks. The companies of the RHI Group are integrated into a clearing process managed by Central Treasury and provided with financing limits in order to minimize the need of borrowings for the Group as a whole.

Non-derivative financial instruments

An analysis of the terms of non-derivative financial liabilities based on undiscounted cash flows including the related interest payments shows the following expected cash outflows:

in € million	Carrying amount 12/31/2016	Cash outflows	Remaining term up to 1 year	2 to 5 years	over 5 years
Liabilities to financial institutions					
fixed interest	214.6	237.6	26.0	140.6	71.0
variable interest	260.9	267.5	133.5	132.3	1.7
Liabilities to fixed-term or puttable non-controlling interests	32.5	182.2	9.1	13.0	160.1
Other financial liabilities	7.7	7.8	4.5	3.2	0.1
Trade payables and other current liabilities	217.3	217.3	217.3	0.0	0.0
Non-derivative financial liabilities	**733.0**	**912.4**	**390.4**	**289.1**	**232.9**

in € million	Carrying amount 12/31/2015	Cash outflows	Remaining term up to 1 year	2 to 5 years	over 5 years
Liabilities to financial institutions					
fixed interest	231.5	260.4	22.9	147.2	90.3
variable interest	278.7	289.7	89.0	176.8	23.9
Liabilities to fixed-term or puttable non-controlling interests(1)	31.3	164.4	7.4	12.1	144.9
Other financial liabilities	6.1	6.2	0.1	6.0	0.1
Trade payables and other current liabilities	196.9	196.9	196.9	0.0	0.0
Non-derivative financial liabilities	**744.5**	**917.6**	**316.3**	**342.1**	**259.2**

(1) Values adjusted for contractually agreed indexing of cash flows.

Derivative financial instruments

The remaining terms of derivative financial instruments based on expected undiscounted cash flow as of December 31, 2016 and December 31, 2015 are shown in the table below:

in € million	Carrying amount 12/31/2016	Cash flows	Remaining term up to 1 year	2 to 5 years	over 5 years
Receivables from derivatives with net settlement					
Financial assets held for trading	1.5	1.5	1.5	0.0	0.0
Liabilities from derivatives with net settlement					
Interest derivatives designated as cash flow hedges	0.9	0.9	0.7	0.2	0.0
Financial liabilities held for trading	49.1	51.9	6.1	31.0	14.8

in € million	Carrying amount 12/31/2015	Cash flows	Remaining term up to 1 year	2 to 5 years	over 5 years
Receivables from derivatives with net settlement					
Financial assets held for trading	2.3	2.3	2.3	0.0	0.0
Liabilities from derivatives with net settlement					
Interest derivatives designated as cash flow hedges	1.3	1.3	0.8	0.5	0.0
Financial liabilities held for trading	58.5	65.7	8.6	32.1	25.0

Foreign currency risks

Foreign currency risks arise especially where business transactions (operating activities, investments, financing) are conducted in a currency other than the functional currency of a company. They are monitored at the group level and analyzed with respect to hedging options. The net position of the Group in the respective currency serves as the basis for decisions regarding the use of hedging instruments.

Foreign currency risks according to IFRS 7 are created through financial instruments which are denominated in a currency other than the functional currency (in the following: foreign currency) and are monetary in nature. Important primary monetary financial instruments include trade receivables and payables, cash and cash equivalents as well as financial liabilities as shown in the statement of financial position. Equity instruments are not of a monetary nature and therefore not linked to a foreign currency risk in accordance with 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 monetary items, which represent part of a net investment in a foreign operation in accordance with IAS 21, are eliminated or hedged through forward exchange contracts. Significant provisions denominated in foreign currencies are also included in the analysis of risk.

The following table shows the foreign currency positions in the major currencies as of December 31, 2016:

in € million	USD	EUR	MXN	CHF	Other	Total
Financial assets	207.4	64.8	0.1	0.5	30.9	303.7
Financial liabilities, provisions	(156.2)	(37.8)	(14.2)	(6.9)	(17.2)	(232.3)
Net foreign currency position	**51.2**	**27.0**	**(14.1)**	**(6.4)**	**13.7**	**71.4**

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

in € million	USD	EUR	MXN	CHF	Other	Total
Financial assets	261.7	39.7	0.2	0.7	25.7	328.0
Financial liabilities, provisions	(162.8)	(54.1)	(17.0)	(15.1)	(14.2)	(263.2)
Net foreign currency position	**98.9**	**(14.4)**	**(16.8)**	**(14.4)**	**11.5**	**64.8**

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 reporting date. It is assumed that the positions on the reporting 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% appreciation or devaluation of the relevant functional currency against the following major currencies as of December 31, 2016 would have had the following effect on profit or loss and equity (both excluding income tax):

	Appreciation of 10%		Devaluation of 10%	
in € million	Gain/(loss)	Equity	Gain/(loss)	Equity
US dollar	(4.8)	(5.6)	5.9	6.9
Euro	(2.8)	7.7	2.7	(10.1)
Swiss franc	0.6	0.6	(0.7)	(0.7)
Other currencies	(0.1)	(1.2)	0.0	1.4

The hypothetical effect on profit or loss at December 31, 2015 can be summarized as follows:

	Appreciation of 10%		Devaluation of 10%	
in € million	Gain/(loss)	Equity	Gain/(loss)	Equity
US dollar	(9.0)	(13.1)	11.1	16.0
Euro	0.9	11.4	(1.9)	(14.7)
Swiss franc	1.3	1.3	(1.6)	(1.6)
Other currencies	0.4	(0.5)	(0.6)	0.7

Interest rate risks

The interest rate risk in the RHI Group is primarily related to financial instruments carrying variable interest rates, which may lead to fluctuations in results and cash flows. The RHI Group is predominantly exposed to interest risks in the euro area. At December 31, 2016, interest rate hedges amounting to € 75.7 million (12/31/2015: € 84.3 million) existed; a variable interest rate was converted into a fixed interest rate through an interest rate swap.

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 use the fair value option. A hypothetical change in the market interest rates for these financial instruments at the reporting date would have had no effect on profit and loss or equity.

Changes in market interest rates on financial instruments designated as hedges as a part of cash flow hedges to protect against interest rate-related payment fluctuations have an effect on equity and are therefore included in the equity-related sensitivity analysis. If the market interest rate as of December 31, 2016 had been 25 basis points higher or lower, equity would have been € 0.2 million (12/31/2015: € 0.3 million) higher or lower taking into account tax effects.

Changes in market interest rates have an effect on the interest result of primary, variable interest financial instruments whose interest payments are not designated as hedged items as a part of cash flow hedge relationships against interest rate risks, and are therefore included in the calculation of the result-related sensitivities. A change in the level of the market interest rate as of December 31, 2016 by 25 basis points would have no impact on the interest result. In the previous year, the interest result would have been € 0.1 million lower or higher.

Other market price risk

RHI holds certificates in an investment fund amounting to € 15.3 million (12/31/2015: € 20.4 million) to cover the legally required protection of personnel provisions of Austrian Group companies. The market value of these certificates is influenced by fluctuations of the worldwide volatile stock and bond markets.

In the financial year 2015, an energy supply contract with a term until the year 2023 had to be classified as a derivative financial instrument in accordance with IAS 39 for the first time. The fair value of the financial liability amounts to € 49.0 million at December 31, 2016 (12/31/2015: € 58.0 million). If the quoted forward prices at December 31, 2016 had been 20% higher or lower, EBIT would have been € 9.7 million (12/31/2015: € 9.0 million) higher or lower. In contrast, if the borrowing cost relevant for discounting had been 25 basis points higher or lower at the reporting date, EBIT would have been € 0.4 million (12/31/2015: € 0.6 million) higher or lower.

59. Capital management

The objectives of the capital management strategy of the RHI Group are to secure going concern in the long term by creating a solid capital base to finance future growth, to increase company value on a sustained basis and to generate adequate returns to enable attractive dividend payments to the shareholders and to service debt. In the case of growth through acquisitions, temporary deviations may occur in the key figures presented in the following. The objective is in any case the long-term compliance with the ratios described and the sustainable value increase of the company.

The RHI Group manages its capital structure through internal targets with respect to net financial debt, equity ratio, and net gearing ratio through careful monitoring and assessment of the overall economic framework conditions, the requirements and risks related to operations and taking into account fixed strategic projects.

The capital structure key figures at the reporting date are shown below:

	12/31/2016	12/31/2015
Net debt (in € million)	332.8	397.9
Net debt factor	1.8	2.8
Net gearing ratio (in %)	63.5%	81.0%
Equity ratio (in %)	29.2%	27.2%

Net financial debt, which reflects financial liabilities net of cash and cash equivalents, is controlled centrally by RHI in coordination with Corporate Treasury. The main task of the Corporate Treasury department is to secure liquidity to support business operations on a sustained basis, to use banking and financial services efficiently and to limit financial risks while at the same time optimizing earnings and costs. Due to central controlling, optimum effectiveness is accomplished by utilizing central and local instruments and opportunities.

The key performance indicator for net debt in the RHI Group is the net debt factor, which reflects the ratio of net financial liabilities to EBITDA (earnings before interest, taxes, depreciation and amortization taking into account the reversal of investment subsidies). EBTITDA amounts to € 189.1 million (2015: € 140.0 million). The net debt factor is a measure of the ability of a company to repay its debt and amounts to 1.8 for the current financial year. At December 31 of the previous year, it was 2.8. RHI's target is to keep the debt factor below 3.0.

The net gearing ratio is the ratio of net financial debt to equity; it amounts to 63.5% for the current financial year. In the previous year, the net gearing ratio amounted to 81.0%. RHI's internal objective provides for a balanced capital structure with a minimum equity ratio of 30%. The target regarding the net gearing ratio is subsequently derived from the equity ratio.

RHI controls the operating business via the profitability indicator ROACE (Return on Average Capital Employed). This indicator describes the interest on the capital employed in operating business or for an investment. In the RHI Group, ROACE designates the ratio of the net operating profit after taxes (NOPAT) to the average capital employed in the reporting period. Subsequently, the comparison of this profitability key figure with the cost of capital of RHI enables statements with respect to changes in shareholder value. The objective of the RHI Group is a ROACE which exceeds the weighted average cost of capital (WACC) by at least 500 basis points.

in € million	12/31/2016	12/31/2015
Ø Working capital		
Ø Inventories	384.6	416.5
Ø Trade receivables	306.7	317.7
Ø Receivables from long-term construction contracts	11.8	11.4
Ø Trade payables	(189.8)	(176.6)
Ø Prepayments received on orders	(14.5)	(17.3)
	498.8	**551.7**
Ø Assets		
Ø Property, plant and equipment	527.0	538.2
Ø Goodwill and other intangible assets	110.3	110.9
	637.3	**649.1**
Average capital employed	**1,136.1**	**1,200.8**
EBIT	116.1	37.5
Taxes	(29.9)	(9.8)
Net operating profit after taxes	**86.2**	**27.7**
Return on average capital employed (in %)	**7.6%**	**2.3%**
Ø RHI WACC (in %)	5.6%	6.7%

The ROACE amounts to 7.6% in the reporting year and exceeds the profitability of 2.3% in the previous year. This is above all attributable to special effects, which were higher in the previous year and were primarily related to expenses from derivatives of supply contracts and to impairments of the cash-generating units Raw Materials/Norway and Industrial/Monofrax. Adjusted for these effects, ROACE amounts to 8.0% for the current financial year and to 7.6% for the previous year.

In the reporting year 2016 and in the previous year, all externally imposed capital requirements were met.

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

60. Contingent liabilities

At December 31, 2016, warranties, performance guarantees and other guarantees amount to € 32.0 million (12/31/2015: € 34.3 million), and are exclusively accounted for by third parties. The terms of contingent liabilities range between 2 months and 3 years, depending on the type of liability. Based on experiences of the past, the probability that contingent liabilities are used is considered to be low.

In addition, contingent liabilities from sureties of € 0.7 million (12/31/2015: € 0.9 million) were recorded, of which € 0.3 million (12/31/2015: € 0.3 million) are related to contingent liabilities to creditors from joint ventures.

Individual proceedings and lawsuits which result from ordinary activities are pending as of December 31, 2016 or can potentially be exercised against RHI in the future. The related risks were analyzed with a view to their probability of occurrence. This analysis showed that the proceedings and lawsuits, both individually and overall, have no significant negative influence on the financial position and performance of the RHI Group.

61. Other financial obligations

Other financial obligations consist of the following items:

in € million	Total 12/31/2016	Remaining term up to 1 year	2 to 5 years	over 5 years
Obligations from rental and leasing contracts	66.7	13.8	32.6	20.3
Capital commitments	2.5	2.5	0.0	0.0
Other financial obligations	**69.2**	**16.3**	**32.6**	**20.3**

in € million	Total 12/31/2015	Remaining term up to 1 year	2 to 5 years	over 5 years
Obligations from rental and leasing contracts	66.0	13.0	35.7	17.3
Capital commitments	1.6	1.6	0.0	0.0
Other financial obligations	**67.6**	**14.6**	**35.7**	**17.3**

Other financial obligations are exclusively due to third parties. They are shown at nominal value.

Rental and leasing obligations for property, plant and equipment of € 21.8 million (2015: € 23.8 million) are recognized in the statement of profit or loss of the financial year 2016.

The conditions of the most important operating rental and leasing agreements can be summarized as follows:

At the company's head office in Vienna a rental agreement exists, which ends on October 28, 2020. Both contracting parties are entitled to terminate the rental agreement prematurely with a notice period of six months. However, the landlord may only exercise this right under certain conditions. The rent is adjusted to the consumer price index.

Another rental contract for offices has a term until April 30, 2020. The tenant has a two-time optional right to extend the contract by three years each. The annual rent is coupled to the development of the consumer price index.

At one production site, the area for operating a plant has been leased for the long term. The related contract ends in April 2062 and includes an extension option for another 30 years. The rent is subject to adaptation to inflation.

The Group also rents numerous mining vehicles, diggers, forklifts and the like by cancelable leasing agreements. The contracts have terms ranging from 2 to 7 years; most of them do not include a purchasing option after the contract ends.

In addition to the aforementioned financial obligations, the RHI Group also has long-term purchase obligations related to the supply with raw materials, especially for electricity, natural gas, strategic basic and non-basic raw materials as well as for the transport of raw materials within the Group. This results in other financial obligations of the nominal value of € 193.3 million at the reporting date (12/31/2015 adjusted: € 255.0 million). The remaining terms of the contracts amount to up to eight years. Purchases from these arrangements are recognized in accordance with the usual course of business. Purchase contracts are regularly reviewed for imminent losses, which may occur, for example, when requirements fall below the agreed minimum purchase volume or when contractually agreed prices deviate from the current market price level. A power supply contract with a remaining term of seven years is accounted for in accordance with IAS 39. As market prices on the reporting date were lower than the contractually agreed prices, this leads to a financial liability amounting to € 49.0 million (12/31/2015: € 58.0 million). This power supply contract is included in the total value of € 193.3 million at December 31, 2016 with a nominal value of € 103.0 million (12/31/2015: € 116.3 million).

62. Planned combination with Magnesita

RHI AG ("RHI") and the controlling shareholders of Magnesita Refratários S.A. ("Magnesita"), investment vehicles affiliated with GP Investments ("GP") and Rhône Capital ("Rhône", and together with GP, "Magnesita's Controlling Shareholders") reached an agreement on October 5, 2016 to combine the operations of RHI and Magnesita to create a leading refractory company to be named RHI Magnesita. Accordingly, RHI's Management Board agreed on October 5, 2016 to sign a share purchase agreement ("SPA") with Magnesita's Controlling Shareholders regarding the acquisition of a controlling stake of at least 46%, but no more than 50% plus one share of the total share capital in Magnesita (the "Transaction") pending RHI's Supervisory Board approval. At its meeting on October 13, 2016, the Supervisory Board of RHI AG gave its approval to the resolutions proposed by the Management Board regarding this Transaction. The purchase price for the 46% stake will be paid in cash amounting to € 118 million and 4.6 million new shares to be issued by RHI Magnesita, a new RHI entity to be established in the Netherlands and listed in London. The exchange ratio applied in the Transaction is 0.19 newly issued RHI Magnesita shares for 1 Magnesita share. Based on RHI's six-month volume weighted average price of € 19.52 as of October 4, 2016, the implied value of the 46% stake amounts to € 208 million, implying a value for Magnesita's entire share capital of € 451 million. The calculation is based on 10 million newly issued RHI Magnesita shares and 52,631,881 Magnesita shares.

As a result of the Transaction, GP will become a relevant shareholder of RHI Magnesita. The combined company's corporate governance will be constituted on a one-tier board structure while GP will be represented on the board of directors. All RHI Magnesita shares issued as a result of the Transaction and subsequent mandatory tender offer will be subject to a minimum 12-month lock-up period. The completion of the Transaction is amongst others subject to (i) approvals by the relevant competition authorities, (ii) the migration of RHI to the Netherlands, (iii) the listing of RHI Magnesita's shares in the premium segment of the Official List on the Main Market of the London Stock Exchange and (iv) RHI's shareholders not having exceeded statutory withdrawal rights in an amount of more than € 70 million in connection with organizational changes preceding RHI's migration from Austria. The migration and the preceding organizational changes in Austria require qualified approval by RHI's shareholders' meeting. As a consequence of the Transaction, RHI Magnesita will become the ultimate holding company of RHI Group while the shareholders of RHI will cease to hold shares in RHI and instead hold RHI Magnesita shares. Following registration of the corporate restructurings, RHI's shares cease to be listed on the Vienna Stock Exchange. The place of effective management of RHI Magnesita will be Austria. If the Transaction is terminated for reasons not under the control of Magnesita's Controlling Shareholders, an aggregate break fee of up to € 20 million is payable by RHI to Magnesita's Controlling Shareholders.

Following completion of the Transaction, which is expected for 2017, a mandatory tender offer will be launched by RHI Magnesita or one of its affiliates for the remaining shares in Magnesita ("Offer"). The Offer will include the option to sell shares on the same payment terms as the Transaction as well as a cash-only alternative amounting to € 8.19 per Magnesita share (subject to certain adjustments according to the SPA). As part of the Offer, a maximum number of 5.0 to 5.4 million RHI Magnesita shares will be issued, depending on the stake acquired within the Transaction, thereby resulting in an aggregate number of no more than 10.0 million newly issued shares to finance the acquisition. If some or all of Magnesita's other shareholders elect not to receive RHI Magnesita shares in the Offer, Magnesita's Controlling Shareholders have committed to purchase at least 1.5 to 1.9 million and at most 3.4 million additional new RHI Magnesita shares, thereby increasing their total number of RHI Magnesita shares to a maximum of 8.0 million. RHI Magnesita may decide to combine the Offer with a delisting offer and/or a voluntary offer to exit Magnesita from the "Novo Mercado" listing segment. The Offer will follow applicable Brazilian laws and regulations. Any RHI Magnesita shares that are not taken up in the Offer by Magnesita's shareholders may be either placed into the market or with institutional investors.

The Transaction will be financed by additional debt and the issuance of 4.6 to 5.0 million RHI Magnesita shares to Magnesita's Controlling Shareholders. At the same time, Magnesita will continue to finance itself on a standalone basis without credit support from RHI Group. Before or at completion of the Transaction, Magnesita is expected to adopt RHI's accounting practices, which could lead to significant, however substantially non-cash adjustments in Magnesita's book equity value.

The planned combination of RHI and Magnesita was submitted in the US and approved by the Federal Trade Commission in November. Currently, further applications with antitrust authorities, among others in Europe and Brazil, are being prepared or implemented.

63. Expenses for the Group auditor

The expensed fee for the activity of the Group auditor PwC Wirtschaftsprüfung GmbH in the financial year 2016 (2015: Deloitte Audit Wirtschaftsprüfungs GmbH) amounts to € 0.3 million (2015: € 0.3 million). The fee included € 0.2 million (2015: € 0.2 million) for the audit of the consolidated financial statements and the annual financial statements of RHI AG, and € 0.1 million (2015: € 0.1 million) for other certification services. The fees for other certification services include the remuneration for the audit of the annual financial statements of Austrian subsidiaries subject to statutory audits.

64. Annual average number of employees

The average number of employees of the RHI Group based on full time equivalents amounts to:

	2016	2015
Salaried employees	3,544	3,739
Waged workers	4,134	4,296
Number of employees on annual average	**7,678**	**8,035**

65. Notes on related party transactions

Related companies include subsidiaries that are not fully consolidated, joint ventures and MSP Foundation, Liechtenstein (until 12/28/2015: MS Private Foundation, Austria) as a shareholder of since it exercises significant influence based on its share of more than 25% in RHI AG. In accordance with IAS 24, the personnel welfare foundation of Stopinc AG, Hünenberg, Switzerland, also has to be considered a related company.

Related persons are persons holding a key position in the Group (active members of the Management Board and the Supervisory Board of RHI AG) and their close relatives.

Related companies

In the financial year 2016, the Group charged electricity and stock management costs amounting to € 3.3 million (2015: € 3.4 million) and interest of € 0.1 million (2015: € 0.1 million) to the joint venture MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria. In the previous year, the Group also realized income from property sales of € 0.7 million to MAGNIFIN. In the reporting period, the Group purchased raw materials in the amount of € 1.9 million (2015: € 1.9 million). Furthermore, the Group received dividend payments of € 9.5 million (2015: € 8.2 million). At December 31, 2016 receivables from MAGNIFIN amount to € 1.0 million (12/31/2015: € 1.6 million); there are no liabilities (12/31/2015: less than € 0.1 million). Neither in the reporting period nor in the previous financial year were valuation allowances recorded for receivables from this company. The balance at the end of the financial year is unsecured and will be paid in cash. To secure a pension claim of a former employee of MAGNIFIN, RHI has assumed a surety amounting to € 0.3 million (12/31/2015: € 0.3 million). A resulting cash outflow is not expected. No guarantees were received.

Business transactions with non-consolidated subsidiaries are not listed as they are of minor significance.

In the financial years 2016 and 2015 no transactions were carried out between the RHI Group and MSP Foundation (2015: MS Private Foundation), with the exception of the dividend paid.

A service relationship with respect to the company pension scheme of the employees of Stopinc AG exists between the personnel welfare foundation of Stopinc AG and the fully consolidated subsidiary Stopinc AG. Stopinc AG makes contribution payments to the plan assets of the foundation to cover pension obligations. The pension plan is recognized as a defined benefit plan and is included in note (27). At December 31, 2016 current account receivables of € 0.8 million (12/31/2015: € 0.8 million) from the personnel welfare foundation exist, for which an interest of 2.5% (2015: 2.5%) is charged. In the past reporting period, employer contributions amounting to € 0.5 million (2015: € 0.5 million) were made to the personnel welfare foundation. The overfunding of the pension plan is recognized as a non-current asset of € 2.1 million (12/31/2015: € 2.1 million).

Related persons

Remuneration of key management personnel of the Group, which is subject to disclosure in accordance with IAS 24, comprises the remuneration of the active Management Board and Supervisory Board of RHI AG.

The expenses for the remuneration of the Management Board in the financial year 2016 recognized in the statement of profit or loss totals € 10.1 million (2015: € 4.1 million). The expenses not including non-wage labor costs amount to € 9.4 million (2015: € 3.8 million), of which € 4.6 million (2015: € 3.4 million) were related to current benefits (fixed, variable and other earnings), € 2.9 million (2015: € 0.0 million) to benefits related to the termination of employment and € 1.9 million (2015: € 0.4 million) to share-based remuneration. At December 31, 2016, liabilities for performance-linked variable earnings and share-based payments for active members of the Management Board of € 1.6 million (12/31/2015: € 1.2 million) are recognized as liabilities. There are no obligations arising from post-employment benefits and legally required termination benefits towards active members of the Management Board.

In addition to the variable remuneration, the members of the Management Board of RHI AG active in 2016 and 2015 are also entitled to share-based payments. This program is a performance-linked and share-based compensation model, in which the vesting period per tranche extends over the respective financial year. At the beginning of the program, a portion of the annual salary is defined for the members of the Management Board, which is translated into a number of virtual shares using a reference price. The relevant reference price for the remuneration program of the respective financial year corresponds to the average RHI share price from December 1 of the previous year to January 31 of the current reporting year. The actual, vested entitlement to virtual shares depends on the level of target achievement; financial criteria (operating EBIT, ROACE, adjusted for external costs related to the planned combination of RHI and Magnesita) determine 70% and other criteria 30% of the entitlement. The equivalent value of the number of virtual shares determined per tranche will be paid in cash in the three equal portions in the following three financial years. This equivalent value in cash is determined on the basis of the average share price of the respective period from December 1 of the reporting year to January 31 of the following year.

The effects of this compensation program on the consolidated financial statements are shown in the table below:

	Number of virtual shares		Provision in € million		Expense in € million	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Compensation program 2016	73,042	0	1.7	0.0	1.8	0.0
Compensation program 2015	14,781	22,171	0.4	0.4	0.1	0.4
Total	**87,823**	**22,171**	**2.1**	**0.4**	**1.9**	**0.4**

In the financial year 2016 a payment of € 0.1 million was made for the first time for the compensation program 2015.

For members of the Supervisory Board (capital representatives), remuneration totaling € 0.3 million (2015: € 0.3 million) was recognized through profit or loss in the year 2016.

Employee representatives in the Supervisory Board, who are employed by the RHI Group, do not receive compensation for their activity in the Supervisory Board. For their activity as employees in the company and the activity of their close relatives employed with RHI, expenses of € 0.8 million (2015: € 0.8 million) are recognized. This group of persons received 176 (2015: 148) RHI shares in the reporting year as part of the employee stock ownership plan "4 plus 1".

No advance payments or loans were granted to members of the Management Board or Supervisory Board. The RHI Group did not enter into contingent liabilities on behalf of the Management Board and Supervisory Board.

In the previous year, the company had an obligation to pay one member of the Management Board a compensation of up to € 1.8 million in the case of a public takeover bid.

Directors Dealings reports are published on the websites of RHI AG and of the Austrian Financial Market Authority. All members of the Management Board and the Supervisory Board are covered by D&O insurance at RHI.

Detailed and individual information on the remuneration of the Management Board and the Supervisory Board is presented in the Corporate Governance Report 2016 of the RHI Group.

Earnings of former members of the Management Board amounted to € 1.2 million (2015: € 1.1 million).

66. Corporate bodies of RHI AG

Members of the Management Bord

Stefan Borgas, Vienna, Chairman (since December 1, 2016)
Franz Struzl, Vienna, Chairman (until November 30, 2016)
Wolfgang Ruttenstorfer, Vienna, Chairman (on interim basis from June 26, 2016 to November 30, 2016)
Barbara Potisk-Eibensteiner, Hagenbrunn
Franz Buxbaum, Bad Vöslau (until December 31, 2016)
Thomas Jakowiak, Vienna (since January 1, 2016)
Gerd Schubert, Vienna (since January 1, 2017)
Reinhold Steiner, Trofaiach

Members of the Supervisory Board

Herbert Cordt, Vienna, Chairman
Helmut Draxler, Vienna, Deputy Chairman
Wolfgang Ruttenstorfer, Vienna, Deputy Chairman (until June 25, 2016; from December 1, 2016)
Hubert Gorbach, Frastanz
Alfred Gusenbauer, Vienna
Gerd Peskes, Düsseldorf, Germany
Stanislaus Prinz zu Sayn-Wittgenstein-Berleburg, Munich, Germany
David A. Schlaff, Vienna

Employee representatives:

Walter Geier, Leoben
Christian Hütter, Vienna
Roland Rabensteiner, Veitsch
Franz Reiter, St. Jakob in Haus

67. Material events after the reporting date

After the reporting date on December 31, 2016, there were no events of special significance which may have a material effect on the financial position and performance of the RHI Group.

Vienna, March 10, 2017

Management Board
Der Vorstand

Stefan Borgas
CEO

Barbara Potisk-Eibensteiner
CFO

Gerd Schubert
COO
CTO R&D

Thomas Jakowiak
CSO Industrial Division

Reinhold Steiner
CSO Steel Division

The following auditor's report (Bestätigungsvermerk) has been issued in accordance with § 275 UGB in German language on the German version of the audited consolidated financial statements of RHI AG as of and for the fiscal year ended December 31, 2016 and on the management report. The management report is not included in this Prospectus.

Auditor's Report

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of RHI AG, Vienna, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2016, the separate 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 then ended, and the notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements under Section 245a Austrian Commercial Code.

Basis for Opinion

We conducted our audit in accordance with Austrian generally accepted auditing standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with Austrian Generally Accepted Accounting Principles and professional requirements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of RHI AG, Vienna, for the fiscal year ended December 31, 2015 were audited by another auditor who issued an unqualified auditor's report dated March 4, 2016 on these consolidated financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the fiscal year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have structured key audit matters as follows:

- Descriptions of individual key audit matters
- Audit approach
- Reference to related disclosures

1. Deferred tax assets on tax loss carry-forwards and other deductible temporary differences

- Description of the individual key audit matter

The RHI Group capitalized deferred tax assets in a total amount of EUR 144.8m, which mainly include deferred tax assets on tax loss carry-forwards in the amount of EUR 61.8m and deductible temporary differences arising on provisions for employee benefits in the amount of EUR 52.7m. Deferred tax assets are capitalized based on the assumption that sufficient taxable income will be generated within a planning period of at least 5 years against which loss carry-forwards and other deductible temporary differences can be offset. These assumptions are based on estimates of the current and the planned taxable results and any future measures implemented by the companies concerned that will have an effect on tax.

- Audit approach

We:

– Identified, for significant companies, the process used to determine the future taxable results that serve as the basis for the calculation of deferred tax assets,

– Performed plausibility checks for significant companies to evaluate if the budgeted figures used are plausible when compared to our knowledge of the planned course of business,

– Received tax advisor confirmation letters to confirm the existence and accuracy of the tax loss carry-forwards,

– Analyzed and confirmed the accounting assumptions on the possibility to utilize tax loss carry-forwards and deductible temporary differences, and

– Audited the presentation and the disclosures in the notes to the consolidated financial statements.

- Reference to related disclosures

For further related information, we refer to the notes to the consolidated financial statements of the RHI Group item (7) on principles of accounting and measurement on deferred taxes, item (9) with regard to discretionary decisions, assumptions and estimates on income taxes, and item (16) concerning deferred taxes.

2. Impairment of property, plant and equipment, goodwill and other intangible assets

- Description of the individual key audit matter

The RHI Group capitalized property, plant and equipment in the amount of EUR 521.8m, goodwill in the amount of EUR 37.8m and intangible assets in the amount of EUR 71.1m. These assets form cash-generating units (or CGUs for short) to the extent that they independently generate cash inflows. If and to the extent to which these CGUs include goodwill or intangible assets with indefinite useful lives or show signs for impairment, the carrying amount and the recoverable amount are compared. Annual planning process data is used to make assumptions on the discount rate, profitability as well as growth rates, and sensitivity analyses are carried out with regard to any accounting effects.

- Audit approach

We:

– Surveyed the process applied to identify and define cash-generating units, to calculate the recoverable amount, to test for impairment, to calculate the capital cost rate and the growth rate, as well as the calculation model,

– Reconciled the assumed future cash flows used in the budget planning with the information included in the forecast made by the management board and brought to the attention of the supervisory board,

– Drew on our pool of internal experts to perform plausibility checks with regard to the calculations and the calculation model. These experts recomputed the calculations and verified that the calculation model complies with the generally applicable international accounting principles,

– Drew on our pool of internal experts to reconcile the parameters used, e.g. the applied interest rates and growth rates that serve as the basis of the calculation, and critically assessed the results, and

– Audited the presentation and the disclosures in the notes to the consolidated financial statements.

• Reference to related disclosures

For further related information, we refer to the notes to the consolidated financial statements of the RHI Group item (7) on principles of accounting and measurement on the impairment of property, plant and equipment, goodwill and other intangible assets, and item (9) with regard to discretionary decisions, assumptions and estimates on the impairment of intangible assets with finite useful lives and property, plant and equipment, as well as on the impairment of goodwill and the impairment of other intangible assets with indefinite useful life.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements under Section 245a UGB, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Austrian generally accepted auditing standards, which require the application of ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Austrian generally accepted auditing standards, which require the application of ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

• identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit 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.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with all relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Comments on the Management Report for the Group

Pursuant to the Austrian Commercial Code, 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 management report for the Group was prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the management report for the Group in accordance with the Austrian Commercial Code.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report for the Group.

Opinion

In our opinion, the management report for the Group was prepared in accordance with the applicable legal requirements, includes accurate disclosures pursuant to Section 243a UGB and is consistent with the consolidated financial statements.

Statement

Based on the findings during the audit of the consolidated financial statements and due to the obtained understanding concerning the Group and its circumstances no material misstatements in the management report for the Group came to our attention.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the management report for the Group and the auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsible Engagement Partner

Responsible for the proper performance of the engagement is Mr. Aslan Milla, Austrian Certified Public Accountant.

Vienna, March 10, 2017

PwC Wirtschaftsprüfung GmbH

Aslan Milla m.p.
Austrian Certified Public Accountant

This report is a translation of the original report in German, which is solely valid. Publication and sharing with third parties of the consolidated financial statements together with our auditor's opinion is only allowed if the consolidated financial statements and the management report for the Group are identical with the German audited version. This audit opinion is only applicable to the German and complete consolidated financial statements with the management report for the Group. For deviating versions, the provisions of Section 281 (2) UGB apply.

Consolidated financial statements 2015

Consolidated statement of financial position

as of 12/31/2015

in € million	Notes	12/31/2015	12/31/2014
ASSETS			
Non-current assets			
Property, plant and equipment	(10)	532.2	544.2
Goodwill	(11)	37.5	36.1
Other intangible assets	(12)	74.2	74.0
Investments in joint ventures	(13)	19.3	18.3
Other non-current financial assets	(14)	23.7	39.6
Other non-current assets	(15)	18.0	19.6
Deferred tax assets	(16)	146.1	130.1
		851.0	**861.9**
Current assets			
Inventories	(17)	403.9	429.0
Trade and other current receivables	(18)	390.0	408.4
Income tax receivables	(19)	5.9	6.9
Other current financial assets	(20)	4.0	3.2
Cash and cash equivalents	(21)	149.7	151.1
		953.5	**998.6**
		1,804.5	**1,860.5**
EQUITY AND LIABILITIES			
Equity			
Share capital	(22)	289.4	289.4
Group reserves	(23)	188.2	192.3
Equity attributable to shareholders of RHI AG		477.6	481.7
Non-controlling interests	(24)	13.8	12.2
		491.4	**493.9**
Non-current liabilities			
Non-current financial liabilities	(25)	438.0	417.0
Other non-current financial liabilities	(26)	51.3	1.3
Deferred tax liabilities	(16)	15.3	16.5
Personnel provisions	(27)	326.3	355.1
Other non-current provisions	(28)	4.3	6.1
Other non-current liabilities	(29)	7.9	8.8
		843.1	**804.8**
Current liabilities			
Current financial liabilities	(25)	109.6	201.0
Other current financial liabilities	(26)	8.5	0.4
Trade payables and other current liabilities	(30)	293.6	296.4
Income tax liabilities	(31)	25.3	24.1
Current provisions	(32)	33.0	39.9
		470.0	**561.8**
		1,804.5	**1,860.5**

Consolidated statement of profit or loss

from 01/01/2015 to 12/31/2015

in € million	Notes	2015	2014
Revenue	(33)	1,752.5	1,721.2
Cost of sales	(34)	(1,389.1)	(1,350.3)
Gross profit		**363.4**	**370.9**
Selling and marketing expenses	(35)	(112.1)	(114.7)
General and administrative expenses	(36)	(122.3)	(114.9)
Other income	(37)	76.0	50.9
Other expenses	(38)	(80.9)	(50.3)
Operating EBIT		**124.1**	**141.9**
Losses from derivatives from supply contracts	(56)	(58.0)	0.0
Impairment losses	(39)	(31.2)	(19.8)
Income from restructuring	(40)	5.9	0.0
Restructuring costs	(40)	(3.3)	(13.6)
Net income from US Chapter 11 proceedings		0.0	0.8
EBIT		**37.5**	**109.3**
Interest income	(41)	5.8	2.6
Interest expenses	(42)	(20.5)	(22.2)
Other net financial expenses	(43)	(4.6)	(13.1)
Net finance costs		**(19.3)**	**(32.7)**
Share of profit of joint ventures	(13)	9.2	8.2
Profit before income tax		**27.4**	**84.8**
Income tax	(44)	(9.8)	(32.3)
Profit after income tax		**17.6**	**52.5**
attributable to shareholders of RHI AG		16.0	51.0
attributable to non-controlling interests	(24)	1.6	1.5
in €			
Earnings per share (basic and diluted)	(53)	0.40	1.28

All items up to and including the operating EBIT do not include losses from derivatives from supply contracts, impairment losses for cash-generating units and restructuring effects and no results from the US Chapter 11 proceedings.

Consolidated statement of comprehensive income

from 01/01/2015 to 12/31/2015

in € million	Notes	2015	2014
Profit after income tax		**17.6**	**52.5**
Currency translation differences			
Unrealized results from currency translation	(6)	5.0	22.1
Deferred taxes thereon	(16)	(0.5)	0.0
Current taxes thereon		2.6	0.0
Reclassification reserves to profit or loss		(1.2)	0.0
Deferred taxes thereon	(16)	0.3	0.0
Market valuation of cash flow hedges			
Unrealized results from fair value change	(56)	0.1	(1.9)
Deferred taxes thereon	(16)	0.0	0.5
Reclassification reserves to profit or loss		0.0	(0.1)
Market valuation of available-for-sale financial instruments			
Unrealized results from fair value change	(55)	(1.0)	3.1
Deferred taxes thereon	(16)	0.4	(0.6)
Reclassification reserves to profit or loss	(55)	(4.2)	0.0
Deferred taxes thereon	(16)	0.3	0.0
Items that will be reclassified subsequently to profit or loss, if necessary		**1.8**	**23.1**
Remeasurement of defined benefit plans			
Remeasurement of defined benefit plans	(27)	13.1	(49.0)
Deferred taxes thereon	(16)	(4.4)	13.4
Share of other comprehensive income of joint ventures	(13)	0.0	(0.2)
Items that will not be reclassified to profit or loss		**8.7**	**(35.8)**
Other comprehensive income after income tax		**10.5**	**(12.7)**
Total comprehensive income		**28.1**	**39.8**
attributable to shareholders of RHI AG		25.8	37.2
attributable to non-controlling interests	(24)	2.3	2.6

Consolidated statement of cash flows

from 01/01/2015 to 12/31/2015

in € million	Notes	2015	2014
Profit after income tax		17.6	52.5
Adjustments for			
income tax		9.8	32.3
depreciation and amortization charges		69.3	67.8
impairment losses of property, plant and equipment and intangible assets		34.1	23.0
income from the reversal of investment subsidies		(0.9)	(0.7)
impairment losses on securities		0.6	0.0
(gains)/losses from the disposal of property, plant and equipment		(3.4)	1.5
net income from US Chapter 11 proceedings		0.0	(0.8)
interest result		14.7	19.6
gains from the disposal of securities and shares		(4.6)	0.0
share of profit of joint ventures		(9.2)	(8.2)
other non-cash changes		63.7	17.5
Changes in			
inventories		24.5	(31.0)
trade receivables		21.1	(39.6)
other receivables and assets		0.0	(4.2)
provisions		(24.4)	(29.7)
trade payables		0.2	6.6
other liabilities		(9.3)	(3.2)
Cash flow from operating activities		**203.8**	**103.4**
Income tax paid less refunds		(28.4)	(31.0)
Net cash flow from operating activities	(47)	**175.4**	**72.4**
Investments in property, plant and equipment and intangible assets		(80.8)	(76.2)
Cash inflows from the sale of property, plant and equipment		4.8	2.6
Cash inflows from/investments in non-current receivables		0.0	0.6
Cash inflows from the sale of securities and shares		14.1	0.0
Dividend payments and repayment of capital from joint ventures		8.2	7.6
Investment subsidies received		0.7	1.9
Interest received		5.8	2.4
Net cash flow from investing activities	(48)	**(47.2)**	**(61.1)**
Investments in non-controlling interests		0.0	(1.2)
Dividend payments to shareholders of RHI AG		(29.9)	(29.9)
Dividend payments to non-controlling interests		(0.6)	(0.6)
Proceeds from non-current borrowings and loans		48.4	172.2
Repayments of non-current borrowings and loans		(118.6)	(43.7)
Changes in current borrowings		(3.4)	(52.4)
Interest payments		(20.3)	(19.8)
Net cash flow from financing activities	(49)	**(124.4)**	**24.6**
Total cash flow		**3.8**	**35.9**
Change in cash and cash equivalents		**3.8**	**35.9**
Cash and cash equivalents at beginning of year		151.1	112.4
Changes due to currency translation		(5.2)	2.8
Cash and cash equivalents at year-end	(51)	149.7	151.1
Total interest paid	(50)	20.8	20.9
Total interest received	(50)	5.8	2.6

Consolidated statement of changes in equity

from 01/01/2015 to 12/31/2015

		Group reserves								
			Accumulated other comprehensive income							
in € million	Share capital	Additional paid-in capital	Retained earnings	Cash flow hedges	Available-for-sale financial instruments	Defined benefit plans	Currency translation	Equity attributable to shareholders of RHI AG	Non-controlling interests	Total equity
Notes	(22)	(23)	(23)	**(23)**	**(23)**	**(23)**	**(23)**		**(24)**	
12/31/2014	**289.4**	**38.3**	**307.9**	**(1.0)**	**4.5**	**(106.1)**	**(51.3)**	**481.7**	**12.2**	**493.9**
Profit after income tax	**–**	**–**	**16.0**	**–**	**–**	**–**	**–**	**16.0**	**1.6**	**17.6**
Currency translation differences	–	–	–	–	–	–	5.5	**5.5**	**0.7**	**6.2**
Market valuation of cash flow hedges	–	–	–	0.1	–	–	–	**0.1**	**–**	**0.1**
Market valuation of available-for-sale financial instruments	–	–	–	–	(4.5)	–	–	**(4.5)**	**–**	**(4.5)**
Remeasurement of defined benefit plans	–	–	–	–	–	8.7	–	**8.7**	**–**	**8.7**
Other comprehensive income after income tax	**–**	**–**	**–**	**0.1**	**(4.5)**	**8.7**	**5.5**	**9.8**	**0.7**	**10.5**
Total comprehensive income	**–**	**–**	**16.0**	**0.1**	**(4.5)**	**8.7**	**5.5**	**25.8**	**2.3**	**28.1**
Dividends	–	–	(29.9)	–	–	–	–	**(29.9)**	**(0.7)**	**(30.6)**
Transactions with shareholders	**–**	**–**	**(29.9)**	**–**	**–**	**–**	**–**	**(29.9)**	**(0.7)**	**(30.6)**
Settlement of defined benefit plans after income tax	–	–	(5.5)	–	–	5.5	–	**0.0**	**–**	**0.0**
Income taxes on currency translation differences from net investments in foreign operations	–	–	(4.0)	–	–	–	4.0	**0.0**	**–**	**0.0**
Reclassifications	**–**	**–**	**(9.5)**	**–**	**–**	**5.5**	**4.0**	**0.0**	**–**	**0.0**
12/31/2015	**289.4**	**38.3**	**284.5**	**(0.9)**	**0.0**	**(91.9)**	**(41.8)**	**477.6**	**13.8**	**491.4**

in € million	Share capital	Additional paid-in capital	Retained earnings	Cash flow hedges	Available-for-sale financial instruments	Defined benefit plans	Currency translation	Equity attributable to share-holders of RHI AG	Non-controlling interests	Total equity
		Group reserves								
			Accumulated other comprehensive income							
Notes	(22)	(23)	(23)	(23)	(23)	(23)	(23)		(24)	
12/31/2013	**289.4**	**38.3**	**287.7**	**0.5**	**2.0**	**(70.3)**	**(72.3)**	**475.3**	**10.2**	**485.5**
Profit after income tax	**–**	**–**	**51.0**	**–**	**–**	**–**	**–**	**51.0**	**1.5**	**52.5**
Currency translation differences	–	–	–	–	–	–	21.0	**21.0**	**1.1**	**22.1**
Market valuation of cash flow hedges	–	–	–	(1.5)	–	–	–	**(1.5)**	**–**	**(1.5)**
Market valuation of available-for-sale financial instruments	–	–	–	–	2.5	–	–	**2.5**	**–**	**2.5**
Remeasurement of defined benefit plans	–	–	–	–	–	(35.6)	–	**(35.6)**	**–**	**(35.6)**
Share of other comprehensive income of joint ventures	–	–	–	–	–	(0.2)	**–**	**(0.2)**	**–**	**(0.2)**
Other comprehensive income after income tax	**–**	**–**	**–**	**(1.5)**	**2.5**	**(35.8)**	**21.0**	**(13.8)**	**1.1**	**(12.7)**
Total comprehensive income	**–**	**–**	**51.0**	**(1.5)**	**2.5**	**(35.8)**	**21.0**	**37.2**	**2.6**	**39.8**
Dividends	–	–	(29.9)	**–**	**–**	**–**	**–**	**(29.9)**	**(0.6)**	**(30.5)**
Other changes in equity	–	–	(0.9)	**–**	**–**	**–**	**–**	**(0.9)**	**–**	**(0.9)**
Transactions with shareholders	**–**	**–**	**(30.8)**	**–**	**–**	**–**	**–**	**(30.8)**	**(0.6)**	**(31.4)**
12/31/2014	**289.4**	**38.3**	**307.9**	**(1.0)**	**4.5**	**(106.1)**	**(51.3)**	**481.7**	**12.2**	**493.9**

Notes
to the consolidated financial statements 2015

PRINCIPLES AND METHODS

(1) General

RHI is a globally operating Austrian industrial group. The core activities of the RHI Group comprise the development and production as well as the sale, installation and maintenance of high-grade refractory products and systems which are used in industrial high-temperature processes exceeding 1,200 °C. RHI supplies customers in the steel, cement, lime, glass and nonferrous metals industries. In addition, RHI products are employed in the environment (waste incineration), energy (refractory construction) and chemicals (petrochemicals) sectors.

The ultimate parent undertaking of the Group is RHI AG, a stock corporation under Austrian law. The company is registered in the commercial register under the number FN 103123b at the Commercial Court of Vienna and has its legal domicile and head office in Wienerbergstraße 9, 1100 Vienna, Austria.

The shares of RHI AG are listed on the Prime Market and the lead index ATX of the Vienna Stock Exchange.

The consolidated financial statements are prepared as of the reporting date of the annual financial statements of RHI AG. The financial year of RHI AG corresponds to the calendar year. Insofar as financial years of companies included in the consolidated financial statements do not end on the reporting date of RHI AG on December 31 due to local legal requirements, interim financial statements are prepared for the purpose of consolidation. The reporting date of the Indian subsidiaries Orient Refractories Ltd., RHI Clasil Private Limited and RHI India Private Limited is March 31.

The consolidated financial statements for the period from January 1 to December 31, 2015 were drawn up pursuant to § 245a of the Austrian Commercial Code (UGB) in accordance with all International Financial Reporting Standards (IFRSs) mandatory at the time of preparation as adopted by the European Union (EU). The additional requirements of § 245a para. 1 UGB were taken into account.

The presentation in the consolidated statement of financial position distinguishes between current and non-current assets and liabilities. Assets and liabilities are classified as current if they are due within one year or within a longer normal business cycle. Inventories as well as trade receivables and trade payables are generally presented as current items. Deferred tax assets and liabilities as well as assets and provisions for pensions and termination benefits are generally presented as non-current items.

The consolidated statement of profit or loss is drawn up in accordance with the cost of sales method. Under this method, revenue is offset against the expenses incurred to generate it, which are allocated to the functions production, sales and administration.

The EBIT (earnings before interest and taxes) and the operating EBIT (EBIT adjusted for special influences) are shown separately in the statement of profit or loss as they are important key figures of measuring performance for the RHI Group. Special influences are related in particular to the measurement of individual long-term contractual obligations, effects from impairment tests at the level of cash-generating units or from restructuring due to massive capacity adjustments, significantly changed market strategies or comprehensive reorganization in administration. The presentation chosen is to convey a true view of the earnings situation, which is comparable over time, to the users of the RHI consolidated financial statements.

With the exception of specific items such as available-for-sale financial assets, derivative financial instruments and defined benefit obligations, the consolidated financial statements are prepared in accordance with the principle of historical acquisition and production costs. The measurement methods applied to the exceptions are described in the following.

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 recognized as well as the disclosure of contingent assets and liabilities as of the reporting 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 experience from comparable 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. For computational reasons, rounding differences may occur.

The Management Board of RHI AG completed and signed the present consolidated financial statements on March 4, 2016 and released them for distribution to the Supervisory Board. The Supervisory Board is responsible for reviewing the consolidated financial statements and for stating whether it approves the consolidated financial statements.

(2) Initial application of new financial reporting standards

In the financial year 2015, the following new or revised financial reporting standards including the resulting changes in other standards, which are also adopted by the EU, were applied for the first time:

Standard	Title	Publication (EU endorsement)	Mandatory application for RHI	Effects on RHI consolidated financial statements
New interpretation				
IFRIC 21	Levies	05/20/2013 (06/13/2014)	01/01/2015	No effect
Amendments of standards				
Various	Annual Improvements to IFRSs 2011-2013 Cycle	12/12/2013 (12/18/2014)	01/01/2015	No effect

(3) New financial standards not yet applied

The IASB issued further standards, amendments to standards and interpretations, whose application is, however, not yet mandatory for the year 2015. The following financial reporting standards were adopted by the EU by the time of the preparation of the RHI consolidated financial statements:

Standard	Title	Publication (EU endorsement)[1]	Mandatory application for RHI	Expected effects on RHI consolidated financialstatements
Amendments of standards				
IAS 1	Disclosure Initiative	12/18/2014 (12/18/2015)	01/01/2016	No effect
IAS 16, IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	05/12/2014 (12/02/2015)	01/01/2016	No effect
IAS 16, IAS 41	Bearer Plants	06/30/2014 (11/23/2015)	01/01/2016	Not relevant
IAS 27	Equity Method in Separate Financial Statements	08/12/2014 (12/18/2015)	01/01/2016	Not relevant

Standard	Title	Publication (EU endorsement)[1]	Mandatory application for RHI	Expected effects on RHI consolidated financialstatements
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	05/06/2014 (11/24/2015)	01/01/2016	No effect
Various	Annual Improvements to IFRSs 2010-2012 Cycle	12/12/2013 (12/17/2014)	01/01/2016	Additional notes disclosures
Various	Annual Improvements to IFRSs 2012-2014 Cycle	09/25/2014 (12/15/2015)	01/01/2016	No effect

(1) according to EU Endorsement Status Report of 02/16/2016

The changes to these standards were not early adopted on a voluntary basis.

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

Standard	Title	Publication[1]	Mandatory application for RHI	Expected effects on RHI consolidated financial statements
New standards				
IFRS 9	Financial Instruments	07/24/2014	01/01/2018	A reliable assessment of the effects is not possible at the moment.
IFRS 14	Regulatory Deferral Accounts	01/30/2014 (no EU endorsement)	–	Not relevant
IFRS 15	Revenue from Contracts with Customers	05/28/2014 09/11/2015	01/01/2018	A reliable assessment of the effects is not possible at the moment.
IFRS 16	Leases	01/13/2016	01/01/2019	A reliable assessment of the effects is not possible at the moment.
Amendments of standards				
IAS 7	Disclosure Initiative	01/29/2016	01/01/2017	Additional notes disclosures
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	01/19/2016	01/01/2017	No effect

Standard	Title	Publication[1]	Mandatory application for RHI	Expected effects on RHI consolidated financial statements
IFRS 10, IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	09/11/2014 (postponed by EU)	Deferred indefinitely	No effect
IFRS 10, IFRS 12, IAS 28	Investment Entities: Applying the Consolidation Exception	12/18/2014	01/01/2016	Not relevant

(1) according to EU Endorsement Status Report of 02/16/2016

The new IFRS 9 "Financial Instruments" supersedes the current provisions of IAS 39 "Financial Instruments: Recognition and Measurement" for the accounting of financial instruments.

The measurement categories 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 can be allocated to the category amortized cost depends on the business model of the company, i.e. how the company controls its financial instruments, and on the contractual cash flows of the individual instrument. IFRS 9 introduces additional changes with respect to financial liabilities.

IFRS 9 requires not only the recognition of losses incurred for financial assets, but also of expected losses, with the extent of the recognition depending on the change in the default risk of the financial assets since their addition. Exceptions are made for trade receivables, for example.

For the accounting of hedging relationships, the risk management target will be decisive in the future. In addition, the requirements to demonstrate hedge effectiveness will change.

IFRS 15 "Revenue from Contracts with Customers" provides uniform regulations for revenue realization which are applicable to all contracts with customers. IFRS 15 supersedes IAS 18 "Revenue" and IAS 11 "Construction Contracts". The decisive factor for revenue realization is no longer the transfer of significant opportunities and risks, but rather, when the customer obtains power over the goods and services agreed and can benefit from them.

IFRS 15 introduces a five-step model to determine revenue realization. According to this model, the contract with the customer and the separate performance obligations therein have to be identified. Then the transaction price must be determined and allocated to the performance obligations identified. Revenue must then be realized separately for each performance obligation in the amount of the allocated pro-rata transaction price. For this purpose, criteria were defined which distinguish between satisfying a performance obligation either at a point in time or over time.

The effects of the initial application of IFRS 15 on the RHI consolidated financial statements are currently evaluated in the RHI Group as part of a project. So far, the analysis phase has shown that supply contracts with customers may include additional separate performance obligations. If contracts with customers regarding the supply of goods contain only one single performance obligation, the Group expects the realization of revenue to take place at the time the power over the asset is transferred; this would not have any material effect on the consolidated financial statements. In addition to delivering goods, the RHI Group also provides different services. If these services represent separate performance obligations within a supply contract, a corresponding transaction price must be allocated to them, which has an influence on the timing of the realization of revenue.

Furthermore, the implementation of IFRS 15 will require adjustments of the IT landscape. At this point, no reliable estimate of the effects of the application of IFRS 15 on the RHI consolidated financial statements can be made yet. The evaluation process is continued on an ongoing basis.

IFRS 16 “Leases”, which was issued in January 2016, stipulates new rules regarding the accounting of leases. IFRS 16 supersedes IAS 17 “Leases” and the related interpretations. In the future, most leases will have to be recognized as assets and liabilities in the statement of financial position, regardless of whether they were considered operating or financing leases under the previous criteria of IAS 17. For lessors the changes in comparison with accounting pursuant to IAS 17 will only be minor.

A reliable estimate of the effects of the application of IFRS 9, IFRS 15 and IFRS 16 on the RHI consolidated financial statements can only be made when a detailed analysis has been conducted. Currently, no early adoption of the new or changed standards and interpretations is planned.

(4) Group of consolidated companies

In addition to RHI AG as the parent company, the RHI consolidated financial statements include the financial statements of 77 subsidiaries (12/31/2014: 79).

As in the previous year, one joint venture is accounted for using the equity method.

As in the previous year, four subsidiaries and four other investments, which are considered to be immaterial for the financial position and performance of the RHI Group due to their suspended or minimal business activities, were not included in the consolidated financial statements.

The group of consolidated companies developed as follows:

	2015		2014	
Number of consolidated companies	Full consolidation	Equity method	Full consolidation	Equity method
Balance at beginning of year	**80**	**1**	**80**	**2**
Additions	0	0	1	0
Retirements and disposals	(2)	0	(1)	(1)
Balance at year-end	**78**	**1**	**80**	**1**

Changes in the group of consolidated companies in the reporting year 2015

With effect from January 1, 2015, the fully consolidated subsidiary Veitsch-Radex America Inc., Burlington, Canada, was merged with RHI Canada Inc., Burlington, Canada.

With effect from December 17, 2015, the subsidiary Magnesitwerk Aken Vertriebsgesellschaft mbH, Aken, Germany, was deconsolidated as a result of liquidation.

Changes in the group of consolidated companies in the previous year

The newly established subsidiary RHI ITALIA S.R.L. (100%), Brescia, was included in the group of consolidated companies with effect from December 15, 2014. The purpose of the company is the sale of refractory products and customer service in Italy.

With effect from January 1, 2014, the US subsidiary INTERSTOP Corporation, Cincinnati, was merged with RHI US Ltd., Wilmington, and is no longer part of the group of consolidated companies.

Since December 31, 2014, Società Dolomite Italiana SDI S.R.L., a company based in Brescia and previously consolidated at equity, has been carried at cost as its liquidation is largely completed in economic terms. In the year 2014 a cash inflow from a capital decrease of € 0.1 million was recorded.

Acquisition of additional shares where control already existed in the previous year

The RHI subsidiary Dutch Brasil Holding B.V., Arnhem, Netherlands exercised the option to acquire 40% of the shares in RHI India Private Limited, Navi Mumbai, by purchase contract of November 24, 2014. For the 40% share held by the non-controlling interest, a call option existed for RHI and a put option for the non-controlling shareholder.

The purchase price for this transaction amounted to € 1.2 million and was paid in cash in December 2014. The cash outflow was recognized in cash flow from financing activities. Due to the put option granted, a financial liability of the same amount was shown in the consolidated statement of financial position, which was derecognized. Hence, RHI holds 100% of the shares and voting rights in this Indian company.

Companies of the RHI Group

The ten most important operating companies of the RHI Group pursue the following core business activities:

Name and registered office of the company	Country of core activity	Core business activity
RHI AG, Austria	International	Sales, R&D, financing
Didier-Werke AG, Germany	Germany	Production
Magnesit Anonim Sirketi, Turkey	Turkey	Mining, production, sales
Orient Refractories Ltd., India	India	Production, sales
RHI Canada Inc., Canada	Canada	Production, sales, provision of services
RHI GLAS GmbH, Germany	International	Sales
RHI-Refmex, S.A. de C.V., Mexico	Latin America	Sales
RHI Refractories (Dalian) Co., Ltd., PR China	PR China	Production
RHI US Ltd., USA	USA	Production, sales
Veitsch-Radex GmbH & Co OG, Austria	Austria	Mining, production

The following list, which was drawn up in accordance with § 245a para. 1 UGB in conjunction with § 265 para. 2 UGB, shows all companies in which RHI holds a share of at least 20%:

		12/31/2015		12/31/2014	
Ser. no.	Name and registered office of the company	Shareholder	Share in %	Shareholder	Share in %
1.	RHI AG, Vienna, Austria				
	Fully consolidated subsidiaries				
2.	Betriebs- und Baugesellschaft mbH, Wiesbaden, Germany	6.	100.0	6.	100.0
3.	CJSC “RHI Podolsk Refractories”, Moscow, Russia	27.,72.	100.0	27.,72.	100.0
4.	Didier Belgium N.V., Evergem, Belgium	37.,68.	100.0	37.,68.	100.0
5.	Didier Vertriebsgesellschaft mbH, Wiesbaden, Germany	6.	100.0	6.	100.0
6.	Didier-Werke AG, Wiesbaden, Germany	1.,27.	100.0	1.,27.	100.0
7.	Dolomite Franchi S.p.A., Brescia, Italy	27.	100.0	27.	100.0
8.	D.S.I.P.C.-Didier Société Industrielle de Production et de Constructions, Breuillet, France	6.	100.0	6.	100.0
9.	Dutch Brasil Holding B.V., Arnhem, Netherlands	72.	100.0	72.	100.0
10.	Dutch MAS B.V., Arnhem, Netherlands	6.	100.0	6.	100.0
11.	Dutch US Holding B.V., Arnhem, Netherlands	72.	100.0	72.	100.0
12.	Full Line Supply Africa (Pty) Limited, Sandton, South Africa	27.	100.0	27.	100.0
13.	GIX International Limited, Wakefield, United Kingdom	79.	100.0	79.	100.0
14.	INDRESCO U.K. Ltd., Wakefield, United Kingdom	13.	100.0	13.	100.0
15.	INTERSTOP (Shanghai) Co., Ltd., Shanghai, PR China	71.	100.0	71.	100.0
16.	Latino America Refractories ApS, Hellerup, Denmark	79.	100.0	79.	100.0
17.	Liaoning RHI Jinding Magnesia Co., Ltd., Dashiqiao City, PR China(1)	27.	83.3	27.	83.3
18.	LLC “RHI Wostok”, Moscow, Russia	1.,27.	100.0	1.,27.	100.0
19.	LLC “RHI Wostok Service”, Moscow, Russia	1.,27.	100.0	1.,27.	100.0
20.	Lokalbahn Mixnitz-St. Erhard AG, Vienna, Austria	60.	100.0	60.	100.0
21.	Magnesit Anonim Sirketi, Eskisehir, Turkey(2)	27.	100.0	27.	100.0

Ser. no.	Name and registered office of the company	12/31/2015 Shareholder	12/31/2015 Share in %	12/31/2014 Shareholder	12/31/2014 Share in %
22.	Magnesitwerk Aken Vertriebsgesellschaft mbH i.L., Aken, Germany	–	–	6.	100.0
23.	Mezubag AG, Pfäffikon, Switzerland	71.	100.0	71.	100.0
24.	Orient Refractories Ltd., New Delhi, India	11.	69.6	11.	69.6
25.	Premier Periclase Ltd., Drogheda, Ireland	11.	100.0	11.	100.0
26.	Producción RHI México, S. de R.L. de C.V., Ramos Arizpe, Mexico	52.,79.	100.0	52.,79.	100.0
27.	Radex Vertriebsgesellschaft mbH, Leoben, Austria	76.	100.0	76.	100.0
28.	REFEL S.p.A., San Vito al Tagliamento, Italy	6.	100.0	6.	100.0
29.	Refractory Intellectual Property GmbH, Vienna, Austria	1.	100.0	1.	100.0
30.	Refractory Intellectual Property GmbH & Co KG, Vienna, Austria	1.,29.	100.0	1.,29.	100.0
31.	RHI Argentina S.R.L., San Nicolás, Argentina	16.,79.	100.0	16.,79.	100.0
32.	RHI Canada Inc., Burlington, Canada	79.	100.0	79.	100.0
33.	RHI Chile S.A., Santiago, Chile	13.,79.	100.0	13.,79.	100.0
34.	RHI Clasil Private Limited, Hyderabad, India(1),(3)	79.	53.7	79.	53.7
35.	RHI Dinaris GmbH, Wiesbaden, Germany	68.	100.0	68.	100.0
36.	RHI Finance A/S, Hellerup, Denmark	1.	100.0	1.	100.0
37.	RHI GLAS GmbH, Wiesbaden, Germany	68.	100.0	68.	100.0
38.	RHI India Private Limited, Navi Mumbai, India	9.,79.	100.0	9.,79.	100.0
39.	RHI ITALIA S.R.L., Brescia, Italy	1.	100.0	1.	100.0
40.	RHI Marvo Feuerungs- und Industriebau GmbH, Gerbstedt, Germany	41.	100.0	41.	100.0
41.	RHI MARVO Feuerungs- und Industriebau GmbH, Kerpen, Germany	6.	100.0	6.	100.0
42.	RHI MARVO SRL, Ploiesti, Romania	27.,72.	100.0	27.,72.	100.0
43.	RHI Monofrax, LLC, Wilmington, USA	69.	100.0	69.	100.0
44.	RHI Normag AS, Porsgrunn, Norway	27.	100.0	27.	100.0
45.	RHI-Refmex, S.A. de C.V., Ramos Arizpe, Mexico	52.,79.	100.0	52.,79.	100.0
46.	RHI Refractories Africa (Pty) Ltd., Sandton, South Africa	6.	100.0	6.	100.0
47.	RHI Refractories Andino C.A., Puerto Ordaz, Venezuela	79.	100.0	79.	100.0
48.	RHI Refractories Asia Ltd., Hongkong, PR China	70.	100.0	70.	100.0
49.	RHI Refractories Asia Pacific Pte. Ltd., Singapore	1.	100.0	1.	100.0
50.	RHI Refractories (Dalian) Co., Ltd., Dalian, PR China	27.	100.0	27.	100.0
51.	RHI Refractories Egypt LLC., Cairo, Egypt	27.,72.	100.0	27.,72.	100.0
52.	RHI Refractories España, S.L., Lugones, Spain	6.,10.	100.0	6.,10.	100.0
53.	RHI Refractories France S.A., Breuillet, France(4)	70.	100.0	70.	100.0
54.	RHI Refractories Holding Company, Wilmington, USA	79.	100.0	79.	100.0
55.	RHI Refractories Ibérica, S.L., Lugones, Spain	70.	100.0	70.	100.0
56.	RHI Refractories Italiana s.r.l., Brescia, Italy	70.	100.0	70.	100.0
57.	RHI Refractories Liaoning Co., Ltd., Bayuquan, PR China(1)	27.	66.0	27.	66.0
58.	RHI Refractories Mercosul Ltda, Sao Paulo, Brazil	72.,79.	100.0	72.,79.	100.0
59.	RHI Refractories Nord AB, Stockholm, Sweden	70.	100.0	70.	100.0
60.	RHI Refractories Raw Material GmbH, Vienna, Austria	1.,27.	100.0	1.,27.	100.0
61.	RHI Refractories Site Services GmbH, Wiesbaden, Germany	6.	100.0	6.	100.0
62.	RHI Refractories (Site Services) Ltd., Newark, United Kingdom	14.	100.0	14.	100.0
63.	RHI Refractories UK Limited, Clydebank, United Kingdom	6.	100.0	6.	100.0

Ser. no.	Name and registered office of the company	12/31/2015 Share-holder	Share in %	12/31/2014 Share-holder	Share in %
64.	RHI Refratários Brasil Ltda, Belo Horizonte, Brazil	9.,79.	100.0	9.,79.	100.0
65.	RHI Rückversicherungs AG, Vaduz, Liechtenstein	27.	100.0	27.	100.0
66.	RHI Sales Europe West GmbH, Mülheim-Kärlich, Germany	6.,70.	100.0	6.,70.	100.0
67.	RHI Trading (Dalian) Co., Ltd., Dalian, PR China	27.	100.0	27.	100.0
68.	RHI Urmitz AG & Co KG, Mülheim-Kärlich, Germany	5.,6.	100.0	5.,6.	100.0
69.	RHI US Ltd., Wilmington, USA	11.	100.0	11.	100.0
70.	SAPREF AG für feuerfestes Material, Basel, Switzerland	79.	100.0	79.	100.0
71.	Stopinc AG, Hünenberg, Switzerland	6.,27.	100.0	6.,27.	100.0
72.	Veitscher Vertriebsgesellschaft mbH, Vienna, Austria	1.	100.0	1.	100.0
73.	Veitsch-Radex America Inc., Burlington, Canada	–	–	32.	100.0
74.	Veitsch-Radex America LLC., Wilmington, USA	69.	100.0	69.	100.0
75.	Veitsch-Radex GmbH, Vienna, Austria	1.	100.0	1.	100.0
76.	Veitsch-Radex GmbH & Co OG, Vienna, Austria	1.,75.	100.0	1.,75.	100.0
77.	Veitsch-Radex Vertriebsgesellschaft mbH, Vienna, Austria	1.	100.0	1.	100.0
78.	VERA FE, Dnepropetrovsk, Ukraine	27.	100.0	27.	100.0
79.	VRD Americas B.V., Arnhem, Netherlands	1.,27.	100.0	1.,27.	100.0
80.	Zimmermann & Jansen GmbH, Düren, Germany	6.	100.0	6.	100.0
	Subsidiaries not consolidated due to minor significance				
81.	Dr.-Ing. Petri & Co. Unterstützungs-Gesellschaft mbH, Duisburg, Germany	6.	100.0	6.	100.0
82.	INTERSTOP do Brasil i.L., Barueri, Brazil	71.	100.0	71.	100.0
83.	INTERSTOP Licensing LLC, Dover, USA	71.	100.0	71.	100.0
84.	RHI Réfractaires Algérie E.U.R.L., Sidi Amar, Algeria	53.	100.0	53.	100.0
	Equity-accounted joint ventures				
85.	MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	72.,88.	50.0	72.,88.	50.0
	Other immaterial investments, measured at cost				
86.	LLC “NSK Refractory Holding”, Moscow, Russia	27.	49.0	27.	49.0
87.	LLC “NSK Refractory”, Novokuznetsk, Russia	27.	49.0	27.	49.0
88.	MAGNIFIN Magnesiaprodukte GmbH, St. Jakob, Austria	72.	50.0	72.	50.0
89.	Società Dolomite Italiana SDI S.R.L. i.L., Brescia, Italy	7.	50.0	7.	50.0

(1) In accordance with IAS 32, fixed-term or puttable non-controlling interests are shown under liabilities.

(2) Further shareholders are VRD Americas B.V., Lokalbahn Mixnitz St. Erhard AG and Veitscher Vertriebsgesellschaft mbH.

(3) Formerly: RHI Clasil Limited

(4) Further shareholders are Didier-Werke AG, RHI Dinaris GmbH and RHI GLAS GmbH.

i.L. In liquidation

(5) Methods of consolidation

Subsidiaries

Subsidiaries are companies over which RHI AG exercises control. Control exists when the company has the power to decide on the relevant activities, is exposed to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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 at the date of acquisition or when control is obtained. Intangible assets which were previously not recognized in the separate financial statements of the company acquired are also measured at fair value. Intangible assets identified when a company is acquired, including for example patents, brand names and customer relations, are only measured separately at the time of acquisition if the conditions for the capitalization of an intangible asset in accordance with IAS 38 are met.

For the acquisition of companies in which less than 100% of the shares are acquired, IFRS 3 allows an accounting policy choice whereby either goodwill proportionate to the share held or goodwill including the share accounted for by non-controlling interests can be recognized. This accounting policy choice can be exercised anew for any company acquisition.

The measurement at the date of acquisition can be made on a preliminary basis in justified cases. If adjustments are necessary in favor or at the expense of assets and liabilities within twelve months of the acquisition, they will be made accordingly. These adjustments are presented in the notes.

The goodwill determined 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 in other income after renewed measurement of the identifiable assets, liabilities and contingent liabilities.

Shares in net assets of subsidiaries that are not attributable to RHI AG are shown separately under equity as non-controlling interests. The basis for non-controlling interests are the equity of the subsidiary concerned after adjustment to the accounting and measurement principles of the RHI Group and proportional consolidation entries.

Transaction costs which are directly related to business combinations are expensed as incurred. Conditional components of the purchase price are recorded at fair value at the date of initial consolidation.

When additional shares are acquired in companies which are already included in the consolidated financial statements as subsidiaries, the difference between the purchase price and the proportional carrying amount in the subsidiary’s net assets is offset against shareholders’ equity. Gains and losses from the sale of shares are also recorded in equity unless they lead to a loss of the controlling influence.

In the case of a step acquisition and the related obtaining of a controlling interest, the difference between the carrying amount and the fair value at the date of the initial full consolidation is realized through profit or loss.

Intragroup receivables and liabilities as well as income and expenses are fully eliminated.

Intragroup results related to intragroup deliveries of non-current assets and inventories as well as transfers of shares are eliminated.

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

Subsidiaries are deconsolidated on the day control ends.

Joint ventures

Shares in joint ventures are accounted for using the equity method. A joint venture is a joint arrangement between the RHI Group and one or several other partners whereby the parties that have joint control over the arrangement have rights to the net assets of the arrangement.

At the date of acquisition, a positive difference between the acquisition costs and the share in the fair values of identified assets and liabilities of the joint venture is determined and recognized as goodwill. Goodwill is shown under the item shares in joint ventures in the statement of financial position.

The acquisition cost of investments accounted for using the equity method is increased or decreased each year to reflect the change in the equity of the individual joint venture that is attributable to the RHI Group. Unrealized intragroup results from transactions with these companies are offset against the carrying amount of the investment on a pro-rata basis during consolidation, if they are material.

RHI examines at every reporting date whether there are objective indications of an impairment of the shares in the joint ventures. If such indications exist, the required impairment is determined as the difference between the recoverable amount and the carrying amount of the joint venture and recognized in profit and loss in the item share of profit of joint ventures. If the reasons for a previously recognized impairment cease to exist, a reversal of impairment is recognized in profit or loss with the exception of goodwill.

The financial statements of the companies accounted for using the equity method are prepared in accordance with uniform accounting and measurement methods throughout the Group.

(6) Foreign currency translation

Functional currency and presentation currency

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

The items included in the financial statements of each Group company are valued based on the currency of the primary economic environment in which the company operates (functional currency).

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 monetary assets and liabilities in foreign currencies at the exchange rate in effect on the reporting date are recognized in profit or loss under other income or expenses. Contrary to this, unrealized currency translation differences from monetary items which form part of a net investment in a foreign business are recognized in other comprehensive income in equity. Non-monetary items in foreign currency are carried at historical rates.

Group companies

The annual financial statements of foreign subsidiaries that have a functional currency differing from the Group presentation currency are translated into euros as follows:

Assets and liabilities are translated at the exchange rate on the reporting date, while the statements of profit or loss are 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 in other comprehensive income without recognition to profit or loss. Cash flows are translated at average monthly exchange rates.

Goodwill and adjustments to the fair value of assets and liabilities related to the purchase price allocation of a foreign subsidiary are recognized as assets and liabilities of the respective foreign subsidiary and translated at the exchange rate at the reporting date.

The euro exchange rates of currencies important for the RHI Group are shown in the following table:

		Closing rate		Average monthly rate	
Currencies	1 € =	12/31/2015	12/31/2014	2015	2014
Brazilian real	BRL	4.33	3.23	3.64	3.10
Pound sterling	GBP	0.74	0.78	0.73	0.81
Chilean peso	CLP	773.96	738.25	724.89	754.40
Chinese renminbi yuan	CNY	7.09	7.53	6.98	8.22
Indian rupee	INR	72.35	76.87	71.33	81.30
Canadian dollar	CAD	1.52	1.41	1.41	1.47

Currencies	1 € =	Closing rate 12/31/2015	12/31/2014	Average monthly rate 2015	2014
Mexican peso	MXN	19.00	17.91	17.56	17.63
Norwegian krone	NOK	9.62	9.03	8.94	8.33
Swiss franc	CHF	1.08	1.20	1.07	1.22
South African rand	ZAR	17.00	14.07	14.02	14.33
US dollar	USD	1.09	1.22	1.11	1.33

(7) Principles of accounting and measurement

Property plant and equipment

Property, plant and equipment is measured at acquisition or production cost, less accumulated depreciation on a systematic basis and impairments. 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.

Leased property, plant and equipment that qualifies as asset purchase financed with long-term funds is capitalized at the market value of the asset or the lower present value in accordance with IAS 17. The leased assets are depreciated on a systematic basis over the useful life. The payment obligations resulting from future lease instalments are discounted and recorded as liabilities. Current lease payments are apportioned between a finance charge and the amortization of the outstanding liability. As of the reporting date, the property, plant and equipment leased through finance leases is of small scale. All other leases are treated as operating leases. The lease payments resulting from operating leases are recorded as expenses.

The production costs of internally generated assets comprise direct costs as well as a proportional share of capitalizable production overheads and borrowing costs. If financing can be specifically allocated to an investment, the actual borrowing costs are capitalized as production costs. If no direct connection can be made, the average rate on borrowed capital of the Group is used as the capitalization rate due to the central funding of the Group.

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.

Real estate, land and plant under construction are not depreciated on a systematic basis. Depreciation of other material property, plant and equipment is based on the following useful lives in the RHI Group:

Factory and office buildings	15 to 50 years
Land improvement	8 to 30 years
Crusher machines and mixing facilities	8 to 20 years
Presses	10 to 12 years
Tunnel, rotary and shaft kilns	50 years
Other calcining and drying kilns	20 to 30 years
Cars, other plant, furniture and fixtures	3 to 35 years

The residual 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 statement of profit or loss.

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 through profit or loss immediately after a new assessment of the identified assets, liabilities and contingent liabilities.

Other intangible assets

Research costs are expensed in the year incurred and included under general and administrative expenses.

Development costs also represent expenses in the period. They are recognized under general and administrative expenses. They are only capitalized if they are expected to generate future cash flows that cover not only 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, however, over a maximum of ten years, and recognized in cost of sales.

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 predominantly amortized on a straight-line basis over a period of four years.

Purchased intangible assets are measured at acquisition cost, which also includes acquisition-related costs, less accumulated amortization and impairments. Intangible assets with a specific useful life are amortized on a straight-line basis over the expected period of useful life. The following table shows the most important useful lives:

Patents	7 to 18 years
Brand rights	20 years
Land use rights	50 or 65 years
Customer relations	4 to 7 years

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 for impairment at least annually.

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 of disposal and its value in use (present value of future cash flows). If the carrying amount is higher than the recoverable amount, an impairment loss equivalent to the resulting difference is recognized in the statement of profit or loss. If the reason for an impairment loss recognized in the past for property, plant and equipment and for other intangible assets ceases to exist, a reversal of impairment on the amortized acquisition and production costs is recognized to profit or loss.

In the case of impairments related to cash-generating units (CGU) which contain goodwill, existing goodwill is initially reduced. If the required impairment exceeds the carrying amount of the goodwill, the difference is apportioned proportionately to the remaining non-current tangible and intangible assets of the CGU. Reversals of impairment losses recognized on goodwill are not permitted and are therefore not considered. The effects of impairment tests at the CGU level are shown separately in the statement of profit or loss.

If there is an indication for an impairment of a specific asset, only this specific asset will be tested for impairment. The recoverable amount is determined through fair value. If the fair value is lower than the carrying amount, an impairment loss is recorded in the operating EBIT or, in the case of restructuring, in the restructuring costs.

Cash-generating units (CGU)

In the RHI Group the individual assets do not generate cash inflows independent of one another; therefore, no recoverable amount can be presented for individual assets. As a result, the assets are combined in CGUs, which largely generate independent cash inflows. These units correspond to the strategic business units and reflect the market presence and the market appearance and are as such responsible for cash inflows.

The organizational structures of the Group reflect these units. In addition to the joint management and control of the business activities in each unit, the sales know-how, the knowledge of RHI products and, as an important added value, the combination of this specific technical knowledge and the technical services provided to customers are also incorporated in these units. The sales know-how is reflected in long-standing customer relationships or knowledge of the customer's production facilities and processes. Product knowledge is manifested in the application-oriented knowledge of chemical, physical and thermal properties of RHI products. The services offered extend over the life cycle of RHI products at the customer's plant, from the appropriate installation and support of optimal operations, to environmentally sound disposal with the customer or the sustainable reuse in RHI's production process. These factors determine cash inflow to a significant extent and consequently form the basis for the CGU structures of RHI.

In the Steel Division two units, Linings and Flow Control, are defined as CGUs and strategic business units. These two units are determined according to the production stages in the process of steel production.

In the Industrial Division, each industry segment (cement/lime, nonferrous metals and environment, energy, chemicals) with the exception of glass forms a separate CGU. The glass segment and the related plants were previously also considered to be one CGU. In the year 2015, the Management Board of the RHI Group decided to initiate a structured selling process for the plant of the US subsidiary RHI Monofrax, LLC in Falconer. In this context, the related cash flows were assessed for this plant, which allows viewing it separately. Therefore, the plant Falconer, Monofrax, is shown as a separate CGU in the impairment test 2015, detached from the CGU Industrial/Glass.

In the Raw Materials Division, all raw material producing facilities with the exception of Norway are combined in one CGU. The plant in Porsgrunn, Norway, was not included in the raw materials unit, but treated as a separate CGU because a management team was installed specifically for the coordination and implementation of the optimization measures due to the dimension and the special situation at the Porsgrunn plant. This organization goes beyond plant management and also includes sub-tasks of the administration processes. Moreover, the Porsgrunn plant produces fused magnesia, which is intended exclusively for the use in the CGU Steel/Linings. This results in an isolated relationship with the CGU Steel/Linings.

The CGUs of the RHI Group are shown in the table below:

		RHI Group	
	Steel	Industrial	Raw Materials
CGU	Linings	Glass	Raw Materials Production
	Flow Control	Cement/Lime	Norway
		Nonferrous Metals	
		Environment, Energy, Chemical	
		Monofrax	

As in the previous year, the impairment test is based on the value in use; the recoverable amount of the CGU is determined using the discounted cash flow method and incorporates the terminal value. The detailed planning of the first five years is congruent with the strategic business and financial planning of the CGU. Based on the detailed planning period, it is geared to a steady-state business development, which balances out possible economic or other non-sustainable fluctuations in the detailed planning period and forms the basis for the calculation of the terminal value. In the impairment test 2015, the terminal value is based on a growth rate derived from the difference of the current and the possible degree of utilization of the assets.

The net cash flows are discounted using the weighted average cost of capital (WACC). The weighted average cost of capital is calculated taking into account comparable companies (peer group); the corresponding parameters are derived from capital market information. In addition, country-specific risk premiums of the respective CGU are considered in the weighted average cost of capital.

The weighted average cost of capital before tax is determined per legal unit and weighted according to the share of revenue of the legal units in each CGU. The weighted interest rates of the CGUs range between 6.3% and 9.7% in the year 2015. In the previous year, the interest rates determined on the same basis ranged between 5.4% and 9.2%.

Composition of the estimated future cash flows

The estimates of future cash flows include forecasts of the cash flows from continued use. If assets are disposed at the end of their useful life, the related cash flows are also included in the forecasts.

A simplified statement of cash flows serves to determine the cash flows on the basis of strategic business and financial planning of the CGUs. The forecasts include cash flows from future maintenance investments. Expansion investments are only taken into account in the future cash flows when there has been a significant cash outflow or significant payment obligations have been entered into due to services received and it is sufficiently certain that the investment measure will be completed. All other expansion investments are not considered; this applies in particular to expansion investments that have been decided on but not begun.

Future cash flows from financing and for income taxes are generally not included. For reasons of practicability, the expected cash flows also include tax payments, therefore the values in use of the CGUs are determined using an after-tax weighted average cost of capital. The after-tax weighted average cost of capital is iteratively reconciled to an implicit pre-tax weighted average cost of capital, which is indicated in the notes. If the result before tax is negative in the detailed planning period, tax inflows (tax refunds) are considered regardless of whether tax loss carryforwards exist.

With respect to pension obligations, a differentiation is made between earned entitlements and entitlements yet to be earned. Provisions for pensions do not reduce the carrying value of a CGU; accordingly, pension payouts are not included in the recoverable amounts. Expected additions to provisions for pensions are considered cash-effective with respect to service cost. The interest expense related to pension obligations represents a financing expense and is consequently not considered in the forecast of cash flows.

Working capital is included in the carrying amount of the CGU; therefore, the recoverable amount only takes into account changes in working capital.

Basis for planning

CGU Steel/Linings

The basis for strategic market planning in this CGU is the forecast for world steel production, which is prepared by an independent institution (CRU, London, United Kingdom). This forecast is analyzed by experts in the RHI Group and, if necessary, revised and adjusted for internal analyses and evaluations. As in the previous year, RHI assumed a more conservative development of the global steel market for strategic business planning in the year 2015. This results in moderate annual average volume growth of 2.0% in the detailed planning period, with the price level remaining stable. The cost items are planned in detail for the first year of the detailed planning period taking into account cost developments for the individual types of costs at the respective sites, and adjusted for the other years in accordance with the estimates available. Overall, this leads to a gross operating margin between 18.4% and 18.9% in the planning period. As in 2014, the planning does not take into account expansion investments in 2015. As in the previous year, goodwill of € 9.4 million is allocated to the CGU Steel/Linings as of December 31, 2015. The relevant capital costs before tax amount to 9.5% (12/31/2014: 8.9%) and the assumed growth for the terminal value is 0.3% as in the previous year. An increase in the interest rate by 20%, combined with a 15% reduction of profitability and an unchanged growth rate in the terminal value (growth rate 0.3%) would have the effect that the recoverable amount corresponds exactly to the carrying amount of this unit.

CGU Steel/Flow Control

The strategic market planning of the CGU Steel/Flow Control is also based on the forecast of world steel production. The CGU Steel/Flow Control is based on the same strategic market planning of the world steel production as the CGU Steel/Linings. In this unit, RHI assumes increasing revenue growth with an annual growth rate of 4.3% in the detailed planning period, with growth being primarily driven by the development in India. Cost planning is carried out in the same way as in the CGU Steel/Linings. The gross operating margin, which results from revenue and cost planning, ranges between 22.7% and 23.0% in the detailed planning period. This year's planning also does not include any expansion investments. Goodwill amounting to € 26.7 million (12/31/2014: € 25.7 million) as well as an intangible asset of indefinite useful life of € 1.8 million, unchanged value compared with the previous year, is allocated to the CGU Steel/Flow Control as of December 31, 2015. This asset is related to a brand name that has been acquired. The Group plans to continue using this brand name without a change. A weighted average cost of capital before tax of 9.7% (12/31/2014: 9.2%) was applied. The growth assumed for the terminal value amounts to 0.3% as in the previous year. In this unit, an increase in the interest rate by 7%, combined with a 10% reduction of profitability, as well as an unchanged growth rate of the terminal value (growth rate 0.3%) would cause the recoverable amount to correspond precisely to the carrying amount of this unit.

CGU Raw Materials/Norway

This unit comprises the activities of the plant in Porsgrunn, Norway. At this site, RHI produces high-grade fused magnesia, which represents an important pillar in the strategic raw material supply of the Group. The development of the sales and production volumes is essentially derived from RHI's internal demand for this raw material and thus correlates above all to the development of the CGU Steel/Linings. In addition, it is planned to market individual intermediate products and by-products as well as fused magnesia. The internal use considered in strategic planning is at the same level as in the planning of the previous year, while expected external sales have been reduced due to declining market prospects in planning. The measurement of external and internal sales volume is based on market prices. However, as there is no fused magnesia of comparable quality and availability in the market, the market price is determined as the reference price of a basket of commodities for the Group's internal requirements.

Every single reference raw material of the basket of commodities available in the market is measured at the respective expected market price. Due to a massive drop in raw material prices, the reference value of the basket of commodities continued to decline in 2015. Production costs for the first year in the detailed planning period are planned for every single phase in the production process for individual types of cost and subsequently adjusted for the following years in accordance with the defined plan of measures. In the CGU Raw Materials/Norway, a weighted average cost of capital before tax of 7.3% (12/31/2014: 5.4%) was applied. The growth assumed for the terminal value is also unchanged in this CGU and amounts to 0.3% as in the previous year.

CGU Industrial/Glass
As in the previous year, the market of the CGU Industrial/Glass is characterized by global excess capacities. Nevertheless, RHI assumes in the planning period that investments in the glass industry will now increase after the subdued investment activities of the past years and that an increasing number of projects will consequently be won in the medium term, especially in the flat glass segment. The strategy to increasingly act as a full-range supplier in the market, which was started in the previous year, will be pursued further. All of this will lead to an annual volume growth of 2.0% in the detailed planning period, combined with generally stable prices. In the CGU Industrial/Glass, the cost items for the first year of the detailed planning period are also planned taking into account cost developments for the individual types of cost at the respective sites and adjusted for the subsequent years in accordance with existing estimates. Consequently, average gross margins between 17.1% and 19.1% are realized in the long term. A weighted average cost of capital before tax of 8.9% (12/31/2014: 8.1%) was applied. The growth assumed for the terminal value amounts to 0.3% (12/31/2014: 0.3%).

CGU Industrial/Monofrax
The plant Falconer, Monofrax, based in the US, has been shown as a separate CGU since 2015 and has thus been removed from the CGU Industrial/Glass. The CGU Industrial/Monofrax comprises the activities of the plant Falconer, Monofrax. This plant manufactures fused cast products that are used in the production of both flat glass and special glass. RHI expects to generate proceeds on the sale that correspond to the planning in the impairment test. The weighted average cost of capital before tax amounts to 6.3%. The growth assumed for the terminal value amounts to 0.3%.

Result of impairment test

Based on the impairment test conducted in the year 2015, the recoverability of the assets was demonstrated in all CGUs with the exception of the CGU Raw Materials/Norway and the CGU Industrial/Monofrax.

For the CGU Raw Materials/Norway, an impairment loss of € 23.2 million (2014: € 7.5 million) was recognized, of which € 10.4 million (2014: € 3.7 million) is related to buildings, € 7.7 million (2014: € 2.1 million) to technical plant and machinery and € 5.1 million (2014: € 1.7 million) to other plant, furniture and fixtures. The recoverable amount of the CGU Raw Materials/Norway was determined on the basis of a value in use and is negative as of December 31, 2015 (12/31/2014: € 24.1 million).

The amount recognized in the item impairment losses in the statement of profit or loss for the CGU Industrial/Monofrax amounts to € 8.0 million, of which land and buildings account for € 1.5 million, technical plant and machinery for € 5.3 million, other plant, furniture and fixtures for € 0.8 million, plant under construction to € 0.2 million and intangible assets for € 0.2 million. The recoverable amount of this CGU was determined on the basis of the value in use and is negative as of December 31, 2015. In the previous year, the CGU Industrial/Monofrax was included in the CGU Industrial/Glass.

In 2014, impairment losses of € 12.3 million were recognized for the CGU Industrial/Glass, of which land and buildings account for € 3.0 million, technical plant and machinery for € 4.1 million, other plant, furniture and fixtures for € 0.8 million, plant under construction for € 0.2 million, goodwill for € 0.4 million and other intangible assets for € 3.8 million. The recoverable amount of this CGU was determined on the basis of the value in use and amounts to € 72.9 million as of December 31, 2015. At

December 31, 2014, the recoverable amount of the CGU Industrial/Glass and the CGU Industrial/Monofrax added up to € 99.4 million.

As in the previous year, no reversals of impairments were made in the financial year 2015.

Other financial assets and liabilities

The item other financial assets in the consolidated statement of financial position of RHI includes shares in non-consolidated subsidiaries and other investments, securities, financial receivables and positive fair values of derivative financial instruments.

The item other financial liabilities includes negative fair values of derivative financial instruments.

Shares in non-consolidated subsidiaries, investments in other companies and securities are classified entirely as "available for sale" in the RHI Group. Available-for-sale financial assets are initially measured at fair value including any related transaction expenses. Subsequent measurement reflects fair value, with changes in fair value being recorded in other comprehensive income. The accumulated gains and losses from fair value measurement that are recorded under other comprehensive income are reclassified to the statement of profit or loss with the disposal of the financial assets. Impairments are charged to profit or loss. Impairment losses on equity instruments recognized to profit and loss are reversed through other comprehensive income. Reversals of impairment for debt instruments are recognized to profit and loss. Available-for-sale financial assets of minor significance are measured at cost. If there are indications that fair value is lower, the lower value is recognized.

Financial receivables are measured at amortized cost applying the effective interest method. Any doubt concerning the collectability of the receivables is reflected in the use of the lower fair value. Foreign currency receivables are translated at the exchange rate effective on the reporting date.

Derivative financial instruments, which are not part of an effective hedging relationship in accordance with IAS 39, must be classified as held for trading in accordance with IFRS and measured at fair value. In the RHI Group, this measurement category includes derivatives related to purchase obligations, forward exchange contracts as well as embedded derivatives in open orders that are denominated in currencies other than the functional currency.

Derivative financial instruments relating to purchase obligations concern a long-term power supply contract which provides for the purchase of fixed amounts of electricity at fixed prices and for which the so-called own-use exemption (exemption for own use in accordance with IAS 39.5) is for the first time not applied any more in the consolidated financial statements 2015. The measurement is made taking into account quoted electricity prices in the futures market. Based on the fixed amounts of electricity, the cash flows for the entire term of the contract are initially determined as the difference between forward rates and contractually fixed prices and discounted at the reporting date using a cost of borrowing rate corresponding to the term of the RHI Group. The measurement effects resulting from this electricity derivative are shown in a separate item in the statement of profit or loss.

The measurement of forward exchange contracts and embedded derivatives in open orders denominated in a currency other than the functional currency is made on a case-by-case basis at the respective forward rate on the balance sheet date. These forward rates are based on spot rates, and also include forward premiums and discounts. Unrealized valuation gains or losses and results from the realization are recognized to the statement of profit or loss under other income or expenses. The underlying transactions for the derivatives are carried at amortized cost.

For derivative financial instruments, which are incorporated in an effective hedging relationship in accordance with IAS 39, the hedge is recognized as such (hedge accounting). RHI applies the stipulations regarding hedge accounting to hedge future cash flows (cash flow hedge). This reduces volatilities in the statement of profit or loss and in the cash flows. Derivative financial instruments are concluded in the form of interest rate swaps to protect the cash flow risk of financial liabilities carrying variable interest. The interest rate swaps as hedging instruments are measured at fair value, which corresponds to the amount which RHI would receive or have to pay on the reporting date when the financial instrument is terminated. The fair value is calculated using the interest rates and yield curves relevant on the reporting date. The effective part of the fair value changes is initially recorded in other comprehensive income as an unrealized gain or loss. Only at the time of the realization of the underlying transaction, the contribution of the hedging instrument is shown in the statement of profit or loss. Ineffective parts of the fair value changes of cash flow hedges are recognized immediately in the statement of profit or loss.

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 joint ventures, 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.

However, deferred tax assets on temporary differences are only accounted for to the extent that it is probable that a taxable income will be available against which the deductible temporary differences can be used.

The RHI Group accounts for deferred tax assets for unused tax loss carryforwards to the extent that it is probable that a taxable income will be available within the planning period of five years, against which the loss carryforwards can be used.

The calculation of deferred taxes is based on the tax rate expected in the individual countries at the time of realization and generally reflects the enacted or substantively enacted tax rate on the reporting date. As in the previous year, deferred taxes of the Austrian Group companies are determined at the corporation tax rate of 25%. Tax rates from 9.0% to 37.6% (12/31/2014: 9.0% to 37.2%) were applied to foreign companies.

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.

Inventories

Inventories are stated at acquisition or production cost, or at net realizable value as of the reporting date.

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

Finished goods and work in process are valued at fixed and variable production cost.

The net realizable value is the estimated selling price in the ordinary course of business minus any estimated cost to complete and to sell the goods. Impairments due to reduced usability are reflected in the calculation of the net realizable value.

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 incurred plus an appropriate mark-up for profit based on the stage of completion are recognized under receivables from construction contracts and under revenue. 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.

Trade and other current receivables

Receivables are initially measured at fair value and subsequently carried at amortized cost minus any valuation allowances. These valuation allowances are determined on an individual basis and reflect any recognizable risk of default. Specific cases of default lead to the derecognition of the relevant receivables.

Receivables denominated in foreign currencies are translated using the mean rate of exchange at the reporting date.

Emission certificates

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

Emission certificates allocated free of charge are not accounted for. Proceeds from the sale of these rights are recognized under revenue.

Cash and cash equivalents

Cash on hand, checks received and cash at banks with an original term of a maximum of three months are shown under cash and cash equivalents. Moreover, shares in money market funds, which are only exposed to insignificant value fluctuations due to their high credit rating and investments in extremely short-term money market instruments and can be converted to defined cash amounts within two days at any time, are also recorded under cash equivalents under IAS 7.

Cash and cash equivalents denominated in foreign currencies are translated at the mean rate of exchange at the reporting date.

Liabilities to fixed-term or puttable non-controlling interests

Capital shares of non-controlling interests in subsidiaries with a fixed term are recognized under financial liabilities in the consolidated statement of financial position in accordance with IAS 32. The share of profit attributable to non-controlling interests is recognized under interest expenses in the statement of profit or loss. Dividend payments to non-controlling interests reduce liabilities.

Furthermore, the RHI Group has entered into purchase obligations with non-controlling shareholders of subsidiaries. Based on these agreements, the shareholders receive the right to tender their shares at any time on previously defined conditions. In this case, IAS 32 provides for carrying a liability in the amount of the probable future exercise price. The difference between the estimated liability and the carrying amount of the non-controlling interest was recognized to equity at the time of the initial recognition without affecting profit or loss. Subsequently, changes of liabilities are recorded in net finance costs.

Provisions

Provisions are recognized 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 reporting 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 to earmarked pension plans. The related expenses are shown in the functional areas and thus in EBIT. No provisions are necessary.

Defined benefit plans require the company to provide the agreed amount of benefits to active and former employees and their dependents, with a differentiation made between pension systems financed through provisions and pension systems financed by funds.

The pension obligation is calculated according to the projected unit credit method and is reduced by the fair value of the plan assets for pension plans financed through external funds. If the plan assets are not sufficient to cover the obligation, the net obligation is recognized under provisions for pensions. However, if the plan assets exceed the obligations, the asset recognized is limited to reductions of future contribution payments to the plan and is shown under other non-current assets.

The present value of defined benefit obligations for current pensions, future pension benefits and similar obligations and the related expenses are calculated separately for each plan annually by independent qualified actuaries in accordance with the provisions of IAS 19. The present value of future benefits is based on the length of service, expected wage/salary developments and pension adjustments.

The expense to be recognized in a period includes the current and past service costs, settlement gains and losses, interest expenses from the interest accrued on obligations and interest income from plan assets. The net interest expense is shown separately in net finance costs. All other expenses related to defined benefit plans are allocated to the costs of the relevant functional areas.

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 starting age and probability of employee turnover and actual claims. The calculation is based on local biometric parameters.

Interest rates chosen on the basis of the average interest on high-quality corporate bonds issued with adequate maturities and currencies are applied to determine the present value of pension obligations. In countries where there is no sufficiently liquid market for high-quality corporate bonds, the returns on government bonds are used as a basis.

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

Remeasurement gains and losses are recorded net of deferred taxes under other comprehensive income in the period incurred.

Provisions for termination benefits

Provisions for termination benefits are primarily related to obligations to employees whose employment is subject to Austrian law.

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 and ranges between two and twelve monthly salaries. These obligations are measured in accordance with IAS 19 using the projected unit credit method applying an accumulation period of 25 years. Remeasurement gains and losses are recorded directly to other comprehensive income after considering tax effects and shown in the statement of comprehensive income.

For employees who joined an Austrian company 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 like defined contribution pension plans and included under personnel expenses of the functional areas.

Other personnel provisions

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

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. Obligations related to service anniversary bonuses exist in Austrian and German Group companies. Under IAS 19 service anniversary bonuses are treated as other long-term employee benefits. Provisions for service anniversary bonuses are calculated based on the projected unit credit method. Remeasurement gains or losses are recorded in the personnel costs of the functional areas in the period incurred.

Local labor laws and other similar regulations require individual Group companies to create provisions for semi-retirement obligations. The obligations are partially covered by qualified plan assets and are reported on a net basis in the statement of financial position.

For cash-settled share-based payments a provision is recorded for the services received and measured at fair value on the date of receipt. Until the debt is settled, its fair value is recalculated at each reporting date and on the settlement date. All changes in fair value are recognized to profit or loss.

Obligations for lump-sum settlements are based on company agreements in individual companies.

Provisions for warranties

Provisions for warranties are created for individual contracts at the time of the sale of the goods concerned, or after a service has been provided. The amounts of the provisions are based on the 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 prior to the reporting date or whose implementation was commenced prior to the reporting date.

Trade payables and other current liabilities

These liabilities are initially recognized at fair value, and subsequently measured at amortized cost.

Liabilities denominated in foreign currencies are translated at the mean rate of exchange in effect at the reporting date.

Government grants

Government grants to promote investments are recognized as deferred income and released through profit or loss over the useful life of the relevant asset distributed on a straight-line basis.

Grants that were granted as compensation for expenses or losses are recognized to profit or loss in the periods in which the subsidized expenses are incurred. In the RHI Group, they mainly include grants for research and employee development. Grants for research are recorded as income in general and administrative expenses.

Revenue and expenses

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

Revenue is realized when ownership and risk are transferred to the customer or when a service is performed, 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, proceeds from the sale of CO_2 emission rights is recognized under revenue.

Expenses are recognized to the statement of profit or loss 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 using the equity method 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. Current and deferred income taxes are recognized in the statement of profit or loss unless they are related to items which were recorded directly in equity or in other comprehensive income. In such a case, income taxes are also recorded in equity or other comprehensive income.

The Austrian tax reform of 2005 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.

(8) 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 Steel segment specializes in supporting customers in the steel-producing and steel-processing industry. The Industrial segment serves customers in the glass, cement/lime, nonferrous metals and environment, energy, chemicals industries. The main activities of the two segments consist of market development, global sales of high-grade refractory bricks, mixes and special products as well as providing services at the customers' sites.

The operating activities of the segment Raw Materials primarily consist of supplying Group companies with raw materials. This includes mining magnesite and dolomite in mines owned by the Group and raw material production based on seawater, processing and finishing raw materials as well as purchasing and selling raw materials. Within the Group, raw materials are carried at market price. The globally located manufacturing sites, which process the raw materials, are combined in one organizational unit. The allocation of manufacturing cost variances of the production plants to the Steel and Industrial Divisions is based on the supply flow.

The research activities of the RHI Group are managed centrally. R&D costs are allocated directly to the three segments.

The Shared Service Center costs of the Group are allocated to the three operating segments according to the agreed Service Level Agreements. The allocation of expenses of Group management is based on external revenue.

Statements of profit or loss up to EBIT are available for each segment. The operating EBIT (EBIT adjusted for special effects) serves for internal management and as an indicator of sustainable earnings power of a business as presented in the statement of profit or loss. The profit of joint ventures is allocated to the segments. Net finance costs and income taxes are managed on a group basis and are not allocated.

Segment assets include trade receivables and inventories, which are available to the operating segments and are reported to the management for control and measurement, as well as property, plant and equipment, goodwill and other intangible assets, which are allocated to the segments based on the capacity of the assets provided to the segments. Investments in joint ventures are allocated to the segments. All other assets are not allocated. The recognition of segment assets is determined on the basis of the accounting and measurement methods applied to the IFRS consolidated financial statements.

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

(9) Discretionary decisions, assumptions and estimates

The RHI Group used forward-looking assumptions and estimates, especially with respect to business combinations, non-current assets, valuation adjustments to inventories and receivables, provisions and income taxes to a certain extent in the application of accounting and measurement methods.

The estimates are based on comparable values in the past, plan data and other findings regarding transactions to be accounted. The actual values may ultimately deviate from the assumptions and estimates made. The resulting changes in value of assets, liabilities, revenue and expenses are accounted for in the reporting period in which the change is made and in the affected future reporting periods.

Business combinations (initial consolidation)

Estimates relating to the calculation of fair values of acquired assets, liabilities and contingent liabilities are required within the context of business combinations.

If intangible assets are identified, discretionary estimates are necessary for the determination of fair values by means of discounted cash flows, especially regarding the duration and amount of future cash flows, as well as for the determination of an adequate discount rate. When determining the fair value of land, buildings and technical plant, above all the estimate of comparability of the reference objects with the objects subject to valuation is discretionary.

When making discretionary decisions in the context of purchase price allocations on major company acquisitions, RHI consults with independent experts who accompany the execution of the discretionary decisions and record it in expert documents.

Impairment of intangible assets with finite useful lives and property, plant and equipment

Intangible assets with a finite 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. The carrying amounts of these assets amounted to € 604.6 million at December 31, 2015 (12/31/2014: € 616.4 million). 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 (CGU).

As part of the annual planning process, the impairment test is conducted for the CGUs defined in the RHI Group, thus taking into account all changes resulting from updates of strategic planning. Sensitivity analyses are also performed as part of the impairment test. In their calculation one of the main parameters is changed as follows: increase in the discount rate by 10%, reduction in the form of the contribution margin by 10% und reduction of the growth rate in terminal value by 50%.

In all CGUS with the exception of the impaired CGUs Raw Materials/Norway, Industrial/Monofrax and Industrial/Glass these simulations do not result in impairments. For the carrying amount of the impaired CGUs the sensitivity analysis shows the following results:

		12/31/2015			12/31/2014	
in € million	Change in assumption	CGU Raw Materials/ Norway	CGU Industrial/ Glass	CGU Industrial/ Monofrax	CGU Raw Materials/ Norway	CGU Industrial/ Glass
Discount rate	+10%	0.0	(7.8)	0.0	(4.7)	(10.3)
Profitability	(10)%	0.0	(8.6)	0.0	(2.4)	(10.9)
Growth rate	(50)%	0.0	(1.4)	0.0	(1.0)	(2.0)

The positive sensitivity analysis shows the following results for the carrying amount of the impaired CGUs:

		12/31/2015			12/31/2014	
in € million	Change in assumption	CGU Raw Materials/ Norway	CGU Industrial/ Glass	CGU Industrial/ Monofrax	CGU Raw Materials/ Norway	CGU Industrial/ Glass
Discount rate	(10)%	0.0	3.9	0.0	5.8	12.1
Profitability	+10%	0.0	3.9	0.0	2.4	10.9
Growth rate	+50%	0.0	1.8	0.0	1.1	2.1

In the CGUs Raw Materials/Norway and Industrial/Monofrax, no change in the above-mentioned parameters leads to a reversal of impairment.

Impairment of goodwill

The effect of an adverse change by plus 10% in the estimated interest rates as of December 31, 2015 or by minus 10% in the contribution margin would not result in an impairment charge to the goodwill recognized (carrying amount 12/31/2015: € 37.5 million, 12/31/2014: € 36.1 million).

Impairment of other intangible assets with indefinite useful life

The effect of an adverse change by plus 10% in the estimated interest rate as of December 31, 2015 or by minus 10% in the contribution margin would not result in an impairment charge to intangible assets with indefinite useful lives recognized (carrying amount at 12/31/2015 and 12/31/2014: € 1.8 million).

Provisions for pensions and termination benefits

The present value of pension and termination benefit obligations depends on a number of factors, which are based on actuarial assumptions such as interest rates, future salary and pension increases as well as life expectancy. Due to the long-term orientation of these obligations, these assumptions are subject to significant uncertainties.

The following sensitivity analysis shows the change in present value of the pension and termination benefit obligations if one key parameter changes, while the other influences are maintained constant. In reality, however, it is rather unlikely that these influences do not correlate. The present value of the pension obligations for the sensitivities shown was calculated using the same method as for the actual present value of the pension obligations (projected unit credit method).

in € million	Change of assumption in percentage points or years	12/31/2015 Pension plans	12/31/2015 Termination benefits	12/31/2014 Pension plans	12/31/2014 Termination benefits
Present value of the obligations	–	304.9	60.1	353.1	66.0
Interest rate	+0.25	(8.0)	(1.6)	(9.5)	(1.8)
	(0.25)	8.4	1.6	9.8	1.8
Salary increase	+0.25	0.6	1.5	0.6	1.7
	(0.25)	(0.6)	(1.4)	(0.8)	(1.6)
Pension increase	+0.25	5.0	–	5.8	–
	(0.25)	(4.8)	–	(5.8)	–
Life expectancy	+1 year	10.8	–	10.5	–
	(1) year	(10.7)	–	(10.3)	–

These changes would have no immediate effect on the result of the period as remeasurement gains and losses are recorded in other comprehensive income without impact on profit or loss.

The assumptions regarding the interest rate are reviewed quarterly; all other assumptions are reviewed at the end of the year.

Other provisions

The recognition and measurement of other provisions totaling € 37.3 million (12/31/2014: € 46.0 million) were based on the best possible estimates using the information available at the reporting date. The estimates take into account the underlying legal relationships and are performed by internal experts or, when appropriate, also by external experts. Despite the best possible assumptions and estimates, cash outflows expected at the reporting day may deviate from actual cash outflows. As soon as additional information is available, the estimates made are reviewed and provisions are also adjusted.

Income taxes

The calculation of income taxes of RHI AG and its subsidiaries is based on the tax laws applicable in the individual countries. Due to their complexity, the tax items presented in the financial statements may be subject to deviating interpretations by local finance authorities.

When determining the amount of the capitalizable deferred tax claims, an estimate of the management is required regarding the amount of future taxable income and the expected time. Should the future taxable profit deviate by 10% from the assumption made on the reporting date within the planning period defined for the accounting and measurement of deferred taxes, the net position of deferred tax assets amounting to € 130.8 million (12/31/2014: € 113.6 million) would have to be increased by € 1.0 million (12/31/2014: € 0.5 million) or reduced by € 0.6 million (12/31/2014: € 1.0 million).

Other items

With respect to the other items of the statement of financial position, RHI currently assumes that no material effects on the financial position and performance would result for the following financial years due to changes in the estimates and assumptions.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(10) Property, plant and equipment

Property, plant and equipment developed as follows in the year 2015 and in the previous year:

in € million	Real estate, land and buildings	Raw material deposits	Technical equipment, machinery	Other plant, office equipment	Prepayments made and plant under construction	Total
Cost 12/31/2014	441.1	31.8	863.1	280.7	43.2	1,659.9
Currency translation	0.0	0.0	6.8	1.1	0.1	8.0
Additions	4.0	0.0	14.9	9.6	48.3	76.8
Retirements and disposals	(3.4)	0.0	(33.8)	(13.9)	(0.1)	(51.2)
Reclassifications	6.3	0.0	26.0	8.8	(42.3)	(1.2)
Cost at 12/31/2015	**448.0**	**31.8**	**877.0**	**286.3**	**49.2**	**1,692.3**
Accumulated depreciation 12/31/2014	263.8	23.9	615.0	212.9	0.1	1,115.7
Currency translation	(1.2)	0.0	2.2	(0.1)	0.0	0.9
Depreciation charges	9.4	0.3	34.2	15.0	0.0	58.9
Impairment losses	13.3	0.0	14.5	5.9	0.2	33.9
Retirements and disposals	(3.2)	0.0	(32.6)	(13.5)	0.0	(49.3)
Reclassifications	0.0	0.0	0.2	(0.1)	(0.1)	0.0
Accumulated depreciation 12/31/2015	**282.1**	**24.2**	**633.5**	**220.1**	**0.2**	**1,160.1**
Carrying amounts at 12/31/2015	**165.9**	**7.6**	**243.5**	**66.2**	**49.0**	**532.2**

in € million	Real estate, land and buildings	Raw material deposits	Technical equipment, machinery	Other plant, office equipment	Prepayments made and plant under construction	Total
Cost 12/31/2013(1)	430.4	32.5	822.5	268.9	50.0	1,604.3
Currency translation	2.7	0.0	13.2	3.1	0.2	19.2
Additions	4.2	0.4	17.7	8.0	36.5	66.8
Retirements and disposals	(2.5)	0.0	(17.5)	(9.1)	(0.5)	(29.6)
Reclassifications	6.3	(1.1)	27.2	9.8	(43.0)	(0.8)
Cost 12/31/2014	**441.1**	**31.8**	**863.1**	**280.7**	**43.2**	**1,659.9**
Accumulated depreciation 12/31/2013(1)	249.2	24.3	584.2	202.9	0.0	1,060.6
Currency translation	(0.3)	0.0	6.1	1.3	0.0	7.1
Depreciation charges	9.2	0.3	32.5	14.4	0.0	56.4
Impairment losses	6.8	0.0	7.5	2.8	0.6	17.7
Retirements and disposals	(1.7)	0.0	(14.9)	(9.0)	(0.5)	(26.1)
Reclassifications	0.6	(0.7)	(0.4)	0.5	0.0	0.0
Accumulated depreciation 12/31/2014	**263.8**	**23.9**	**615.0**	**212.9**	**0.1**	**1,115.7**
Carrying amounts 12/31/2014	**177.3**	**7.9**	**248.1**	**67.8**	**43.1**	**544.2**

(1) Values adjusted

In the previous year necessary adjustments to the statement of property, plant and equipment were identified. In the year 2013, assets were reclassified from the item plant under construction to the item real estate, land and buildings at the date of their commissioning, rather than to the item other plant and office equipment in accordance with the Group standard. Consequently, depreciation charges and impairment losses were also not allocated correctly. The inconsistencies in the presentation of property, plant and equipment were corrected with retroactive effect at December 31, 2014. As a result, the carrying amount of real estate, land and buildings was reduced by € 5.8 million, technical plant and machinery by € 1.7 million and of plant under construction by € 0.1 million as of December 31, 2013. The carrying amount of other plant increased by € 7.6 million. This adjustment had no effect on other parts of the financial statements.

The additions to property, plant and equipment include capitalized borrowing costs of € 0.3 million (2014: € 0.1 million). The average capitalization rate amounted to 1.5% in the financial year 2015 (2014: 2.3%).

The item prepayments made and plant under construction includes plant under construction with a carrying amount of € 48.4 million (12/31/2014: € 41.3 million), of which the construction of a second mixes plant for the purpose of capacity expansion at the site in Turkey represented the largest investment of the financial year 2015.

As in the previous year, there are no restrictions on the sale of property, plant and equipment.

(11) Goodwill

Goodwill developed as follows:

in € million	2015	2014
Cost at beginning of year	38.6	36.7
Currency translation	1.5	1.9
Cost at year-end	**40.1**	**38.6**
Accumulated impairment at beginning of year	(2.5)	(2.2)
Currency translation	(0.1)	0.1
Impairment losses	0.0	(0.4)
Accumulated impairment at year-end	**(2.6)**	**(2.5)**
Carrying amount at year-end	**37.5**	**36.1**

(12) Other intangible assets

Other intangible assets changed as follows in the financial year 2015 :

in € million	Internally generated intangible assets	Other intangible assets	Total
Cost 12/31/2014	37.7	130.5	168.2
Currency translation	0.1	4.9	5.0
Additions	4.7	1.1	5.8
Retirements and disposals	(0.3)	(7.2)	(7.5)
Reclassifications	0.0	1.2	1.2
Cost at 12/31/2015	**42.2**	**130.5**	**172.7**
Accumulated amortization 12/31/2014	22.3	71.9	94.2
Currency translation	0.1	1.1	1.2
Amortization charges	3.2	7.2	10.4
Impairment losses	0.2	0.0	0.2
Retirements and disposals	(0.3)	(7.2)	(7.5)
Accumulated amortization 12/31/2015	**25.5**	**73.0**	**98.5**
Carrying amounts at 12/31/2015	**16.7**	**57.5**	**74.2**

Other intangible assets changed as follows in the previous year:

in € million	Internally generated intangible assets	Other intangible assets	Total
Cost 12/31/2013	33.0	123.6	156.6
Currency translation	0.3	5.1	5.4
Additions	4.4	1.5	5.9
Retirements and disposals	0.0	(0.5)	(0.5)
Reclassifications	0.0	0.8	0.8
Cost 12/31/2014	**37.7**	**130.5**	**168.2**
Accumulated amortization 12/31/2013	18.6	58.4	77.0
Currency translation	0.2	1.2	1.4
Amortization charges	3.1	8.3	11.4
Impairment losses	0.4	4.5	4.9
Retirements and disposals	0.0	(0.5)	(0.5)
Accumulated amortization 12/31/2014	**22.3**	**71.9**	**94.2**
Carrying amounts 12/31/2014	**15.4**	**58.6**	**74.0**

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

Other intangible assets include in particular acquired patents, trademark rights, software, customer relations of the Indian company Orient Refractories Ltd. and land use rights.

As of December 31, 2015 and December 31, 2014 there are no restrictions on the sale of intangible assets.

(13) Investments in joint ventures

As in the previous year, the RHI Group holds a share of 50% in MAGNIFIN Magnesiaprodukte GmbH & Co KG, a company based in St. Jakob, Austria. The company's core business activity is the production and sale of halogen-free flame retardants for plastics. The investment in MAGNIFIN is treated as a financial investment.

MAGNIFIN is set up as an independent vehicle. RHI has a residual interest in the net assets of the company and accordingly classified its share as a joint venture. The share for which no listed market price is available is accounted for using the equity method in the RHI consolidated financial statements.

MAGNIFIN generated revenue amounting to € 37.8 million in the financial year 2015 (2014: € 34.7 million). Profit before income tax amounts to € 18.1 million (2014: € 15.5 million) and includes depreciation charges on property, plant and equipment and amortization charges on intangible assets of € 2.0 million (2014: € 2.2 million), interest income of € 0.1 million (2014: € 0.1 million) and interest expenses of € 0.3 million (2014: € 0.3 million).

Total comprehensive income including other comprehensive income before income tax of € 0.0 million (2014: € (0.4) million) amounts to € 18.1 million (2014: € 15.1 million).

Income taxes on the share of profit of MAGNIFIN amounting to € 2.4 million (2014: € 2.1 million) are recognized by RHI AG, head of the tax group, due to the legal form of the joint venture.

The net assets of MAGNIFIN at the two reporting dates are shown in the table below:

in € million	12/31/2015	12/31/2014
Non-current assets	8.0	9.2
Current assets (without cash and cash equivalents)	11.7	10.7
Cash and cash equivalents	17.2	14.3
Non-current personnel provisions	(3.9)	(4.1)
Current provisions	(1.1)	(1.0)
Trade payables and other current liabilities	(3.2)	(2.3)
Net assets	**28.7**	**26.8**

The development of the carrying amount of the share in this joint venture in the RHI consolidated financial statements is shown below:

in € million	2015	2014
Proportional share of net assets at beginning of year	**13.4**	**13.1**
Share of profit	9.2	8.2
Share of other comprehensive income (remeasurement losses)	0.0	(0.2)
Dividends received	(8.2)	(7.5)
Other changes in value	0.0	(0.2)
Proportional share of net assets at year-end	**14.4**	**13.4**
Goodwill	4.9	4.9
Carrying amount of investments in joint ventures	**19.3**	**18.3**

(14) Other non-current financial assets and liabilities

Other non-current financial assets consist of the following items:

in € million	12/31/2015	12/31/2014
Available-for-sale investments	0.5	0.5
Available-for-sale securities and shares	20.9	37.0
Other non-current financial receivables	2.3	2.1
Other non-current financial assets	**23.7**	**39.6**

At December 31, 2015 accumulated impairments on investments, securities and shares of € 2.5 million (12/31/2014: € 2.0 million) are recognized.

(15) Other non-current assets

Other non-current assets include the following items:

in € million	12/31/2015	12/31/2014
Stripping costs	10.1	10.0
Receivables from other taxes	5.3	7.2
Plan assets from overfunded pension plans	2.1	1.9
Prepaid expenses	0.5	0.5
Other non-current assets	**18.0**	**19.6**

Prepaid expenses for stripping costs arising from mining raw materials in a surface mine are shown in non-current assets due to the planned use of the mine.

Receivables from other taxes are related to input tax credits, which are expected to be utilized in the medium term.

(16) Deferred taxes

The net position of deferred taxes of the Group, derived from items of the statement of financial position, is calculated as follows:

in € million	12/31/2015	12/31/2014
Deferred tax assets	146.1	130.1
Deferred tax liabilities	(15.3)	(16.5)
Net position	**130.8**	**113.6**

The following table shows the development of the Group's net position:

in € million	2015	2014
Net position at beginning of year	**113.6**	**104.0**
Currency translation	(1.5)	(1.1)
Changes recognized in profit or loss	23.6	(2.9)
Tax rate changes recognized in profit or loss	(1.0)	0.3
Changes recognized in other comprehensive income	(3.9)	13.3
Net position at year-end	**130.8**	**113.6**

The change in net position classified according to the type of temporary differences and tax loss carryforwards is shown below:

in € million	Tax loss carryforwards	Non-current assets	Personnel provisions	Other provisions	Inventories, other	Total
12/31/2014	**68.0**	**(24.1)**	**58.3**	**4.0**	**7.4**	**113.6**
Currency translation	(0.3)	(1.9)	(0.1)	0.0	0.8	(1.5)
Changes recognized in profit or loss	2.8	11.1	(1.9)	(0.9)	12.5	23.6
Tax rate changes recognized in profit or loss	0.2	(1.4)	0.0	0.0	0.2	(1.0)
Changes recognized in other comprehensive income	0.9	0.0	(4.4)	0.0	(0.4)	(3.9)
12/31/2015	**71.6**	**(16.3)**	**51.9**	**3.1**	**20.5**	**130.8**

in € million	Tax loss carryforwards	Non-current assets	Personnel provisions	Other provisions	Inventories, other	Total
12/31/2013	**77.6**	**(28.3)**	**44.8**	**4.2**	**5.7**	**104.0**
Currency translation	0.3	(1.9)	0.1	0.0	0.4	(1.1)
Changes recognized in profit or loss	(10.0)	6.1	(0.1)	(0.2)	1.3	(2.9)
Tax rate changes recognized in profit or loss	0.1	0.0	0.1	0.0	0.1	0.3
Changes recognized in other comprehensive income	0.0	0.0	13.4	0.0	(0.1)	13.3
12/31/2014	**68.0**	**(24.1)**	**58.3**	**4.0**	**7.4**	**113.6**

As of December 31, 2015, subsidiaries which generated tax losses in the past year or the previous year recognized net deferred tax assets on temporary differences and on tax loss carryforwards of € 21.4 million (12/31/2014: € 9.3 million). These assets are considered to be unimpaired because the companies concerned are expected to generate taxable income in the future. This assessment is based on measures which are already being implemented and will lead to an increase in taxable income. The measures include structural tax measures, the intended sale of a subsidiary and optimizing the financing of the subsidiaries concerned.

Tax loss carryforwards totaled € 420.4 million in the RHI Group as of December 31, 2015 (12/31/2014): € 433.6 million. A significant portion of the tax loss carryforwards originates in Austria and can be carried forward indefinitely. The annual offset of the Austrian tax loss carryforwards is limited to 75% of the respective tax result.

No deferred taxes were recognized for tax loss carryforwards of € 144.1 million (12/31/2014: € 167.7 million). The main part of the non-capitalized tax losses can be carried forward indefinitely. € 10.7 million (12/31/2014: € 30.6 million) will lapse at the earliest in the year 2022 if not used by then.

In addition, no deferred tax assets were recognized for temporary differences totaling € 3.7 million (12/31/2014: € 16.1 million) as it is not sufficiently probable that they can be used. The deductible temporary differences can be carried forward indefinitely.

Taxable temporary differences of € 100.4 million (12/31/2014: € 67.2 million) were not recognized on shares in subsidiaries because the corresponding distributions of profit or the sale of the investments are not expected in the foreseeable future.

The maturity structure of deferred taxes is shown in the table below:

in € million	12/31/2015 Current	12/31/2015 Non-current	12/31/2015 **Total**	12/31/2014 Current	12/31/2014 Non-current	12/31/2014 **Total**
Deferred tax assets	27.7	118.4	**146.1**	25.4	104.7	**130.1**
Deferred tax liabilities	0.1	15.2	**15.3**	0.3	16.2	**16.5**

(17) Inventories

Inventories as presented in the statement of financial position consist of the following items:

in € million	12/31/2015	12/31/2014
Raw materials and supplies	78.3	88.2
Unfinished products and unfinished services	120.3	119.5
Finished products and goods	197.2	213.0
Prepayments made	8.1	8.3
Inventories	**403.9**	**429.0**

The inventories recognized as of December 31, 2015 totaled € 403.9 million (12/31/2014: € 429.0 million), of which € 4.0 million (12/31/2014: € 3.0 million) were carried at net realizable value.

The reversals of impairment losses in the financial year 2015, netted out against impairment losses, amount to € 2.6 million and are attributable to the higher turnover rates compared with 2014 and to the commissioning of a plant for the recovery of magnesite fine tailings and the related utilization of existing raw materials. In the previous year, impairment losses netted out against reversals of impairment losses amounting to € 4.1 million were recognized.

There are no restrictions on the disposal of inventories.

(18) Trade and other current receivables

Trade and other current receivables as presented in the statement of financial position are classified as follows:

in € million	12/31/2015	12/31/2014
Trade receivables	304.4	331.0
Receivables from long-term construction contracts	15.7	7.1
Receivables from joint ventures	1.6	0.6
Receivables from personnel welfare foundation	0.8	0.8
Taxes other than income tax	49.7	49.3
Receivables employees	1.0	1.0
Prepaid expenses	2.6	3.1
Other current receivables	14.2	15.5
Trade and other current receivables	**390.0**	**408.4**
thereof financial assets	308.4	334.0
thereof non-financial assets	81.6	74.4

Receivables from long-term construction contracts consist of the following components:

in € million	12/31/2015	12/31/2014
Contract costs incurred up to the reporting date	24.1	9.1
Profits recognized by the reporting date	1.1	0.8
Prepayments received	(9.5)	(2.8)
Receivables from long-term construction contracts	**15.7**	**7.1**

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

As in the previous year, trade receivables with a total nominal value of € 34.0 million were assigned for financial liabilities as of December 31, 2015.

Accumulated valuation allowance to trade and other current receivables developed as follows:

in € million	2015	2014
Accumulated valuation allowance at beginning of year	**25.8**	**20.5**
Currency translation	0.4	(0.2)
Addition	8.6	8.4
Use	(0.5)	(0.6)
Reversal	(4.2)	(2.3)
Accumulated valuation allowance at year-end	**30.1**	**25.8**

(19) Income tax receivables

Income tax receivables amounting to € 5.9 million (12/31/2014: € 6.9 million) are mainly related to tax prepayments and deductible withholding taxes.

(20) Other current financial assets and liabilities

This item of the statement of financial position consists of the following components:

in € million	12/31/2015	12/31/2014
Financial assets held for trading	2.3	1.6
Other current financial receivables	1.7	1.6
Other current financial assets	**4.0**	**3.2**

(21) Cash and cash equivalents

This item of the statement of financial position consists of the following components:

in € million	12/31/2015	12/31/2014
Cash at banks	149.3	148.2
Money market funds	0.0	2.4
Checks	0.3	0.4
Cash on hand	0.1	0.1
Cash and cash equivalents	**149.7**	**151.1**

(22) Share capital

The fully paid-in capital of RHI AG amounts to € 289,376,212.84. As in the previous year, it consists of 39,819,039 zero par value bearer shares. One share grants a rounded calculated share of € 7.27 in capital stock, as in the previous year. All shares grant the same rights.

The shareholders are entitled to payment of the dividend adopted and generally have one voting right per share at the Annual General Meeting. There are no RHI shares with special control rights. No limitations regarding the voting rights of RHI shares, including from agreements between shareholders, are known to the company, with the exception of the voting rights of MSP Foundation.

At March 4, 2016, the following investors with significant shareholdings were known to RHI: MSP Foundation, a foundation under Liechtenstein law, directly holds and its founder, Martin Schlaff, indirectly holds more than 25% via MSP Foundation of the voting rights of RHI AG. Pursuant to the stipulations of the Austrian Takeover Act, a limitation of voting rights of 26% applies. These voting rights were sold and transferred based on a share purchasing contract of December 28, 2015 by MS Private Foundation, a foundation under Austrian law, to MSP Foundation, Liechtenstein. In addition, Chestnut Beteiligungsgesellschaft mbH and Silver Beteiligungs-gesellschaft mbH each hold more than 5% of the voting rights. The voting rights of Chestnut Beteiligungsgesellschaft mbH and Silver Beteiligungsgesellschaft mbH are jointly exercised; consequently, the joint share in voting rights held by the two companies exceed 10%.

With a resolution of the Annual General Meeting of RHI AG of May 8, 2015, 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 share price of the day on which this authorization to issue shares to employees and executives of RHI AG as well as to members of the management, executives and employees of Group companies of RHI AG is exercised as part of continuation of the employee stock ownership plan "4 plus 1". The authorization is valid for 30 months starting on the day of the resolution. In the year 2015, 7,294 (2014: 6,472) shares were acquired over the stock exchange for the employee stock ownership plan and issued to employees. As of December 31, 2015 and December 31, 2014 no treasury shares were held by RHI AG.

Authorized capital 2015

The Management Board was authorized by resolution of the Annual General Meeting of RHI AG on May 8, 2015, in accordance with § 169 AktG (Stock Corporation Act), to increase share capital with the consent of the Supervisory Board until May 7, 2020 by up to another € 57,875,236.75 by issuing up to 7,963,807 new ordinary bearer shares (no par shares) for a cash contribution– also in several tranches – and to determine the issue price, the issue conditions and further details regarding the execution of the capital increase in agreement with the Supervisory Board, to offer the new shares to shareholders by means of indirect subscription rights in accordance with §153 para. 6 AktG if need be. By December 31, 2015 no capital increase of share capital out of the authorized capital was carried out.

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 AktG, to increase share capital with the approval of the Supervisory Board, 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. The authorized capital 2010 was not used.

(23) Group reserves

Additional paid-in capital

Additional paid-in capital comprises premiums on the issue of shares and convertible bonds by RHI AG and has not changed in comparison with December 31, 2014. The difference to the additional paid-in capital as shown the financial statements of RHI AG is attributable to deviating regulations in the Austrian Commercial Code with respect to the accounting of convertible bonds. Due to legal regulations, additional paid-in capital cannot be distributed and can only be reversed to cover losses.

Retained earnings

The item retained earnings includes the result of the financial year and results that were earned by consolidated companies during prior periods, but not distributed. Distributable profit and dividends are generally related to the accumulated profit of RHI AG, which is determined in accordance with Austrian commercial law.

Accumulated other comprehensive income

The item cash flow hedges includes gains and losses from the effective part of cash flow hedges less tax effects. The accumulated gain or loss from the hedge allocated to reserves is only reclassified to the statement of profit or loss if the hedged transaction also influences the result or is terminated.

Unrealized fair value changes of available-for-sale securities and shares in other investments are recognized in the item available-for-sale financial instruments. Deferred tax effects are deducted, unless gains from the sale of these financial instruments are treated as tax free under the applicable tax law.

The item defined benefit plans includes the gains and losses from the remeasurement of defined benefit pension and termination benefit plans taking into account tax effects. No reclassification of these amounts to the statement of profit or loss will be made in future periods.

Currency translation includes the accumulated currency translation differences from translating the financial statements of foreign subsidiaries as well as unrealized currency translation differences from monetary items which are part of a net investment in a foreign operation, net of related income taxes. If foreign companies are deconsolidated, the currency translation differences are recognized in the statement of profit or loss as part of the gain or loss from the sale of shares in subsidiaries. In addition, when monetary items which are part of a net investment in a foreign operation are paid back, the currency translation differences of these monetary items previously recognized in other comprehensive income are reclassified to profit or loss.

(24) Non-controlling interests

Non-controlling interests hold a share of 30.4% in the listed company Orient Refractories Ltd. (in the following “ORL”), based in New Delhi, India. ORL is allocated to the Steel segment. The summarized financial information of ORL shown below corresponds to the amounts before intercompany elimination.

Based on the net assets of the company, the carrying amount of the non-controlling interests is determined as follows:

in € million	12/31/2015	12/31/2014
Non-current assets	30.6	30.3
Current assets	33.4	28.5
Non-current liabilities	(9.1)	(9.1)
Current liabilities	(9.4)	(9.6)
Net assets	**45.5**	**40.1**
Percentage of non-controlling interests	30.4%	30.4%
Carrying amount of non-controlling interests	**13.8**	**12.2**

The aggregate statement of profit or loss and statement of comprehensive income are shown below:

in € million	2015	2014
Revenue	62.0	55.1
Operating expenses, net finance costs and income tax	(56.7)	(50.4)
Profit after income tax	**5.3**	**4.7**
thereof attributable to non-controlling interests of ORL	1.6	1.5

in € million	2015	2014
Profit after income tax	5.3	4.7
Other comprehensive income	2.3	3.8
Total comprehensive income	**7.6**	**8.5**
thereof attributable to non-controlling interests of ORL	2.3	2.6

The following table shows the summarized statement of cash flows of ORL:

in € million	2015	2014
Net cash flow from operating activities	10.4	2.5
Net cash flow from investing activities	(1.6)	(0.9)
Net cash flow from financing activities	(2.9)	(1.7)
Total cash flow	**5.9**	**(0.1)**

Net cash flow from financing activities includes dividend payments to non-controlling interests amounting to € 0.6 million (2014: € 0.6 million).

Accumulated other comprehensive income attributable to non-controlling interests is solely related to currency translation differences. The development is shown in the following table:

in € million	2015	2014
Accumulated other comprehensive income at beginning of year	**(0.9)**	**(2.0)**
Unrealized results from currency translation	0.7	1.1
Accumulated other comprehensive income at year-end	**(0.2)**	**(0.9)**

(25) Financial liabilities

Financial liabilities include all interest-bearing liabilities of the RHI Group due to financial institutions, fixed-term and puttable non-controlling interests in Group companies and other lenders at the respective reporting date.

The financial liabilities have the following contractual remaining terms:

in € million	Total 12/31/2015	Remaining term up to 1 year	2 to 5 years	over 5 years
"Schuldscheindarlehen"	253.5	0.0	156.5	97.0
Export credits and one-time financing	183.5	29.0	145.0	9.5
Utilized other credit lines	71.6	71.6	0.0	0.0
Accrued interest	1.6	1.6	0.0	0.0
Liabilities to financial institutions	510.2	102.2	301.5	106.5
Liabilities to fixed-term or puttable non-controlling interests	31.3	7.4	1.7	22.2
Other financial liabilities	6.1	0.0	6.0	0.1
Financial liabilities	**547.6**	**109.6**	**309.2**	**128.8**

in € million	Total 12/31/2014	Remaining term up to 1 year	2 to 5 years	over 5 years
"Schuldscheindarlehen"	312.0	58.5	156.5	97.0
Export credits and one-time financing	194.7	58.4	126.4	9.9
Utilized other credit lines	73.0	73.0	0.0	0.0
Accrued interest	2.3	2.3	0.0	0.0
Liabilities to financial institutions	582.0	192.2	282.9	106.9
Liabilities to fixed-term or puttable non-controlling interests	29.2	6.7	1.6	20.9
Other financial liabilities	6.8	2.1	4.7	0.0
Financial liabilities	**618.0**	**201.0**	**289.2**	**127.8**

Of the liabilities to financial institutions recognized at December 31, 2015 € 34.0 million were secured by assignment of receivables, unchanged in comparison with the previous year. In case the loan agreement is not met, the bank is entitled to inflows from the receivables assigned.

The indicator net debt factor (see note (58) for its calculation) represents the covenants in the most important loan agreements. If the value of 3.8 is exceeded, the loan conditions are renegotiated. Compliance with the covenants is reviewed on a quarterly basis.

For liabilities of € 407.0 million (12/31/2014: € 421.9 million), lenders have a termination option in the case of a change of control. In the event that certain reasons for termination exist, the lenders may declare the loan due with immediate effect and demand immediate repayment of the principal including interest, as well as the payment of other amounts payable that may have been incurred.

Taking into account existing interest rate swaps, 62% (12/31/2014: 53.0%) of the liabilities to financial institutions carry fixed interest and 38% (12/31/2014: 47.0%) carry variable interest.

The following table shows fixed interest terms and conditions, taking into account interest rate swaps, without liabilities from deferred interest:

Interest terms fixed until	Effective annual interest rate	Currency	12/31/2015 Carrying amount in € million	Interest terms fixed until	Effective annual interest rate	Currency	12/31/2014 Carrying amount in € million
2016	EURIBOR + margin	EUR	123.2	2015	EURIBOR + margin	EUR	205.1
	Variable interest rate + margin	EUR	34.0		Variable interest rate + margin	EUR	34.0
	Floating interest rate + margin	EUR	6.8		Floating interest rate + margin	EUR	10.1
	LIBOR + margin	USD	9.1		LIBOR + margin	USD	1.9
	Interbank rate + margin	Var.	20.3		Interbank rate + margin	Var.	21.3
					3.45%	EUR	12.0
					0.75% + margin	EUR	5.0
2017	0.69%	EUR	50.0	2017	0.69%	EUR	50.0
2018	1.13%	EUR	30.0				
2019	0.68%	EUR	20.0	2019	0.68%	EUR	25.0
	3.25%	EUR	20.0		3.25%	EUR	24.0
	3.15%	EUR	16.0		3.15%	EUR	16.0
	1.49%	EUR	16.0		1.49%	EUR	16.0
	0.72%	EUR	14.3		0.72%	EUR	17.9
	1.46% + margin	EUR	10.0		1.46% + margin	EUR	10.0
	1.42% + margin	EUR	3.0		1.42% + margin	EUR	3.0
2020	3.15% + margin	EUR	32.5	2020	3.15% + margin	EUR	38.8
	3.90%	EUR	13.6		3.90%	EUR	13.6
2021	1.97%	EUR	17.0	2021	1.97%	EUR	17.0
2022	4.50%	EUR	6.0	2022	4.50%	EUR	6.0
2023	0.35% + margin	EUR	13.8				
2024	3.00%	EUR	53.0	2024	3.00%	EUR	53.0
			508.6				**579.7**

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

(26) Other financial liabilities

Other financial liabilities include the negative fair value of derivative financial instruments and consist of the following items:

in € million	12/31/2015 Current	Non-current	Total	12/31/2014 Current	Non-current	Total
Liabilities from derivatives from supply contracts	8.0	50.0	58.0	0.0	0.0	0.0
Liabilities from interest rate swaps	0.0	1.3	1.3	0.0	1.3	1.3
Liabilities from forward exchange contracts	0.5	0.0	0.5	0.4	0.0	0.4
Other financial liabilities	**8.5**	**51.3**	**59.8**	**0.4**	**1.3**	**1.7**

Additional explanations on derivative financial instruments are provided under note (56).

(27) Personnel provisions

Personnel provisions include the following provisions:

in € million	12/31/2015	12/31/2014
Pensions	246.1	268.7
Termination benefits	60.1	66.0
Other personnel provisions	20.1	20.4
Personnel provisions	**326.3**	**355.1**

Provisions for pensions

The net debt from pension obligations in the consolidated statement of financial position is derived as follows:

in € million	12/31/2015	12/31/2014
Present value of pension obligations	304.9	353.1
Fair value of plan assets	(63.8)	(87.9)
Funded status	**241.1**	**265.2**
Asset ceiling	2.8	1.6
Net debt from pension obligations	**243.9**	**266.8**
thereof assets from overfunded pension plans	2.1	1.9
thereof provisions for pensions	246.1	268.7

The present value of pension obligations by beneficiary groups is structured as follows:

in € million	12/31/2015	12/31/2014
Active beneficiaries	76.6	76.5
Terminated beneficiaries	21.7	39.0
Retirees	206.6	237.6
Present value of pension obligations	**304.9**	**353.1**

The calculation of pension obligations is based on the following actuarial assumptions:

in %	12/31/2015	12/31/2014
Interest rate	2.5%	2.4%
Future salary increase	2.0%	2.0%
Future pension increase	1.5%	1.4%

These are average values which were weighted with the present value of the respective pension obligation.

The calculation of the actuarial interest rate for the European currency area is based on a yield curve for returns of high-quality corporate bonds denominated in EUR with an average rating of AA, which is derived from pooled index values. Where there are very long-term maturities, the yield curve follows the performance of bonds without credit default risk. The interest rate is calculated annually at December 31, taking into account the expected future cash flows which were determined based on the current personal and commitment data.

As in the previous year, the calculation in Austria was based on the Pagler & Pagler AVÖ 2008 P biometric calculation principles for salaried employees. In Germany, the Heubeck 2005 G actuarial tables were used as a basis. In the other countries, country-specific mortality tables were applied.

The probability of employee turnover was estimated based on age or length of service.

The retirement age used for the calculation depends on the respective legal requirements of the relevant country. The calculation is based on the earliest possible retirement age in accordance with the current legal requirements of the relevant country, depending amongst other things on gender and date of birth.

The main pension regulations are described below:

The Austrian Group companies account for € 128.5 million (12/31/2014: € 136.0 million) of the present value of pension obligations and for € 26.1 million (12/31/2014: € 25.7 million) of the plan assets. The agreed benefits include pensions, invalidity benefits and benefits for surviving dependents. Commitments in the form of company or individual agreements depend on the length of service and the salary at the time of retirement. For the majority of commitments the amount of the company pension subsidy is limited to 75% of the final remuneration including a pension pursuant to the General Social Insurance Act (ASVG). RHI has concluded pension reinsurance policies for part of the commitments.

The pension claims of the beneficiaries are limited to the coverage capital required for these commitments. Pensions are predominantly paid in the form of annuities and are partially indexed. For employees joining the company after January 1, 1984, no defined benefits were granted. Rather, a defined contribution pension model is in place. In addition, there are commitments based on the deferred compensation principle, which are fully covered by pension reinsurance policies, and commitments for preretirement benefits for employees in mining operations.

The pension plans of the German Group companies account for € 120.2 million (12/31/2014: € 128.6 million) of the present value of pension obligations and for € 0.7 million (12/31/2014: € 0.7 million) of plan assets. The benefits included in company agreements comprise pensions, invalidity benefits and benefits for surviving dependents. The amount of the pension depends on the length of service for the majority of the commitments and is calculated as a percentage of the average monthly wage/salary of the last twelve months prior to retirement. In some cases commitments to fixed benefits per year of service have been made. The pensions are predominantly paid in the form of annuities and are adjusted in accordance with the development of the consumer price index for Germany. The pension plans are closed for new entrants. There is no defined contribution model on a voluntary basis. Individual commitments have been made, with major part of them being retired beneficiaries.

The defined benefit plan in the United Kingdom was terminated in the financial year 2015. The pension benefits were settled by the acquisition of individual policies of an external insurance company. For the complete settlement of the benefits, additional contributions amounting to € 3.0 million were paid. The expenses resulting from settlement amount to € 0.1 million.

The following table shows the development of net debt from pension obligations:

in € million	2015	2014
Net debt from pension obligations at beginning of year	**266.8**	**236.5**
Currency translation	(0.2)	0.6
Pension cost	9.3	12.2
Remeasurement losses/(gains)	(8.2)	38.9
Benefits paid	(17.5)	(17.9)
Employers’ contributions to external funds	(6.3)	(3.5)
Net debt from pension obligations at year-end	**243.9**	**266.8**

The present value of pension obligations developed as follows:

in € million	2015	2014
Present value of pension obligations at beginning of year	**353.1**	**319.0**
Currency translation	5.9	3.6
Current service cost	4.0	3.7
Past service cost	(1.0)	0.1
Losses on settlement	0.1	0.0
Interest cost	8.1	11.5
Remeasurement losses/(gains)		
from changes in demographic assumptions	0.0	0.2
from changes in financial assumptions	(8.7)	39.1
due to experience adjustments	(0.3)	3.4
Benefits paid	(23.8)	(27.9)
Employee contributions to external funds	0.4	0.4
Disposal due to settlement	(32.9)	0.0
Present value of pension obligations at year-end	**304.9**	**353.1**

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

in € million	2015	2014
Fair value of plan assets at beginning of year	**87.9**	**86.5**
Currency translation	6.3	3.0
Interest income	2.0	3.2
Administrative costs (paid from plan assets)	(0.1)	0.0
Income on plan assets less interest income	0.2	1.3
Benefits paid	(6.3)	(10.0)
Employers' contributions to external funds	6.3	3.5
Employee contributions to external funds	0.4	0.4
Disposal due to settlement	(32.9)	0.0
Fair value of plan assets at year-end	**63.8**	**87.9**

The changes in the asset ceiling are shown below:

in € million	2015	2014
Asset ceiling at beginning of year	**1.6**	**4.0**
Currency translation	0.2	0.0
Interest	0.0	0.1
(Gains)/losses from changes in asset ceiling less interest	1.0	(2.5)
Asset ceiling at year-end	**2.8**	**1.6**

At December 31, 2015 the weighted average duration of pension obligations amounts to 11 years (12/31/2014: 11 years).

The following amounts were recorded in the statement of profit or loss:

in € million	2015	2014
Current service cost	4.0	3.7
Past service cost	(1.0)	0.1
Losses on settlement	0.1	0.0
Interest cost	8.1	11.5
Interest income	(2.0)	(3.2)
Interest from asset ceiling	0.0	0.1
Administrative costs (paid from plan assets)	0.1	0.0
Pension expense recognized in profit or loss	**9.3**	**12.2**

The remeasurement results recognized in other comprehensive income are shown in the table below:

in € million	2015	2014
Accumulated remeasurement losses at beginning of year	**116.7**	**77.7**
Reclassification due to settlement of defined benefit plans	(6.1)	0.0
Remeasurement losses/(gains) on present value of pension obligations(1)	(9.0)	42.8
Income on plan assets less interest income	(0.2)	(1.3)
(Gains)/losses from changes in asset ceiling less interest	1.0	(2.5)
Accumulated remeasurement losses at year-end	**102.4**	**116.7**

(1) Including € 0.0 million (2014: € 0.1 million) from a joint venture accounted for using the equity method

The present value of plan assets is distributed to the following classes of investment:

	12/31/2015			12/31/2014		
in € million	Active market	No active market	Total	Active market	No active market	Total
Insurances	0.0	39.0	39.0	0.0	64.7	64.7
Equity instruments	9.6	0.0	9.6	8.3	0.0	8.3
Debt instruments	1.5	9.2	10.7	1.9	8.9	10.8
Cash and cash equivalents	0.2	0.2	0.4	0.3	0.1	0.4
Other assets	0.3	3.8	4.1	0.5	3.2	3.7
Fair value of plan assets	**11.6**	**52.2**	**63.8**	**11.0**	**76.9**	**87.9**

The present value of the insurances to cover the Austrian pension plans corresponds to the coverage capital. Insurance companies predominantly invest in debt instruments and to a low extent in equity instruments and properties.

Plan assets do not include own financial instruments of the Group or assets utilized by the RHI Group.

RHI works with professional fund managers for the investment of plan assets. They act on the basis of specific investment guidelines adopted by the pension fund committee of the respective pension plans. The committees consist of management staff of the finance department and other qualified executives. They meet regularly in order to approve the target portfolio with the support of independent actuarial experts and to review the risks and the performance of the investments. In addition, they approve the selection or the extension of contracts of external fund managers.

The largest part of the assets is invested in pension reinsurance, which creates a low counterparty risk towards insurance companies. In addition, the Group is exposed to interest risks and longevity risks resulting from defined benefit commitments.

The Group generally endows the pension funds with the amount necessary to meet the legal minimum allocation requirements of the country in which the fund is based. Moreover, the Group makes additional allocations at its discretion from time to time. In the financial year 2016 RHI expects employer contributions to external plan assets to amount to € 3.2 million and direct payments to entitled beneficiaries to amount to € 18.9 million.

Provisions for termination benefits

Provisions for termination benefits were based on the following weighted average measurement assumptions:

in %	12/31/2015	12/31/2014
Interest rate	2.3%	2.1%
Future salary increase	2.8%	3.3%

The interest rate for the measurement of termination benefit obligations in the euro area was determined taking into account the company specific duration of the portfolio.

Provisions for termination benefits developed as follows in the financial year and the previous year:

in € million	2015	2014
Provisions for termination benefits at beginning of year	**66.0**	**55.7**
Currency translation	(0.1)	0.1
Current service cost	1.7	1.6
Interest cost	1.4	1.9
Remeasurement losses/(gains)		
from changes in financial assumptions	(3.7)	10.3
due to experience adjustments	(1.2)	(0.2)
Benefits paid	(4.0)	(3.4)
Provisions for termination benefits at year-end	**60.1**	**66.0**

Payments for termination benefits are expected to amount to € 2.5 million in the year 2016.

The following remeasurement gains and losses were recognized in other comprehensive income:

in € million	2015	2014
Accumulated remeasurement losses at beginning of year	**27.2**	**17.0**
Remeasurement losses/(gains)(1)	(4.9)	10.2
Accumulated remeasurement losses at year-end	**22.3**	**27.2**

(1) Including € 0.0 million (2014: € 0,1 million) from a joint venture accounted for using the equity method

At December 31, 2015 the weighted average duration of termination benefit obligations amounts to 11 years (12/31/2014: 11 years).

Other personnel provisions

Other personnel provisions consist of the following items:

in € million	12/31/2015	12/31/2014
Service anniversary bonuses	18.1	18.9
Semi-retirements	1.5	1.0
Share-based payments, lump-sum settlements	0.5	0.5
Other personnel provisions	**20.1**	**20.4**

The measurement of provisions for service anniversary bonuses is based on an average weighted interest rate of 2.1% (12/31/2014: 1.9%) and takes into account salary increases of 4.1% (12/31/2014: 4.4%).

The discount rate of provisions for semi-retirement amounts to 0.1% as of December 31, 2015 (12/31/2014: 0.2%).

The funded status of provisions for obligations to employees with semi-retirement contracts is shown in the table below:

in € million	12/31/2015	12/31/2014
Present value of semi-retirement obligations	4.6	3.8
Fair value of plan assets	(3.1)	(2.8)
Provisions for semi-retirement obligations	**1.5**	**1.0**

External plan assets are beyond the reach of all creditors and exclusively serve to meet semi-retirement obligations.

(28) Other non-current provisions

The development of non-current provisions is shown in the table below:

in € million	2015
Provisions at beginning of year	**6.1**
Currency translation	0.1
Use	(0.1)
Reversal	(0.9)
Reclassifications	(0.9)
Provisions at year-end	**4.3**

The provisions of € 4.3 million recognized at December 31, 2015 are primarily due to provisions for obligations related to a lease contract. Currently, these provisions are expected to be used in a period from two to five years.

(29) Other non-current liabilities

Other non-current liabilities of € 7.9 million (12/31/2014: € 8.8 million) include deferred income for subsidies received from third parties amounting to € 5.3 million (12/31/2014: € 5.5 million) and liabilities to employees.

(30) Trade payables and other current liabilities

Trade payables and other current liabilities included in the statement of financial position consist of the following items:

in € million	12/31/2015	12/31/2014
Trade payables	177.4	175.7
Prepayments received on orders	14.0	20.5
Liabilities to subsidiaries	0.1	0.1
Liabilities to joint ventures	0.0	0.1
Taxes other than income tax	17.1	17.2
Liabilities employees	53.7	53.1
Payables from commissions	7.8	8.9
Customers with credit balances	3.8	5.2
Other current liabilities	19.7	15.6
Trade payables and other current liabilities	**293.6**	**296.4**
thereof financial liabilities	196.9	195.8
thereof non-financial liabilities	96.7	100.6

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

(31) Income tax liabilities

Income tax liabilities amounting to € 25.3 million (12/31/2014: € 24.1 million) primarily include income taxes for the current year and previous years which have not yet been definitively audited by domestic and foreign tax authorities. Taking into account a multitude of factors, including the interpretation, commenting and case law regarding the respective tax laws as well as past experiences, adequate liabilities have been recognized as far as apparent.

(32) Current provisions

The development of current provisions is shown in the table below:

in € million	Demolition/ disposal costs, environmental damages	Warranties	Guarantees provided	Restructuring costs, other	Total
12/31/2014	**16.1**	**9.2**	**6.6**	**8.0**	**39.9**
Currency translation	0.0	(0.6)	0.0	(0.1)	(0.7)
Use	(0.3)	(2.8)	0.0	(2.7)	(5.8)
Reversal	(5.5)	(1.5)	0.0	(1.8)	(8.8)
Addition	0.3	6.4	0.8	1.3	8.8
Reclassifications	0.0	(0.1)	0.0	1.0	0.9
Reclassifications to current liabilities	(1.3)	0.0	0.0	0.0	(1.3)
12/31/2015	**9.3**	**10.6**	**7.4**	**5.7**	**33.0**

The item demolition and disposal costs, environmental damages includes provisions for the estimated demolition and disposal costs of plant and buildings of the former site in Duisburg, Germany amounting to € 3.4 million. It is assumed that these provisions will be used up within in the next twelve months. At December 31 of the previous year, provisions for the closure of the German sites in Duisburg and Kretz totaling € 10.1 million were recorded. Furthermore, provisions for recultivation and expected refurbishment costs resulting from environmental damage at other locations exist at the two reporting dates.

Provisions for warranties include provisions for claims arising from warranties and other similar obligations from the sale of refractory products and provisions for onerous contracts.

Provisions for guarantees provided include obligations from sureties and guarantees to banks and insurance companies in the country and abroad. In early 2016, guarantees amounting to € 3.7 million were drawn by a foreign insurance company. The exact due date of the cash outflow of the remaining sureties and guarantees is uncertain at present.

The item restructuring costs, other includes provisions for restructuring costs, provisions for process risks as well as several provisions, which are individually immaterial and cannot be allocated to one of the above-mentioned categories.

Provisions for restructuring costs amount to € 2.0 million as of December 31, 2015 (12/31/2014: € 3.6 million) and primarily consist of benefit obligations to employees due to termination of employment, and costs of lease obligations of the former site in Kretz. A large part of these costs is expected to be paid within twelve months.

In the context of the legal proceedings to review the cash compensation of the former minority shareholders of Didier-Werke AG, Wiesbaden, Germany, a provision in the amount of the settlement proposed by the Frankfurt Higher Regional Court is recorded, unchanged in comparison with the previous year. This amount was offset against equity in the previous year. The related estimated interest expense is recognized through profit or loss. The Frankfurt Higher Regional Court commissioned an expert opinion, which was completed in early 2016. The court decision is still pending. RHI assumes that the amount of the provisions formed is sufficient. Further provisions were created for expected expenses related to further ongoing or probable legal disputes. The provision amounts, which are of minor importance individually, were determined on the basis of information and cost estimates made by the lawyers of the Group companies. It is currently uncertain when precisely the cash outflow is due.

NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(33) Revenue

Revenue is essentially generated by product deliveries. The distribution of revenue by product group, division and country is given in the explanations to segment reporting under note (52).

Revenue includes revenues from long-term construction contracts amounting to € 83.7 million (2014: € 71.7 million).

(34) 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 material and production costs, it also includes overheads including depreciation charges on production equipment, amortization charges of intangible assets as well as impairment losses and reversals of impairment losses of inventories. Moreover, cost of sales also includes the costs of services provided by the Group or services received.

At the plant in Porsgrunn, Norway, progress was made again in the year 2015 in the further implementation of the project plan to optimize the production process at the fusion plant built by RHI. Nevertheless, individual problems in different stages of the production process caused additional costs of € 17.7 million in the year 2015 compared with external purchases. In the previous year, these additional costs had amounted to € 27.1 million. They include both expenses and income from insurance of € 0.8 million (2014: € 1.6 million) related to fires in the plant.

(35) Selling and marketing expenses

This item includes personnel expenses for the sales staff, commissions, as well as depreciation charges and other operating expenses related to the market and sales processes.

(36) General and administrative expenses

General and administrative expenses primarily consist of personnel expenses for the administrative functions, legal and other consulting costs, expenses for research and non-capitalizable development costs.

Research and development expenses totaled € 23.4 million (2014: € 22.6 million), of which development costs amounting to € 4.6 million (2014: € 3.8 million) were capitalized. Income from research grants amounted to € 3.2 million in the reporting year 2015 (2014: € 4.3 million). Amortization and impairment of development costs amounting to € 3.0 million (2014: € 3.0 million) are recognized under cost of sales.

(37) Other income

The individual components of other income are:

in € million	2015	2014
Foreign exchange gains	67.7	44.9
Gains from derivative financial instruments	2.3	1.8
Income from the disposal of non-current assets	3.9	1.3
Miscellaneous income	2.1	2.9
Other income	**76.0**	**50.9**

Income from the disposal of non-current assets predominantly includes income from the sale of land.

Miscellaneous income primarily consists of other revenue and other operating income related to prior periods.

(38) Other expenses

Other expenses include:

in € million	2015	2014
Foreign exchange losses	(64.3)	(34.7)
Losses from derivative financial instruments	(14.6)	(11.4)
Losses from the disposal of non-current assets	(0.8)	(1.2)
Impairment losses of investment project Brazil	0.0	(0.4)
Other expenses of investment project Brazil	(0.3)	(1.2)
Miscellaneous expenses	(0.9)	(1.4)
Other expenses	**(80.9)**	**(50.3)**

The net foreign currency effects amount to € 3.4 million (2014: € 10.2 million). The net amount of gains and losses from derivative financial instruments in the operating EBIT amounts to € (12.3) million (2014: € (9.6) million). This amount includes realized effects from forward exchange contracts of € (13.3) million (2014: € (11.3) million).

In the previous year, the RHI Management Board evaluated a concept for the establishment of a production facility in Brazil with a substantially lower investment total than originally planned. However, against the backdrop of the expected further market development, it was decided not to implement this plan. Therefore, acquired property, plant and equipment of € 0.4 million had to be fully written down at the end of the year 2014, of which € 0.3 million were allocated to the Steel Division and € 0.1 million to the Industrial Division.

(39) Impairment losses

CGU Raw Materials/Norway

At the plant in Porsgrunn, Norway, progress was made in the year 2015 in the optimization of the production process at the fusion plant built by RHI through continued implementation of the long-term plan. As raw material prices for fused magnesia continued to decline in comparison with the previous year and incidents occurred repeatedly, the production volume was reassessed and adapted accordingly in the planning. Therefore, the consolidated statement of profit or loss includes a full impairment of property, plant and equipment of € 23.2 million in the year 2015. In the previous year, impairment losses of € 7.5 million were recognized.

CGU Industrial/Monofrax

The market for fused cast products is characterized by massive price pressure, which continues to grow due to the aggressive pricing on the part of Asian manufacturers. The production of these fused cast products is associated with high fixed costs, which in combination with low capacity utilization additionally burden achievable margins. As no significant recovery is expected for this market segment in the coming years, several future concepts were prepared for the US plant Falconer, Monofrax. The Management Board of RHI AG subsequently decided to initiate a structured selling process at the end of the year 2015. However, an impairment on the existing property, plant and equipment and on intangible assets amounting to € 8.0 million has to be recognized for the year 2015.

CGU Industrial/Glass

In 2015, the recoverable amount of the previous year was confirmed for the CGU Industrial/Glass. In the year 2014, an impairment of € 12.3 million was recognized on property, plant and equipment and intangible assets in the statement of profit or loss in the CGU Industrial/Glass.

(40) Income from restructuring and restructuring costs

Duisburg plant, Germany

The former production site in Duisburg, Germany, was sold in early 2016. The provisions recognized at December 31, 2015 in the context of the property were remeasured taking into account the considerations that were contractually agreed as part of the sale. The income resulting from the remeasurement, which are recognized under income from restructuring, amount to € 4.3 million, of which € 2.4 million are allocated to the Steel Division and € 1.9 million to the Industrial Division. The transfer of ownership is subject to the buyer of the property paying the consideration in full.

In the previous year, restructuring costs totaled € 3.9 million and included impairment losses of € 1.0 million for machinery and other plant. € 0.6 million were allocated to the Steel Division and € 0.4 million to the Industrial Division.

The recoverable amount (fair value less cost of disposal, level 3 pursuant to IFRS 13) amounts to € 1.9 million at December 31, 2015 (12/31/2014: € 1.9 million).

Kretz site, Germany

At the site in Kretz, Germany, magnesite raw materials were treated at a leased plant until 2014. As part of the optimization of the raw material treatment throughout the Group, the Management Board of RHI AG decided to terminate operations at this site because significant investments would have been necessary due to additional official regulations. The lease was terminated with effect from December 31, 2015. Provisions were formed for all payments still due and shown under liabilities. The employees of this site were transferred to other sites of the RHI Group or given notice in the year 2015.

In the reporting year, income from restructuring amounting to € 1.6 million was recognized in the item income from restructuring and was fully allocated to the Raw Materials Division. In the previous year, expenses totaling € 9.7 million were recorded and fully allocated to the Raw Materials Division; of this total, € 8.1 million were related to provisions for lease payments to be effected and measures required for the restoration to the original state of the leased object as well as personnel costs; € 1.6 million were related to impairments on property, plant and equipment and intangible assets. The impairment losses were made up of the following components: € 0.1 million conversions, € 0.4 million technical equipment and machinery, € 0.2 million other plant and € 0.9 million other intangible assets. The recoverable amount (fair value less cost of disposal, level 3 pursuant to IFRS 13) amounted to nil at December 31, 2014.

Clydebank plant, United Kingdom

As part of the plant concept, the Management Board of RHI AG decided to concentrate the activities of the two Scottish plants for isostatically pressed products at the site in Bonnybridge. It is planned to close the Clydebank plant by the end of 2016. The total expected restructuring costs of € 3.3 million comprise personnel costs amounting to € 0.4 million and impairment losses on property, plant and equipment of € 2.9 million, of which € 1.4 million are related to buildings and € 1.5 million to technical plant and machinery. The costs are allocated to the Steel Division in their entirety. The recoverable amount (fair value less cost of disposal, level 3 pursuant to IFRS 13) amounts to € 1.3 million at December 31, 2015.

(41) Interest income

This item includes interest on cash at banks and similar income amounting to € 1.4 million (2014: € 1.4 million), interest income on financial receivables amounting to € 0.2 million (2014: € 0.2 million) and interest income on available-for-sale securities and shares amounting to € 4.2 million (2014: € 1.0 million), of which € 4.0 million (2014: € 0.0 million) is accounted for by impaired securities.

(42) Interest expenses

This item includes interest expenses for "Schuldscheindarlehen" and bank loans less capitalized interest on borrowings, interest from interest rate swaps, tax-related interest, interest expenses attributable to non-controlling interests totaling € 3.3 million (2014: € 2.7 million) and other interest and similar expenses.

(43) Other net financial expenses

Other net financial expenses consist of the following items:

in € million	2015	2014
Interest income on plan assets	2.0	3.2
Interest expense on provisions for pensions	(8.1)	(11.6)
Interest expense on provisions for termination benefits	(1.4)	(1.9)
Interest expense on other personnel provisions	(0.5)	(0.7)
Net interest expense personnel provisions	(8.0)	(11.0)
Gains from the disposal of securities and shares	4.6	0.0
Impairment losses on securities	(0.6)	0.0
Expenses from the valuation of put options	(0.6)	(2.1)
Other net financial expenses	**(4.6)**	**(13.1)**

(44) Income tax

Income tax consists of the following items:

in € million	2015	2014
Current tax expense	32.4	29.7
Deferred tax (income)/expense relating to		
temporary differences	(19.6)	(7.3)
tax loss carryforwards	(3.0)	9.9
	(22.6)	2.6
Income tax	**9.8**	**32.3**

The current tax expense of the year 2015 includes income from income tax relating to other periods of € 0.9 million (2014: € 3.6 million) and income tax expenses for previous periods of € 4.0 million (2014: € 3.3 million).

In addition to the income taxes recognized in the statement of profit or loss, tax expenses totaling € 1.9 million (2014: tax income of € 13.3 million), which are attributable to other comprehensive income were also recognized in other comprehensive income. Tax expenses amounting to € 0.6 million (2014: € 0.0 million) were reclassified from other comprehensive income to the statement of profit or loss.

The reasons for the difference between the arithmetic income tax expense, which would result from the application of the Austrian corporate tax rate of 25% on the profit before income tax, and the income tax reported are shown below:

in € million	2015	2014
Profit before income tax	**27.4**	**84.8**
Arithmetic tax expense with tax rate of 25% (2014: 25%)	**6.9**	**21.2**
Different foreign tax rates	(0.6)	(0.5)
Expenses not deductible for tax purposes, non-creditable taxes	8.4	8.5
Income not subject to tax and tax advantages	(3.9)	(6.0)
Non-capitalized tax losses and temporary differences of the financial year	5.8	6.7
Utilization of previously unrecognized loss carryforwards and temporary differences	(3.3)	(3.0)
Capitalization of previously unrecognized loss carryforwards and temporary differences	(6.2)	(0.1)
Change in valuation allowance on deferred tax assets	0.9	2.6
Deferred tax expense/(income) due to changes in tax rates	1.0	(0.3)
Deferred income tax relating to prior periods	(2.1)	0.5
Current income tax relating to prior periods	3.1	(0.3)
Other	(0.2)	3.0
Recognized tax expense	**9.8**	**32.3**
Effective tax rate (in %)	**35.8%**	**38.1%**

Deferred tax expense due to changes in tax rates of € 1.0 million is primarily attributable to a reduction of the tax rate in Norway. In the previous year, changes in tax rates in the USA due to the expansion of business activities to other states, in Chile and in several other countries, led to deferred tax income of € 0.3 million.

(45) Expense categories

The presentation of the consolidated statement of profit or loss is based on the cost of sales method. The following table shows a classification by expense category for the financial year 2015 and the previous year:

in € million	Cost of sales	Selling and marketing expenses	General and administrative expenses	Other income/ expenses	Losses derivatives/ impairment losses	Income/ costs from restructuring	Total 2015
Changes in inventories, own work capitalized	8.7	0.0	(4.6)	0.0	0.0	0.0	4.1
Cost of materials	857.9	0.5	2.5	0.0	0.0	0.0	860.9
Personnel costs	267.1	59.5	81.5	0.0	0.0	0.4	408.5
Depreciation charges	64.4	0.7	4.2	0.0	31.2	2.9	103.4
Other income	(10.9)	0.0	(7.2)	(76.0)	0.0	0.0	(94.1)
Other expenses	201.9	51.4	45.9	80.9	58.0	(5.9)	432.2
Total	**1,389.1**	**112.1**	**122.3**	**4.9**	**89.2**	**(2.6)**	**1,715.0**

in € million	Cost of sales	Selling and marketing expenses	General and administrative expenses	Other income/ expenses	impairment losses	restructuring expenses	Total 2014
Changes in inventories, own work capitalized	(35.6)	0.0	(3.8)	0.0	0.0	0.0	(39.4)
Cost of materials	873.8	0.5	2.7	0.0	0.0	0.0	877.0
Personnel costs	253.4	60.6	81.0	0.0	0.0	3.0	398.0
Depreciation charges	60.1	2.9	5.0	0.4	19.8	2.6	90.8
Other income	(6.7)	0.0	(7.7)	(50.9)	0.0	(0.8)	(66.1)
Other expenses	205.3	50.7	37.7	49.9	0.0	8.8	352.4
Total	**1,350.3**	**114.7**	**114.9**	**(0.6)**	**19.8**	**13.6**	**1,612.7**

Cost of materials includes expenses for raw materials and supplies, and purchased goods of € 669.2 million (2014: € 682.3 million) as well as expenses for services received, especially energy, amounting to € 191.7 million (2014: € 194.7 million).

Amortization charges of intangible assets are largely recognized in cost of sales and general administrative expenses within functional costs.

(46) Personnel costs

The individual components of personnel costs are listed below:

in € million	2015	2014
Wages and salaries	312.5	305.6
Pensions		
Defined benefit plans	3.2	3.8
Defined contribution plans	3.1	3.0
Termination benefits		
Defined benefit plans	1.7	1.6
Defined contribution plans	1.9	1.9
Other expenses	3.0	1.5
Fringe benefits	83.1	80.6
Personnel expenses (without interest expenses)	**408.5**	**398.0**

Personnel costs include restructuring costs amounting to € 0.4 million (2014: € 3.0 million), lump-sum settlements of € 2.6 million (2014: € 1.5 million) and remeasurement gains from the measurement of other benefits to employees of € 0.8 million (2014: losses € 2.1 million). Personnel costs do not include amounts resulting from the interest accrued on personnel provisions. They amount to € 8.0 million (2014: € 11.0 million) and are recorded in net finance costs.

As in the previous year, employees of RHI AG and Group companies had the opportunity to receive bonus shares free of charge as part of the voluntary RHI stock option plan “4 plus 1” in the year 2015. The employees receive one RHI share free of charge for every four RHI shares they have purchased themselves. The expense resulting from this employee stock option plan amounts to € 0.1 million as in the previous year and was recorded in the item wages and salaries.

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The statement of cash flows shows how cash and cash equivalents of the Group change through cash inflows and cash outflows during the reporting year. In accordance with IAS 7, cash flows from operating activities, from investing activities and from financing activities are distinguished. Cash flows from investing and financing activities are determined on the basis of cash payment, while cash flow from operating activities is derived from the consolidated financial statements using the indirect method.

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

(47) Net cash flow from operating activities

Net cash flow from operating activities is derived indirectly based on profit after income tax. Profit after income tax is adjusted for results which are allocable to the cash flows from investing or financing activities and for non-cash expenses and income. Other non-cash expenses and income include in particular the net interest expenses for defined benefit pension plans amounting to € 8.0 million (2014: € 11.0 million), net remeasurement losses of monetary foreign currency positions and derivative financial instruments of € 61.3 million (2014: net remeasurement gains of € 3.3 million) and non-cash reversals of provisions for restructuring amounting to € 2.0 million (2014: funding of € 10.3 million). Taking into account the change in funds tied up in working capital as well as other operating assets and liabilities and income taxes paid, the result is net cash flow from operating activities.

(48) 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. The cash outflows for investments in property, plant and equipment and intangible assets differ from the additions to assets primarily through additions to assets already capitalized, which will have a cash effect in the following year.

Cash effects from business combinations or the sale of companies (net change in cash and cash equivalents from initial consolidations and deconsolidations) are shown separately. In the reporting year 2015, no acquisitions of companies or divestments were carried out.

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

(49) Net cash flow from financing activities

Net cash flow from financing activities includes outflows from the acquisition of non-controlling interests, dividend payments and interest payments. In contrast, interest on borrowings capitalized in accordance with IAS 23 is included in cash flow from investing activities, and tax-related interest is recognized in cash flow from operating activities.

The interest expenses recognized in the consolidated statement of profit or loss include non-cash accrued interest of € 1.6 million (2014: € 2.3 million). In the previous year non-cash interest expenses from discounting non-current assets amounting to € 1.7 million were recorded, which were therefore not included in interest paid in the consolidated statement of cash flows.

Inflows resulting from the proceeds and repayments of loans and other financial liabilities are classified as non-current or current according to the term of financing.

(50) Total interest paid and total interest received

Total interest paid amounts to € 20.8 million in the reporting period (2014: € 20.9 million), of which € 0.2 million (2014: € 1.0 million) are included in cash flow from operating activities, € 0.3 million (2014: € 0.1 million) in cash flow from investing activities and € 20.3 million (2014: € 19.8 million) in cash flow from financing activities.

Total interest received amounts to € 5.8 million in the financial year 2015 (2014: € 2.6 million), of which € 0.0 million (2014: € 0.2 million) are included in cash flow from operating activities and € 5.8 million (2014: € 2.4 million) in cash flow from investing activities.

(51) Cash and cash equivalents

Cash and cash equivalents as presented in the consolidated statement of cash flows correspond to the cash and cash equivalents recognized in the statement of financial position.

They include restricted cash totaling € 21.9 million at December 31, 2015 (12/31/2014: € 7.0 million). Restricted cash is on the one hand related to cash and cash equivalents at subsidiaries (mainly in China, India and South Africa) to which the company only has limited access due to foreign exchange and capital transfer controls. € 8.4 million (12/31/2014: € 2.6 million) are accounted for by a subsidiary with non-controlling interests. On the other hand, the RHI Group is not authorized to use cash amounting to € 2.0 million on the reporting date (12/31/2014: € 0.0 million) due to a pending lawsuit.

OTHER DISCLOSURES

(52) Segment reporting

Segment reporting by operating company division

The following tables show the financial data for the operating segments for the year 2015 and the previous year:

in € million	Steel	Industrial	Raw Materials	Reconciliation	Group 2015
External revenue	1,099.9	614.6	38.0	0.0	1,752.5
Internal revenue	0.0	0.0	234.6	(234.6)	0.0
Segment revenue	**1,099.9**	**614.6**	**272.6**	**(234.6)**	**1,752.5**
Operating EBIT	**64.3**	**65.0**	**(5.2)**	**0.0**	**124.1**
Losses from derivatives from supply contracts	0.0	0.0	(58.0)	0.0	(58.0)
Impairment losses	0.0	(8.0)	(23.2)	0.0	(31.2)
Income from restructuring	2.4	1.9	1.6	0.0	5.9
Restructuring costs	(3.3)	0.0	0.0	0.0	(3.3)
EBIT	**63.4**	**58.9**	**(84.8)**	**0.0**	**37.5**
Net finance costs	0.0	0.0	0.0	(19.3)	(19.3)
Share of profit of joint ventures	0.0	0.0	9.2	0.0	9.2
Profit before income tax					**27.4**
Depreciation and amortization charges	(31.5)	(18.2)	(19.6)	0.0	(69.3)
Segment assets 12/31/2015	647.0	291.3	429.6	417.3	1,785.2
Investments in joint ventures 12/31/2015	0.0	0.0	19.3	0.0	19.3
					1,804.5
Investments in property, plant and equipment and intangible assets (according to non-current assets statement)	44.5	21.7	16.4	0.0	82.6

in € million	Steel	Industrial	Raw Materials	Reconciliation	Group 2014
External revenue	1,108.8	566.6	45.8	0.0	1,721.2
Internal revenue	0.0	0.0	257.5	(257.5)	0.0
Segment revenue	**1,108.8**	**566.6**	**303.3**	**(257.5)**	**1,721.2**
Operating EBIT	**93.1**	**48.6**	**0.2**	**0.0**	**141.9**
Impairment losses	0.0	(12.3)	(7.5)	0.0	(19.8)
Restructuring costs	(2.2)	(1.7)	(9.7)	0.0	(13.6)
Net income from US Chapter 11 proceedings	0.5	0.3	0.0	0.0	0.8
EBIT	**91.4**	**34.9**	**(17.0)**	**0.0**	**109.3**
Net finance costs	0.0	0.0	0.0	(32.7)	(32.7)
Share of profit of joint ventures	0.0	0.0	8.2	0.0	8.2
Profit before income tax					**84.8**
Depreciation and amortization charges(1)	(28.9)	(19.1)	(19.8)	0.0	(67.8)
Segment assets 12/31/2014(1)	675.4	297.1	448.9	420.8	1,842.2
Investments in joint ventures 12/31/2014	0.0	0.0	18.3	0.0	18.3
					1,860.5
Investments in property, plant and equipment and intangible assets (according to non-current assets statement)(1)	32.4	20.0	20.3	0.0	72.7

(1) Values adjusted. The allocation was changed from allocation according to utilization of the plants to an allocation in accordance with the capacity provided by the plants.

Revenue amounting to € 197.1 million (2014: € 209.1 million) was realized with one customer in 2015, which is included in the Steel segment. No other single customer contributed 10% or more to consolidated revenue in 2015 or 2014. Companies which are known to be part of a group are treated as one customer.

Segment assets include the external receivables and inventories which are reported to the management for control and measurement and which are available to operating segments, as well as property, plant and equipment, goodwill and other intangible assets which are allocated to the segments based on the capacity of the assets provided to the segments. Shares in joint ventures are allocated to the segments. All other assets are recognized under reconciliation.

When allocating revenue to product groups, a distinction is made between shaped products (e.g. hydraulically pressed bricks, fused cast bricks, isostatically pressed products) and unshaped products (e.g. repair mixes, construction mixes and castables) as well as other revenue. Other includes revenue from the provision of services as well as the sale of non-Group refractory products.

In the reporting year, revenue is classified by product group as follows:

in € million	Steel	Industrial	Raw Materials	Group
Shaped products	695.6	462.3	0.0	1,157.9
Unshaped products	304.6	58.3	37.8	400.7
Other	99.7	94.0	0.2	193.9
Revenue	**1,099.9**	**614.6**	**38.0**	**1,752.5**

In 2014, revenue was classified by product group as follows:

in € million	Steel	Industrial	Raw Materials	Group
Shaped products	707.7	423.8	0.0	1,131.5
Unshaped products	313.1	51.6	45.1	409.8
Other	88.0	91.2	0.7	179.9
Revenue	**1,108.8**	**566.6**	**45.8**	**1,721.2**

Segment reporting by country

Revenue is classified by customer sites as follows:

in € million	2015	2014
Austria	37.0	38.4
All other countries		
India	186.2	153.1
USA	164.9	157.2
Germany	142.0	141.1
Mexico	106.7	111.7
PR China	103.3	90.0
Canada	93.2	75.3
Italy	92.2	94.3
Russia	57.5	64.9
Saudi Arabia	47.2	45.1
Brazil	45.3	38.8
France	38.9	47.2
Other countries (each below € 43.0 million)	638.1	664.1
Revenue	**1,752.5**	**1,721.2**

The carrying amounts of property, plant and equipment and intangible assets are classified as follows by the respective sites of the Group companies:

in € million	12/31/2015	12/31/2014
Austria	195.8	188.0
All other countries		
PR China	142.1	142.8
Germany	86.9	83.3
India	64.7	58.7
Turkey	34.8	25.4
Mexico	30.8	32.5
Norway	0.0	24.7
Other countries (each below € 22.0 million)	88.8	98.9
Property, plant and equipment and intangible assets	**643.9**	**654.3**

(53) Earnings per share

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

	2015	2014
Share of shareholders of RHI AG in profit after income tax (in € million)	16.0	51.0
Weighted average number of shares	39,819,039	39,819,039
Earnings per share (in €)	**0.40**	**1.28**

There are 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 are identical.

(54) Dividend payments and proposed dividend

In accordance with the Stock Corporation Act, the dividend payable to the shareholders of RHI AG is based on the accumulated profit as shown in the annual financial statements of RHI AG, which are prepared in accordance with the Austrian Commercial Code. Accumulated profit developed as follows in the financial year 2015:

in € million	2015
Accumulated profit carried forward	602.9
Dividend payments	(29.9)
Profit for the year	40.6
Accumulated profit 12/31/2015	**613.6**
Proposed dividend	(29.9)
Profit carryforward	**583.7**

Based on a resolution adopted by the 36th Annual General Meeting on May 8, 2015, dividends totaling € 29.9 million were paid out in the financial year 2015 for the year 2014, which corresponded to a dividend of € 0.75 per share.

At the 37th Annual General Meeting on May 4, 2016, the Management Board will propose a dividend of € 0.75 per share for the financial year 2015, which corresponds to a dividend payment of € 29.9 million. The proposed dividend is subject to the approval by the Annual General Meeting and was not recognized as a liability in the consolidated financial statements 2015.

Dividend payments to the shareholders of RHI AG have no income tax consequences for RHI AG.

(55) Additional disclosures on financial instruments

The following tables show the carrying amounts and fair values of financial assets and liabilities by measurement category and level and the allocation to the measurement category in accordance with IFRS 13. In addition, carrying amounts are shown aggregated according to measurement category.

in € million	IAS 39 Measurement category[1]	Level	(Amortized) cost	Fair value recognized in profit/ loss	Fair value recognized in equity	12/31/2015[2] Carrying amount	12/31/2015[2] Fair value
Assets							
Available-for-sale investments	FAAC	–	0.5	–	–	0.5	–
Available-for-sale securities	AfS	1	–	–	20.4	20.4	20.4
Available-for-sale shares	FAAC	–	0.5	–	–	0.5	–
Other non-current financial receivables	LaR	–	2.3	–	–	2.3	–
Trade and other current receivables	LaR	–	308.4	–	–	308.4	–
Other current financial receivables	LaR	–	1.7	–	–	1.7	–
Financial assets held for trading	FAHfT	2	–	2.3	–	2.3	2.3
Cash and cash equivalents	LaR	–	149.7	–	–	149.7	–
Liabilities							
Non-current financial liabilities	FLAAC	2	438.0	–	–	438.0	461.3
Interest derivatives designated as cash flow hedges	–	2	–	–	1.3	1.3	1.3
Current financial liabilities	FLAAC	2	109.6	–	–	109.6	110.1
Financial liabilities held for trading	FLHfT	2	–	58.5	–	58.5	58.5
Trade payables and other current liabilities	FLAAC	–	196.9	–	–	196.9	–
Aggregated according to measurement category							
Loans and receivables	LaR		462.1	–	–	462.1	
Available for sale financial instruments	AfS		–	–	20.4	20.4	
Financial assets at cost	FAAC		1.0	–	–	1.0	
Financial assets held for trading	FAHfT		–	2.3	–	2.3	
Financial liabilities measured at amortized cost	FLAAC		744.5	–	–	744.5	
Financial liabilities held for trading	FLHfT		–	58.5	–	58.5	

in € million	IAS 39 Measurement category[1]	Level	(Amortized) cost	Fair value recognized in profit/ loss	Fair value recognized in equity	12/31/2014[2] Carrying amount	12/31/2014[2] Fair value
Assets							
Available-for-sale investments	FAAC	–	0.5	–	–	0.5	–
Available-for-sale securities	AfS	1	–	–	33.7	33.7	33.7
Available-for-sale shares	AfS	3	–	–	2.2	2.2	2.2
Available-for-sale shares	FAAC	–	1.1	–	–	1.1	–
Other non-current financial receivables	LaR	–	2.1	–	–	2.1	–
Trade and other current receivables	LaR	–	334.0	–	–	334.0	–
Other current financial receivables	LaR	–	1.6	–	–	1.6	–
Financial assets held for trading	FAHfT	2	–	1.6	–	1.6	1.6
Cash and cash equivalents	LaR	–	151.1	–	–	151.1	–
Liabilities							
Non-current financial liabilities	FLAAC	2	417.0	–	–	417.0	444.0
Interest derivatives designated as cash flow hedges	–	2	–	–	1.3	1.3	1.3
Current financial liabilities	FLAAC	2	201.0	–	–	201.0	201.3
Financial liabilities held for trading	FLHfT	2	–	0.4	–	0.4	0.4
Trade payables and other current liabilities	FLAAC	–	195.8	–	–	195.8	–
Aggregated according to measurement category							
Loans and receivables	LaR		488.8	–	–	488.8	
Available for sale financial instruments	AfS		–	–	35.9	35.9	
Financial assets at cost	FAAC		1.6	–	–	1.6	
Financial assets held for trading	FAHfT		–	1.6	–	1.6	
Financial liabilities measured at amortized cost	FLAAC		813.8	–	–	813.8	
Financial liabilities held for trading	FLHfT		–	0.4	–	0.4	

(1) FAAC: Financial assets at cost

AfS: Available for sale financial instruments

LaR: Loans and receivables

FAHfT: Financial assets held for trading

FLAAC: Financial liabilities measured at amortized cost

FLHfT: Financial liabilities held for trading

2) The items trade and other non-current receivables and payables also include non-financial assets and liabilities; they are therefore not considered in the table of financial instruments. The reconciliation to the respective items of the statement of financial position is provided in notes (18) and (30).

In the RHI Group especially securities, derivative financial instruments and shares in a residential property company until its sale in the financial year 2015 are measured at fair value on a recurring basis.

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between market participants in an arm's length transaction on the day of measurement. When the fair value is determined it is assumed that the transaction in which the asset is sold or the liability is transferred takes place either in the main market for the asset or liability, or in the most favorable market if there is no main market. RHI considers the characteristics of the asset or liability to be measured which a market participant would consider in pricing. It is assumed that market participants act in their best economic interest.

RHI takes into account the availability of observable market prices in an active market and uses the following hierarchy to determine fair value:

Level 1: Prices quoted in active markets for identical financial instruments.

Level 2: Measurement techniques in which all important data used are based on observable market data.

Level 3: Measurement techniques in which all important data used are based on non-observable market data.

The fair value of available-for-sale securities is based on price quotations at the reporting date (Level 1). Due to the sale of securities in the reporting period, income of € 1.3 million, which was previously recognized in other comprehensive income, had to be reclassified to the statement of profit or loss.

The fair value of interest derivatives in a hedging relationship (interest rate swaps) is determined by calculating the present value of future cash flows based on current yield curves taking into account the corresponding terms (Level 2).

The fair value of financial assets and liabilities held for trading corresponds to the market value of the forward exchange contracts and the embedded derivatives in open orders denominated in a currency other than the functional currency, as well as the market value of a long-term power supply contract, which had to be classified as a derivative financial instrument for the first time in the financial year 2015. These financial assets and liabilities held for trading are measured based on quoted forward rates (Level 2).

The fair value of available-for-sale shares in a residential property company which are not listed was determined by discounting the expected cash flow taking into account the country-specific weighted average of cost of capital in the RHI Group at December 31 of the previous year (Level 3). In the second quarter of 2015, these shares were sold completely; the measurement performed in the current reporting period was already based on the selling price. The development of Level 3 fair values is presented below:

in € million	2015	2014
Fair values at beginning of year	**2.2**	**1.6**
Unrealized results from fair value change recognized in other comprehensive income	0.7	0.6
Reclassification to statement of profit or loss due to disposal	(2.9)	0.0
Fair values at year-end	**0.0**	**2.2**

RHI takes into account reclassifications in the measurement hierarchy at the end of the reporting period in which the changes occur. There were no shifts between the different measurement levels in the two reporting periods.

Financial liabilities are carried at amortized cost in the statement of financial position; the fair values of the financial liabilities are only shown in the notes. They are calculated at the present value of the discounted future cash flows using yield curves that are currently observable (Level 2).

Available-for-sale investments of € 0.5 million (12/31/2014: € 0.5 million) and available-for-sale shares of € 0.5 million (12/31/2014: € 1.1 million) are equity instruments carried at cost for which there is no quoted price on an active market. It was not possible to derive a fair value based on comparable transactions. These investments and shares are immaterial in comparison with the total position of the Group. The RHI Group intends to liquidate an investment with a carrying amount of € 0.1 million.

Due to the amount of the financial receivables, the financial receivables roughly correspond to the fair value as no material deviation between the fair value and the carrying amount is assumed and the credit default risk is accounted for by forming valuation allowances.

The remaining terms of trade and other current receivables and liabilities as well as cash and cash equivalents are predominantly short. Therefore, the carrying amounts of these items approximate fair value at the reporting date.

At the two reporting dates, no contractual netting agreement of financial assets and liabilities were in place.

Net results by measurement category in accordance with IAS 39

The effect of financial instruments on the income and expenses recognized in the reporting years 2015 and 2014 is shown in the following table, classified according to the measurement categories defined in IAS 39:

in € million	2015	2014
Net gain on available-for-sale financial assets		
recognized in the statement of profit or loss	8.2	1.0
recognized in other comprehensive income	(1.0)	3.1
reclassified from other comprehensive income to the statement of profit or loss	(4.2)	0.0
	3.0	4.1
Net loss from loans and receivables as well as financial liabilities at amortized cost	(19.7)	(16.3)
Net loss on financial assets and financial liabilities classified as held for trading	(70.3)	(9.6)

The net gain on available-for-sale financial assets recognized in the statement of profit or loss includes income from securities, income from the disposal of securities and shares, income realized from changes in market value originally recognized in other comprehensive income, and impairment losses.

The net loss arising from loans and receivables as well as financial liabilities includes interest income and expenses, changes in valuation allowances, foreign exchange gains and losses as well as losses on derecognition.

The net loss on financial assets held for trading and financial liabilities includes unrealized results from the measurement of a long-term commodity future as well as changes in the market value and realized results of forward exchange contracts and embedded derivatives in open orders in a currency other than the functional currency of RHI.

Net finance costs include interest income amounting to € 5.8 million (2014: € 2.4 million) and interest expenses of € 19.4 million (2014: € 19.8 million). They result from financial assets and liabilities which are not carried at fair value through profit or loss.

(56) Derivative financial instruments

Commodity futures

The RHI Group concluded a commodity futures contract for electricity for the fusion plant in Porsgrunn, Norway, based on the business plan in November 2011. Incidents at this site led to a more conservative estimate of future production volumes. In addition, the grade concept for finished products provides for increased use of external raw materials as a result of the plummeting raw material prices. This has the following effect on the consolidated financial statements 2015: as the so-called own-use exemption (exemption for own use in accordance with IAS 39) no longer applies, the long-term energy supply contract has to be qualified as a financial instrument in accordance with IAS 39.

The measurement of the entire term of the contract until the end of the year 2023 at market price level leads to a non-cash financial liability of € 58.0 million at the end of the year 2015, which is shown in the statement of financial position in a current item and a non-current item in accordance with the respective terms. The corresponding present value of the cash flows for the agreed electricity supply totals € 103.2 million at December 31, 2015; the present value of the cash flow at market price amounts to € 45.2 million.

Interest rate swaps

RHI AG has concluded interest rate swaps to hedge the cash flow risk of financial liabilities carrying variable interest rates. Financial liabilities carrying variable interest in the amount of the nominal value of the interest rate swaps were designated as hedged items. The cash flow changes of the hedged items, which result from the changes of the variable interest rates, are balanced out by the cash flow changes of the interest rate swaps. These hedging measures pursue the objective to transform variable-interest financial liabilities into fixed-interest financial liabilities, thus hedging the cash flow from the financial liabilities. Credit risks are not part of the hedge.

The term of two hedging relationships with a nominal volume of € 34.3 million at the reporting date (12/31/2014: € 42.9 million) ends in the financial year 2019. The interest payments from the underlying transaction and the compensation payments from the two interest rate swaps are made quarterly at the end of the quarter.

A hedging relationship with a nominal value of € 50.0 million (12/31/2014: € 50.0 million) runs until the year 2017. The interest and compensation payments for this hedging relationship are due semi-annually at the end of January and at the end of July. The interest expenses are recognized accordingly on a period basis.

Fixed interest rates amount to roughly 0.7%; the variable interest rates are based on the EURIBOR.

The effectiveness of a hedging relationship is tested on a prospective and retrospective basis. The conditions of the interest rate swaps correspond to the conditions of the underlying transaction. In the two reporting years no hedge ineffectiveness had to be recognized through profit or loss.

The fair values of the interest rate swaps totaled € (1.3) million at the reporting date (12/31/2014: € (1.3) million). As in the previous year, unrealized losses of € 1.9 million from the value change of hedges were recognized in other comprehensive income, net of deferred tax assets amounting to € 0.5 million.

Forward exchange contracts

The nominal value and fair value of forward exchange contracts are shown in the table below:

		12/31/2015			12/31/2014		
Purchase	Sale	Nominal value in million		Fair value in € million	Nominal value in million		Fair value in € million
EUR	USD	USD	24.0	0.0	USD	84.6	(0.2)
EUR	CNY	EUR	25.7	(0.2)	EUR	24.2	(0.1)
NOK	EUR	EUR	11.5	(0.1)		–	–
EUR	CAD	CAD	10.0	0.0	CAD	5.4	0.0
EUR	INR	EUR	6.3	(0.1)	EUR	6.0	(0.1)
MXN	USD	USD	5.0	(0.1)	USD	10.0	0.0
INR	USD	USD	0.2	0.0	USD	0.5	0.0
INR	EUR		–	–	EUR	0.5	0.0
Forward exchange contracts				**(0.5)**			**(0.4)**

(57) Financial risk management

Financial risks are incorporated in RHI's corporate risk management and are centrally controlled by Group Treasury.

None of the following risks have a significant influence on the going concern of the RHI Group.

Credit risk

Credit risk in the RHI Group is primarily related to operating receivables due from customers. In order to counteract the default risk related to these transactions, receivables are hedged as far as possible through credit insurance and collateral arranged through banks (guarantees, letters of credit), even if the contractual partner has a top class credit rating. Credit and default risks are monitored continuously, and provisions are formed for risks that have occurred and for identifiable risks.

In the following, the credit risk from trade receivables is shown classified by customer industry, by foreign currency and by term.

The credit risk, which is hedged by existing credit insurance, letters of credit and bank guarantees, is shown by customer segment in the following table:

in € million	12/31/2015	12/31/2014
Segment Steel	203.4	219.3
Segment Industrial	96.0	106.8
Segment Raw Materials	5.0	4.9
Trade receivables	304.4	331.0
Credit insurance and bank guarantees	(184.4)	(206.4)
Net credit exposure	**120.0**	**124.6**

The following table shows the carrying amounts of receivables denominated in currencies other than the functional currencies of the Group companies. The carrying amounts of the receivables in the functional currency of the respective Group company are included under other functional currencies:

in € million	12/31/2015	12/31/2014
US dollar	48.2	67.7
Pound sterling	4.3	4.8
Other currencies	7.9	4.5
Other functional currencies	244.0	254.0
Trade receivables	**304.4**	**331.0**

The classification of receivables by days outstanding is shown below:

in € million	12/31/2015	12/31/2014
Neither impaired nor past due at reporting date	197.7	225.3
Not impaired at reporting date and past due in the following time frames		
Less than 30 days	25.7	25.8
Between 30 and 59 days	7.8	7.4
Between 60 and 89 days	3.4	7.1
More than 90 days	14.2	12.4
Impaired at reporting date	84.6	77.5
Valuation allowances	(29.0)	(24.5)
Trade receivables	**304.4**	**331.0**

With respect to receivables that were neither impaired nor overdue, there were no indications at the reporting date that the debtors would be unable to meet their payment obligations. No valuation allowance was recognized for overdue receivables amounting to € 51.1 million at the reporting date (12/31/2014: € 52.7 million) and impaired receivables of € 55.6 million (12/31/2014: € 53.0 million) because the risk of default is essentially covered by credit insurance, bank guarantees and letters of credit.

Liquidity risk

Liquidity risk refers to the risk that financial obligations cannot be met when due. The Group's financial policy is based on long-term financial planning and is centrally controlled and monitored continuously at RHI. The liquidity requirements resulting from budget and medium-term planning are secured by concluding appropriate financing agreements. As of December 31, 2015, the RHI Group has a credit facility of € 339.1 million (12/31/2014: € 427.1 million) at its disposal, which is unused and available immediately, as well as unused credit lines from the sale of receivables amounting to € 7.2 million (12/31/2014: € 8.1 million). These lines of credit were concluded with different Austrian and international banks in order to ensure independence of banks. The companies of the RHI Group are integrated into a clearing process managed by Central Treasury and provided with financing limits in order to minimize the need of borrowings for the Group as a whole.

Non-derivative financial instruments

An analysis of the terms of non-derivative financial liabilities based on undiscounted cash flows including the related interest payments shows the following expected cash outflows:

in € million	Carrying amount 12/31/2015	Cash outflows	Remaining term up to 1 year	2 to 5 years	over 5 years
Liabilities to financial institutions					
fixed interest	231.5	260.4	22.9	147.2	90.3
variable interest	278.7	289.7	89.0	176.8	23.9
Liabilities to fixed-term or puttable non-controlling interests	31.3	127.5	7.4	11.0	109.1
Other financial liabilities	6.1	6.2	0.1	6.0	0.1
Trade payables and other current liabilities	196.9	196.9	196.9	0.0	0.0
Non-derivative financial liabilities	**744.5**	**880.7**	**316.3**	**341.0**	**223.4**

in € million	Carrying amount 12/31/2014	Cash outflows	Remaining term up to 1 year	2 to 5 years	over 5 years
Liabilities to financial institutions					
fixed interest	215.2	249.2	33.9	126.3	89.0
variable interest	366.8	382.7	169.3	185.3	28.1
Liabilities to fixed-term or puttable non-controlling interests	29.2	124.6	6.7	10.8	107.1
Other financial liabilities	6.8	6.9	2.1	4.8	0.0
Trade payables and other current liabilities	195.8	195.8	195.8	0.0	0.0
Non-derivative financial liabilities	**813.8**	**959.2**	**407.8**	**327.2**	**224.2**

Derivative financial instruments

The remaining terms of derivative financial instruments based on expected undiscounted cash flow as of December 31, 2015 and December 31, 2014 are shown in the table below:

in € million	Carrying amount 12/31/2015	Cash flows	Remaining term up to 1 year	2 to 5 years	over 5 years
Receivables from derivatives with net settlement					
Financial assets held for trading	2.3	2.3	2.3	0.0	0.0
Liabilities from derivatives with net settlement					
Interest derivatives designated as cash flow hedges	1.3	1.3	0.8	0.5	0.0
Financial liabilities held for trading	58.5	65.7	8.6	32.1	25.0

in € million	Carrying amount 12/31/2014	Cash flows	Remaining term up to 1 year	2 to 5 years	over 5 years
Receivables from derivatives with net settlement					
Financial assets held for trading	1.6	1.6	1.6	0.0	0.0
Liabilities from derivatives with net settlement					
Interest derivatives designated as cash flow hedges	1.3	1.4	0.4	1.0	0.0
Financial liabilities held for trading	0.4	0.4	0.4	0.0	0.0

Foreign currency risks

Foreign currency risks arise especially where business transactions (operating activities, investments, financing) are conducted in a currency other than the functional currency of a company. They are monitored at the group level and analyzed with respect to hedging options. The net position of the Group in the respective currency serves as the basis for decisions regarding the use of hedging instruments.

Foreign currency risks according to IFRS 7 are created through financial instruments which are denominated in a currency other than the functional currency (in the following: foreign currency) and are monetary in nature. Important primary monetary financial instruments include trade receivables and payables, cash and cash equivalents as well as financial liabilities as shown in the statement of financial position. Equity instruments are not of a monetary nature and therefore not linked to a foreign currency risk in accordance with 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 monetary items, which represent part of a net investment in a foreign operation in accordance with IAS 21, are eliminated or hedged through forward exchange contracts. Significant provisions denominated in foreign currencies are also included in the analysis of risk.

The following table shows the foreign currency positions in the major currencies as of December 31, 2015:

in € million	USD	EUR	CHF	Other	Total
Financial assets	261.7	39.7	0.7	25.9	328.0
Financial liabilities and provisions	(162.8)	(54.1)	(15.1)	(31.2)	(263.2)
Net foreign currency position	**98.9**	**(14.4)**	**(14.4)**	**(5.3)**	**64.8**

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

in € million	USD	EUR	CHF	Other	Total
Financial assets	214.6	45.4	0.6	26.2	286.8
Financial liabilities and provisions	(166.5)	(79.7)	(13.5)	(14.8)	(274.5)
Net foreign currency position	**48.1**	**(34.3)**	**(12.9)**	**11.4**	**12.3**

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 reporting date. It is assumed that the positions on the reporting 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% appreciation or devaluation of the relevant functional currency against the following major currencies as of December 31, 2015 would have had the following effect on profit or loss and equity (both excluding income tax):

	Appreciation of 10%		Devaluation of 10%	
in € million	Gain/(loss)	Equity	Gain/(loss)	Equity
US dollar	(9.0)	(13.1)	11.1	16.0
Euro	0.9	11.4	(1.9)	(14.7)
Swiss franc	1.3	1.3	(1.6)	(1.6)
Other currencies	0.4	(0.5)	(0.6)	0.7

The hypothetical effect on profit or loss as of December 31, 2014 can be summarized as follows:

	Appreciation of 10%		Devaluation of 10%	
in € million	Gain/(loss)	Equity	Gain/(loss)	Equity
US dollar	(4.4)	(6.9)	5.3	8.4
Euro	2.7	8.7	(4.0)	(11.3)
Swiss franc	1.2	1.2	(1.4)	(1.4)
Other currencies	(1.0)	(5.2)	1.2	6.3

Interest rate risks

The interest risk in the RHI Group is primarily related to financial instruments carrying variable interest rates, which may lead to fluctuations in results and cash flows. The RHI Group is predominantly exposed to interest risks in the euro area. At December 31, 2015, interest rate hedges amounting to € 84.3 million (12/31/2014: € 92.9 million) existed; a variable interest rate was converted into a fixed interest rate through an interest rate swap, which affected loans with a maturity beyond 2016.

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 use the fair value option. A hypothetical change in the market interest rates for these financial instruments at the reporting date would have had no effect on profit and loss or equity.

Changes in market interest rates on financial instruments designated as hedges as a part of cash flow hedges to protect against interest rate-related payment fluctuations have an effect on equity and are therefore included in the equity-related sensitivity analysis. If the market interest rate as of December 31, 2015 had been 25 basis points higher or lower, equity would have been € 0.3 million (12/31/2014: € 0.5 million) higher or lower taking into account tax effects.

Changes in market interest rates have an effect on the interest result of primary, variable interest financial instruments whose interest payments are not designated as hedged items as a part of cash flow hedge relationships against interest rate risks, and are therefore included in the calculation of the result-related sensitivities. If the market interest rate as of December 31, 2015 had been 25 basis points higher or lower, the interest result would have been € 0.1 million (12/31/2014: € 0.3 million) lower or higher.

Other market price risk

RHI holds certificates in an investment fund amounting to € 20.4 million (12/31/2014: € 33.7 million) to cover the legally required protection of personnel provisions of Austrian Group companies. The market value of these certificates is influenced by fluctuations of the worldwide volatile stock and bond markets.

In the financial year 2015, an energy supply contract with a term until the year 2023 had to be classified as a derivative financial instrument in accordance with IAS 39 for the first time and a financial liability amounting to the fair value of € 58.0 million had to be recognized. If the quoted forward prices at

December 31, 2015 had been 20% higher or lower, the EBIT would have been € 9.0 million higher or lower. In contrast, if the borrowing cost relevant for discounting had been 25 basis points higher or lower at the reporting date, the EBIT would have been € 0.6 million higher or lower.

(58) Capital management

The objectives of the capital management strategy of the RHI Group are to secure going concern in the long term by creating a solid capital base to finance future growth, to increase company value on a sustained basis and to generate adequate returns to enable attractive dividend payments to the shareholders and to service debt. The overall strategy of the RHI Group has not changed in comparison with 2014.

The RHI Group manages its capital structure through internal targets with respect to net financial debt, equity ratio, and net gearing ratio through careful monitoring and assessment of the overall economic framework conditions, the requirements and risks related to operations and taking into account fixed strategic projects.

The capital structure key figures at the reporting date are shown below:

	12/31/2015	12/31/2014
Net debt (in € million)	397.9	466.9
Net debt factor	2.8	2.3
Net gearing ratio (in %)	81.0%	94.5%
Equity ratio (in %)	27.2%	26.5%

Net financial debt, which reflects financial liabilities net of cash and cash equivalents, is controlled centrally by RHI in coordination with Corporate Treasury. The main task of the Corporate Treasury department is to secure liquidity to support business operations on a sustained basis, to use banking and financial services efficiently and to limit financial risks while at the same time optimizing earnings and costs. Due to central controlling, optimum effectiveness is accomplished by utilizing central and local instruments and opportunities.

The key performance indicator for net debt in the RHI Group is the net debt factor, which reflects the ratio of net financial liabilities to EBITDA (earnings before interest, taxes, depreciation and amortization taking into account the reversal of investment subsidies). EBTITDA amounts to € 140.0 million (2014: € 199.4 million). The net debt factor is a measure of the ability of a company to repay its debt and amounts to 2.8 for the current financial year. At December 31 of the previous year, it was 2.3. RHI’s target is to keep the debt factor below 3.0.

The net gearing ratio is the ratio of net financial debt to equity; it amounts to 81.0% for the current financial year. In the previous year, the net gearing ratio amounted to 94.5%. RHI’s internal objective provides for a balanced capital structure with a minimum equity ratio of 30%. The target regarding the net gearing ratio is subsequently derived from the equity ratio.

RHI controls the operating business via the profitability indicator ROACE (Return on Average Capital Employed). This indicator describes the interest on the capital employed in operating business or for an investment. In the RHI Group, ROACE designates the ratio of the net operating profit after taxes (NOPAT) to the average capital employed in the reporting period. Additionally, the comparison of this profitability key figure with the cost of capital of RHI enables statements with respect to changes in shareholder value. The objective of the RHI Group is a ROACE which exceeds the weighted average cost of capital (WACC) by at least 500 basis points.

in € million	12/31/2015	12/31/2014
Ø **Working capital**		
Ø Inventories	416.5	409.2
Ø Trade receivables	317.7	304.4
Ø Receivables from long-term construction contracts	11.4	9.1
Ø Trade payables	(176.6)	(174.8)
Ø Prepayments received on orders	(17.3)	(21.9)
	551.7	**526.0**
Ø **Assets**		
Ø Property, plant and equipment	538.2	544.0
Ø Goodwill and other intangible assets	110.9	112.1
	649.1	**656.1**
Average capital employed	**1,200.8**	**1,182.1**
EBIT	37.5	109.3
Taxes	(9.8)	(32.3)
Net operating profit after taxes	**27.7**	**77.0**
Return on average capital employed (in %)	**2.3%**	**6.5%**
Ø RHI WACC (in %)	6.7%	6.7%

The ROACE amounts to 2.3% in the reporting year and is lower than the profitability of 6.5% in the previous year. This decline is primarily due to special effects, which were higher in 2015 than in 2014. In the year 2015 these effects were related above all to expenses from derivatives of supply contracts and to impairments of the cash-generating units Raw Materials/Norway and Industrial/Monofrax.

In the reporting year 2015 and in the previous year, all externally imposed capital requirements were met.

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

(59) Contingent liabilities

At December 31, 2015, warranties, performance guarantees and other guarantees amount to € 34.3 million (12/31/2014: € 28.5 million), and are exclusively accounted for by third parties. The terms of contingent liabilities range between 2 months and 3 years, depending on the type of liability. Based on experiences of the past, the probability that contingent liabilities are used is considered to be low.

In addition, contingent liabilities from sureties of € 0.9 million (12/31/2014: € 0.9 million) were recorded, of which € 0.3 million (12/31/2014: € 0.3 million) are related to contingent liabilities to creditors from joint ventures.

Individual proceedings and lawsuits which result from ordinary activities are pending as of December 31, 2015 or can potentially be exercised against RHI in the future. The related risks were analyzed with a view to their probability of occurrence. This analysis showed that the proceedings and lawsuits, both individually and overall, have no significant negative influence on the financial position and performance of the RHI Group.

(60) Other financial obligations

Other financial obligations consist of the following items:

in € million	Total 12/31/2015	Remaining term up to 1 year	2 to 5 years	over 5 years
Obligations from rental and leasing contracts	66.0	13.0	35.7	17.3
Capital commitments	1.6	1.6	0.0	0.0
Other financial obligations	**67.6**	**14.6**	**35.7**	**17.3**

in € million	Total 12/31/2014	Remaining term up to 1 year	2 to 5 years	over 5 years
Obligations from rental and leasing contracts	71.1	13.7	35.7	21.7
Capital commitments	6.7	6.7	0.0	0.0
Other financial obligations	**77.8**	**20.4**	**35.7**	**21.7**

Other financial obligations are exclusively due to third parties. They are shown at nominal value.

Rental and leasing obligations for property, plant and equipment of € 23.8 million (2014: € 24.9 million) are recognized in the statement of profit or loss of the financial year 2015.

The conditions of the most important operating rental and leasing agreements can be summarized as follows:

At the company's head office in Vienna a rental agreement exists, which ends on October 28, 2020. Both contracting parties are entitled to terminate the rental agreement prematurely with a notice period of six months. However, the landlord may only exercise this right under certain conditions. The rent is indexed.

Another rental contract for offices has a term until April 30, 2020. The tenant has a two-time optional right to extend the contract by three years each. The annual rent is coupled to the development of an index.

At one production site, the area for operating a plant has been leased for the long term. The related contract ends in April 2062 and includes an extension option for another 30 years. The rent is subject to indexing.

The Group also rents numerous mining vehicles, diggers, forklifts and the like by cancelable leasing agreements. The contracts have terms ranging from 2 to 7 years; most of them do not include a purchasing option after the contract ends.

In addition to the aforementioned financial obligations, the RHI Group also has long-term purchase obligations related to the supply with raw materials, especially for electricity, natural gas, strategic basic and non-basic raw materials as well as for the transport of raw materials within the Group. This results in other financial obligations of the nominal value of € 406.8 million at the reporting date (12/31/2014: € 388.9 million). The remaining terms of the contracts amount to up to eight years. Purchases from these arrangements is recognized in accordance with the usual course of business. Purchase contracts are regularly reviewed for imminent losses, which may occur, for example, when requirements fall below the agreed minimum purchase volume or when contractually agreed prices deviate from the current market price level. A power supply contract with a remaining term of eight years was accounted for in accordance with IAS 39 at December 31, 2015. As market prices on the reporting date were lower than the contractually agreed prices, this leads to a financial liability amounting to € 58.0 million. This power supply contract is included in the total value of € 406.8 million at December 31, 2015 with a nominal value of € 116.3 million.

(61) 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 € 0.3 million in the financial year 2015 (2014: € 0.3 million). The fee included € 0.2 million (2014: € 0.2 million) for the audit of the consolidated financial statements and the annual financial statements of RHI AG, and € 0.1 million (2014: € 0.1 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 certifications regarding compliance with certain contractual agreements.

(62) Annual average number of employees

The average number of employees of the RHI Group based on full time equivalents amounts to:

	2015	2014
Salaried employees	3,739	3,675
Waged workers	4,296	4,361
Number of employees on annual average	**8,035**	**8,036**

(63) Notes on related party transactions

Related companies include subsidiaries that are not fully consolidated, joint ventures and MSP Foundation (until 12/28/2015: MS Private Foundation) as it exercises significant influence based on its share of more than 25% in RHI AG. In accordance with IAS 24, the personnel welfare foundation of Stopinc AG, Hünenberg, Switzerland, also has to be considered a related company.

Related persons are persons holding a key position in the Group (active members of the Management Board and the Supervisory Board of RHI AG) and their close relatives.

Related companies

In the financial year 2015, the Group charged electricity and stock management costs amounting to € 3.4 million (2014: € 2.8 million) and interest of € 0.1 million (2014: € 0.1 million) to the joint venture MAGNIFIN Magnesia¬produkte GmbH & Co KG, St. Jakob, Austria. In addition, the Group realized income from property sales of € 0.7 million in the reporting period. In the same period, the Group purchased raw materials in the amount of € 1.9 million (2014: € 2.1 million). Furthermore, the Group received dividend payments of € 8.2 million (2014: € 7.5 million). At December 31, 2015 receivables from MAGNIFIN amount to 1.6 million (12/31/2014: € 0.6 million); liabilities amount to less than € 0.1 million (12/31/2014: € 0.1 million). Neither in the reporting period nor in the previous financial year were valuation allowances recorded for receivables from this company. The balance at the end of the financial year is unsecured and will be paid in cash. To secure a pension claim of a former employee of MAGNIFIN RHI has assumed a surety for € 0.3 million (12/31/2014: € 0.3 million). A resulting cash outflow is not expected. No guarantees were received.

Business transactions with non-consolidated subsidiaries are not listed as they are of minor significance.

In the financial years 2015 and 2014 no transactions were carried out between the RHI Group and MS Private Foundation, with the exception of the dividend paid. No transactions were carried out with MSP Foundation.

A service relationship with respect to the company pension scheme of the employees of Stopinc AG exists between the personnel welfare foundation of Stopinc AG and the fully consolidated subsidiary Stopinc AG. Stopinc AG makes contribution payments to the plan assets of the foundation to cover pension obligations. The pension plan is recognized as a defined benefit plan and is included in note (27). At December 31, 2015 current account receivables of € 0.8 million (12/31/2014: € 0.8 million) from the personnel welfare foundation exist, for which an interest of 2.5% (2014: 3.25%) is charged. In the past reporting period, employer contributions amounting to € 0.5 million (2014: € 0.4 million) were made to the personnel welfare foundation. The overfunding of the pension plan is recognized as a non-current asset of € 2.1 million (12/31/2014: € 1.9 million).

Related persons

Remuneration of key management personnel of the Group, which is subject to disclosure in accordance with IAS 24, comprises the remuneration of the active Management Board and Supervisory Board of RHI AG.

The expenses for the remuneration of the Management Board in the financial year 2015 recognized in the statement of profit or loss totals € 4.1 million (2014: € 2.5 million). The expenses not including non-wage labor costs amount to € 3.8 million (2014: € 2.2 million), of which € 3.4 million (2014: € 2.2 million) were related to current benefits (fixed, variable and other earnings) and € 0.4 million (2014: € 0.0 million) to share-based remuneration.

At December 31, 2015, liabilities for performance-linked variable earnings and share-based payments for active members of the Management Board of € 1.2 million (12/31/2014: € 0.3 million) are recognized as liabilities. There are no obligations arising from post-employment benefits and legally required termination benefits towards active members of the Management Board.

In addition to the previous bonus agreement, the active members of the Management Board of RHI AG in 2015 are also entitled to share-based payments. This payment is based on a portion of the annual salary, which is translated into a number of virtual shares using a reference price. The relevant reference price corresponds to the average RHI share price from December 1, 2014 to January 31, 2015. Based on the target achievement which also applies to the variable remuneration of the year 2015, the number of shares is determined which represents the actual entitlement. Financial criteria (operating EBIT, ROACE) determine 70% and other criteria 30% of the underlying degree of target achievement. The equivalent value of the number of virtual shares determined in the year 2015 will be paid in cash in the three equal portions from 2016 to 2018. This equivalent value in cash is determined on the basis of the average share price of the respective period from December 1 of the reporting year to January 31 of the following year. The actually acquired entitlement to virtual shares in the financial year amounts to 9,850 shares for the CEO and 12,321 shares for the other Management Board members. The total expense related to the share-based remuneration program, which was recognized for the first time in the reporting period, amounts to € 0.4 million.

For members of the Supervisory Board (capital representatives), remuneration totaling € 0.3 million (2014: € 0.4 million) was recognized through profit or loss in the year 2015.

Employee representatives in the Supervisory Board, who are employed by the RHI Group, do not receive compensation for their activity in the Supervisory Board. For their activity as employees in the company and the activity of their close relatives employed with RHI, expenses of € 0.8 million (2014: € 0.8 million) are recognized. This group of persons received 148 (2014: 116) RHI shares in the reporting year as part of the employee stock ownership plan “4 plus 1”.

No advance payments or loans were granted to members of the Management Board or Supervisory Board. The RHI Group did not enter into contingent liabilities on behalf of the Management Board and Supervisory Board.

The company has the obligation to pay one member of the Management Board a compensation of up to € 1.8 million in the case of a public takeover bid.

Directors Dealings reports are published on the websites of RHI AG and of the Austrian Financial Market Authority. All members of the Management Board and the Supervisory Board are covered by D&O insurance at RHI.

Detailed and individual information on the remuneration of the Management Board and the Supervisory Board is presented in the Corporate Governance Report 2015 of the RHI Group.

Earnings of former members of the Management Board amounted to € 1.1 million (2014: € 3.5 million).

(64) Corporate bodies of RHI AG

Members of the Management Board

Franz Struzl, Vienna, Chairman
Barbara Potisk-Eibensteiner, Hagenbrunn
Franz Buxbaum, Bad Vöslau
Thomas Jakowiak, Vienna (since January 1, 2016)
Reinhold Steiner, Trofaiach

Members of the Supervisory Board

Herbert Cordt, Vienna, Chairman
Helmut Draxler, Vienna, Deputy Chairman
Wolfgang Ruttenstorfer, Vienna, Deputy Chairman
Hubert Gorbach, Frastanz
Alfred Gusenbauer, Vienna
Gerd Peskes, Düsseldorf, Germany
Stanislaus Prinz zu Sayn-Wittgenstein-Berleburg, Munich, Germany
David A. Schlaff, Vienna

Employee representatives:

Walter Geier, Leoben
Christian Hütter, Vienna
Roland Rabensteiner, Veitsch
Franz Reiter, St. Jakob in Haus

(65) Material events after the reporting date

After the reporting date on December 31, 2015, there were no events of special significance which may have a material effect on the financial position and performance of the RHI Group.

Vienna, March 4, 2016

Management Board

Franz Struzl
CEO

Barbara Potisk-Eibensteiner
CFO

Franz Buxbaum
COO
CTO R&D

Thomas Jakowiak
CSO Industrial Division

Reinhold Steiner
CSO Steel Division

The following auditor's report (Bestätigungsvermerk) has been issued in accordance with § 275 UGB in German language on the German version of the audited consolidated financial statements of RHI AG as of and for the fiscal year ended December 31, 2015 and on the management report. The management report is not included in this Prospectus.

Auditor's Report

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of RHI AG, Vienna, Austria comprising of the consolidated statement of financial position as of December 31, 2015 the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year then ended, and the notes.

Management's Responsibility for the Consolidated Financial Statements

The Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and the additional requirements under section 245a UGB, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing. These principles require the application of International Standards on Auditing. Those standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 reasonable basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion 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, 2015 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU, and the additional requirements under section 245a UGB.

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 Group'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 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 are appropriate.

Vienna, March 4, 2016

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Marieluise Krimmel m.p. Austrian Certified Public Accountant	Mag. Nikolaus Schaffer m.p. Austrian Certified Public Accountant

The publication or dissemination of the consolidated financial statements bearing our opinion may only take place in the approved version. This opinion relates exclusively to the German language version of the complete consolidated financial statements including the Group management report. For any other versions, the regulations contained in section 281 para. 2 UGB (Austrian Commercial Code) are to be observed.

Consolidated financial statements 2014

Consolidated statement of financial position

as of 12/31/2014

in € million	Notes	12/31/2014	12/31/2013
ASSETS			
Non-current assets			
Property, plant and equipment	(11)	544.2	543.7
Goodwill	(13)	36.1	34.5
Other intangible assets	(14)	74.0	79.6
Investments in joint ventures	(15)	18.3	18.2
Other non-current financial assets	(16)	39.6	37.1
Other non-current assets	(17)	19.6	9.1
Deferred tax assets	(18)	130.1	121.4
		861.9	**843.6**
Current assets			
Inventories	(19)	429.0	389.4
Trade and other current receivables	(20)	408.4	368.6
Income tax receivables	(21)	6.9	7.8
Other current financial assets	(22)	3.2	2.2
Cash and cash equivalents	(23)	151.1	112.4
		998.6	**880.4**
		1,860.5	**1,724.0**
EQUITY AND LIABILITIES			
Equity			
Share capital	(24)	289.4	289.4
Group reserves	(25)	192.3	185.9
Equity attributable to shareholders of RHI AG		481.7	475.3
Non-controlling interests	(26)	12.2	10.2
		493.9	**485.5**
Non-current liabilities			
Non-current financial liabilities	(27)	417.0	362.1
Other non-current financial liabilities	(16)	1.3	0.0
Deferred tax liabilities	(18)	16.5	17.4
Personnel provisions	(28)	355.1	312.9
Other non-current provisions	(29)	6.1	4.1
Other non-current liabilities	(30)	8.8	7.9
		804.8	**704.4**
Current liabilities			
Current financial liabilities	(27)	201.0	173.2
Other current financial liabilities	(22)	0.4	0.3
Trade payables and other current liabilities	(31)	296.4	291.8
Income tax liabilities	(32)	24.1	25.7
Current provisions	(33)	39.9	43.1
		561.8	**534.1**
		1,860.5	**1,724.0**

Consolidated statement of profit or loss

from 01/01/2014 to 12/31/2014

in € million	Notes	2014	2013[1]
Revenue	(34)	1,721.2	1,754.7
Cost of sales	(35)	(1,350.3)	(1,376.4)
Gross profit		**370.9**	**378.3**
Selling and marketing expenses	(36)	(114.7)	(118.2)
General and administrative expenses	(37)	(114.9)	(115.5)
Other income	(38)	50.9	57.3
Other expenses	(39)	(50.3)	(75.1)
Operating EBIT		**141.9**	**126.8**
Impairment losses	(40)	(19.8)	(65.3)
Restructuring costs	(41)	(13.6)	(26.4)
Net income from US Chapter 11 proceedings	(42)	0.8	76.0
EBIT		**109.3**	**111.1**
Interest income	(43)	2.6	2.5
Interest expenses	(44)	(22.2)	(21.2)
Other net financial expenses	(45)	(13.1)	(11.1)
Net finance costs		**(32.7)**	**(29.8)**
Share of profit of joint ventures	(15)	8.2	8.0
Profit before income tax		**84.8**	**89.3**
Income taxes	(46)	(32.3)	(26.6)
Profit after income tax from continuing operations		**52.5**	**62.7**
Profit after income tax from discontinued operations	(47)	**0.0**	**0.7**
Profit after income tax		**52.5**	**63.4**
attributable to shareholders of RHI AG		51.0	62.6
attributable to non-controlling interests	(26)	1.5	0.8
in €			
Earnings per share (basic and diluted)	(56)	1.28	1.57
thereof continuing operations		1.28	1.55
thereof discontinued operations		0.00	0.02

All items up to and including the operating EBIT do not include impairment losses for cash-generating units and restructuring effects and no results from the US Chapter 11 proceedings.

(1) Explanations regarding changes in presentation are provided under note (3).

Consolidated statement of comprehensive income

from 01/01/2014 to 12/31/2014

in € million	Notes	2014	2013
Profit after income tax		**52.5**	**63.4**
Currency translation differences			
Unrealized results from currency translation	(7)	22.1	(40.9)
Reclassification to the statement of profit or loss due to the disposal of subsidiaries	(5)	0.0	(0.1)
Market valuation of cash flow hedges			
Unrealized results from fair value change	(59)	(1.9)	0.6
Deferred taxes on unrealized results from fair value change		0.5	(0.2)
Reclassification reserves to the statement of profit or loss		(0.1)	0.1
Market valuation of available-for-sale financial instruments			
Unrealized results from fair value change	(58)	3.1	0.5
Deferred taxes on unrealized results from fair value change	(18)	(0.6)	(0.1)
Items that will be reclassified subsequently to profit or loss, if necessary		**23.1**	**(40.1)**
Remeasurement of defined benefit plans			
Remeasurement of defined benefit plans	(28)	(49.0)	0.2
Deferred taxes on remeasurement of defined benefit plans	(18)	13.4	(0.8)
Share of other comprehensive income of joint ventures	(15)	(0.2)	0.0
Items that will not be reclassified to profit or loss		**(35.8)**	**(0.6)**
Other comprehensive income after income tax		**(12.7)**	**(40.7)**
Total comprehensive income		**39.8**	**22.7**
attributable to shareholders of RHI AG		37.2	23.8
attributable to non-controlling interests	(26)	2.6	(1.1)

Consolidated statement of cash flows

from 01/01/2014 to 12/31/2014

in € million	Notes	2014	2013
Profit after income tax from continuing operations		52.5	62.7
Adjustments for			
income taxes		32.3	26.6
depreciation and amortization charges		67.8	72.1
impairment losses of property, plant and equipment and intangible assets		23.0	78.4
income from the reversal of investment subsidies		(0.7)	(0.9)
reversal of impairment losses on securities		0.0	(0.4)
losses/(gains) from the disposal of property, plant and equipment		1.5	(2.4)
net income from US Chapter 11 proceedings		(0.8)	(76.0)
interest result		19.6	18.7
share of profit of joint ventures		(8.2)	(8.0)
other non-cash changes		17.5	50.8
Changes in			
inventories		(31.0)	24.6
trade receivables		(39.6)	(24.9)
other receivables and assets		(4.2)	0.1
provisions		(29.7)	(26.9)
trade payables		6.6	(2.5)
other liabilities		(3.2)	0.1
Net cash inflows from US Chapter 11 proceedings		0.0	24.8
Cash flow from operating activities		**103.4**	**216.9**
Income taxes paid less refunds		(31.0)	(45.4)
Net cash flow from operating activities	(50)	**72.4**	**171.5**
Investments in subsidiaries net of cash		0.0	(49.9)
Cash inflows from the sale of subsidiaries net of cash		0.0	(0.1)
Investments in property, plant and equipment and intangible assets		(76.2)	(89.4)
Cash inflows from the sale of property, plant and equipment		2.6	6.9
Cash inflows from/investments in non-current receivables		0.6	0.5
Sale of/investments in securities		0.0	(0.1)
Dividend payments and repayment of capital from joint ventures		7.6	3.7
Investment subsidies received		1.9	0.9
Interest received		2.4	2.4
Net cash flow from investing activities	(51)	**(61.1)**	**(125.1)**

in € million	Notes	2014	2013
Investments in non-controlling interests		(1.2)	0.0
Dividend payments to shareholders of RHI AG		(29.9)	(29.9)
Dividend payments to non-controlling interests		(0.6)	(0.4)
Proceeds from non-current borrowings and loans		172.2	14.0
Repayments of non-current borrowings and loans		(43.7)	(80.3)
Changes in current borrowings		(52.4)	2.0
Interest payments		(19.8)	(18.2)
Net cash flow from financing activities	(52)	**24.6**	**(112.8)**
Total cash flow		**35.9**	**(66.4)**
Change in cash and cash equivalents		**35.9**	**(66.4)**
Cash and cash equivalents at beginning of year		112.4	185.7
Changes due to currency translation		2.8	(6.9)
Cash and cash equivalents at year-end	(54)	151.1	112.4
Total interest paid	(53)	20.9	22.1
Total interest received	(53)	2.6	2.5

Consolidated statement of changes in equity

from 01/01/2014 to 12/31/2014

		Group reserves								
				Accumulated other comprehensive income						
in € million	Share capital	Additional paid-in capital	Retained earnings	Cash flow hedges	Available-for-sale financial instruments	Defined benefit plans	Currency translation	Equity attributable to shareholders of RHI AG	Non-controlling interests	Total equity
Notes	(24)	(25)	(25)	(25)	(25)	(25)	(25)		(26)	
12/31/2013	**289.4**	**38.3**	**287.7**	**0.5**	**2.0**	**(70.3)**	**(72.3)**	**475.3**	**10.2**	**485.5**
Profit after income tax	**–**	**–**	**51.0**	**–**	**–**	**–**	**–**	**51.0**	**1.5**	**52.5**
Currency translation differences	–	–	–	–	–	–	21.0	**21.0**	**1.1**	**22.1**
Market valuation of cash flow hedges	–	–	–	(1.5)	–	–	–	**(1.5)**	**–**	**(1.5)**
Market valuation of available-for-sale financial instruments	–	–	–	–	2.5	–	–	**2.5**	**–**	**2.5**
Remeasurement of defined benefit plans	–	–	–	–	–	(35.6)	–	**(35.6)**	**–**	**(35.6)**
Share of other comprehensive income of joint ventures	–	–	–	–	–	(0.2)	–	**(0.2)**	**–**	**(0.2)**
Other comprehensive income after income tax	**–**	**–**	**–**	**(1.5)**	**2.5**	**(35.8)**	**21.0**	**(13.8)**	**1.1**	**(12.7)**
Total comprehensive income	**–**	**–**	**51.0**	**(1.5)**	**2.5**	**(35.8)**	**21.0**	**37.2**	**2.6**	**39.8**
Dividends	–	–	(29.9)	–	–	–	–	**(29.9)**	**(0.6)**	**(30.5)**
Other changes in equity	–	–	(0.9)	–	–	–	–	**(0.9)**	**–**	**(0.9)**
Transactions with shareholders	**–**	**–**	**(30.8)**	**–**	**–**	**–**	**–**	**(30.8)**	**(0.6)**	**(31.4)**
12/31/2014	**289.4**	**38.3**	**307.9**	**(1.0)**	**4.5**	**(106.1)**	**(51.3)**	**481.7**	**12.2**	**493.9**

in € million	Share capital	Additional paid-in capital	Retained earnings	Cash flow hedges	Available-for-sale financial instruments	Defined benefit plans	Currency translation	Equity attributable to shareholders of RHI AG	Non-controlling interests	Total equity
			Group reserves							
				Accumulated other comprehensive income						
12/31/2012 adjusted(1)	**289.4**	**38.3**	**255.0**	**–**	**1.6**	**(69.7)**	**(33.2)**	**481.4**	**0.7**	**482.1**
Profit after income tax	**–**	**–**	**62.6**	**–**	**–**	**–**	**–**	**62.6**	**0.8**	**63.4**
Currency translation differences	–	–	–	–	–	–	**(39.1)**	**(39.1)**	**(1.9)**	**(41.0)**
Market valuation of cash flow hedges	–	–	–	0.5	–	–	**–**	**0.5**	**–**	**0.5**
Market valuation of available-for-sale financial instruments	–	–	–	–	0.4	–	**–**	**0.4**	**–**	**0.4**
Remeasurement of defined benefit plans	–	–	–	–	–	(0.6)	–	**(0.6)**	**–**	**(0.6)**
Other comprehensive income after income tax	**–**	**–**	**–**	**0.5**	**0.4**	**(0.6)**	**(39.1)**	**(38.8)**	**(1.9)**	**(40.7)**
Total comprehensive income	**–**	**–**	**62.6**	**0.5**	**0.4**	**(0.6)**	**(39.1)**	**23.8**	**(1.1)**	**22.7**
Dividends	–	–	(29.9)	–	–	–	–	**(29.9)**	**(0.4)**	**(30.3)**
Change in non-controlling interests				–						
due to addition to consolidated companies	–	–	–		–	–	–	**–**	**11.8**	**11.8**
disposal of consolidated companies	–	–	–	–	–	–	–	**–**	**(0.8)**	**(0.8)**
Transactions with shareholders	**–**	**–**	**(29.9)**	**–**	**–**	**–**	**–**	**(29.9)**	**10.6**	**(19.3)**
12/31/2013	**289.4**	**38.3**	**287.7**	**0.5**	**2.0**	**(70.3)**	**(72.3)**	**475.3**	**10.2**	**485.5**

(1) Explanations regarding adjustments are provided in the section “Other changes in comparative information” of the notes to the consolidated financial statements 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

PRINCIPLES AND METHODS

(1) General

RHI is a globally operating Austrian industrial group. The core activities of the RHI Group comprise the development and production as well as the sale, installation and maintenance of high-grade refractory products and systems which are used in industrial high-temperature processes exceeding 1,200 °C. RHI supplies customers in the steel, cement, lime, glass and nonferrous metals industries. In addition, RHI products are employed in the environment (waste incineration), energy (refractory construction) and chemicals (petrochemicals) sectors.

The ultimate parent undertaking of the Group is RHI AG, a stock corporation under Austrian law. The company is registered in the commercial register under the number FN 103123b at the Commercial Court of Vienna and has its legal domicile and head office in Wienerbergstraße 9, 1100 Vienna, Austria.

The shares of RHI AG are listed on the Prime Market and the lead index ATX of the Vienna Stock Exchange.

The consolidated financial statements are prepared as of the reporting date of the annual financial statements of RHI AG. The financial year of RHI AG corresponds to the calendar year. Insofar as financial years of companies included in the consolidated financial statements do not end on the reporting date of RHI AG on December 31 due to local legal requirements, interim financial statements are prepared for the purpose of consolidation. The reporting date of the Indian subsidiaries Orient Refractories Ltd., RHI Clasil Limited and RHI India Private Limited is March 31.

The consolidated financial statements for the period from January 1 to December 31, 2014 were drawn up pursuant to § 245a of the Austrian Commercial Code (UGB) in accordance with all International Financial Reporting Standards (IFRSs) mandatory at the time of preparation as adopted by the European Union (EU). The additional requirements of § 245a para. 1 UGB were taken into account.

The presentation in the consolidated statement of financial position distinguishes between current and non-current assets and liabilities. Assets and liabilities are classified as current if they are due within one year or within a longer normal business cycle. Inventories as well as trade receivables and trade payables are generally presented as current items. Deferred tax assets and liabilities as well as assets and provisions for pensions and termination benefits are generally presented as non-current items.

The consolidated statement of profit or loss is drawn up in accordance with the cost of sales method. Under this method, revenue is offset against the expenses incurred to generate it, which are allocated to the functions production, sales and administration.

The EBIT (earnings before interest and taxes) and the operating EBIT (EBIT adjusted for special influences) are shown separately in the statement of profit or loss as they are important key figures of measuring performance for the RHI Group. Special influences are related in particular to effects from impairment tests at the level of cash-generating units or from restructuring due to massive capacity adjustments, significantly changed market strategies or comprehensive reorganization in administration. The presentation chosen is to convey a true view of the earnings situation, which is comparable over time, to the users of the RHI consolidated financial statements.

With the exception of specific items such as available-for-sale financial assets, derivative financial instruments and defined benefit obligations, the consolidated financial statements are prepared in accordance with the principle of historical acquisition and production costs. The measurement methods applied to the exceptions are described in the following.

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 recognized as well as the disclosure of contingent assets and liabilities as of the reporting 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 experience from comparable 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. For computational reasons, rounding differences may occur.

The Management Board of RHI AG completed and signed the present consolidated financial statements on March 4, 2015 and released them for distribution to the Supervisory Board. The Supervisory Board is responsible for reviewing the consolidated financial statements and for stating whether it approves the consolidated financial statements.

(2) Initial application of new financial reporting standards

In the financial year 2014, the following new or revised financial reporting standards including the resulting changes in other standards, which are also adopted by the EU, were applied for the first time:

Standard	Title	Publication (EU endorsement)	Mandatory application for RHI	Effects on RHI consolidated financial statements
New standards				
IFRS 10	Consolidated Financial Statements	05/12/2011 (12/11/2012)	01/01/2014	No effect
IFRS 11	Joint Arrangements	05/12/2011 (12/11/2012)	01/01/2014	Classification of a company previously recognized as associated company as joint venture. Equity-method accounting is continued.
IFRS 12	Disclosure of Interests in Other Entities	05/12/2011 (12/11/2012)	01/01/2014	Additional notes disclosures, see (5), (15), (26)
Amendments of standards				
IAS 19	Defined Benefit Plans: Employee Contributions	11/21/2013 (12/17/2014)	01/01/2016	No effect
IAS 27	Separate Financial Statements	05/12/2011 (12/11/2012)	01/01/2014	Not relevant
IAS 28	Investments in Associates and Joint Ventures	05/12/2011 (12/11/2012)	01/01/2014	No effect
IAS 32	Offsetting Financial Assets and Financial Liabilities	12/16/2011 (12/13/2012)	01/01/2014	No effect
IAS 36	Recoverable Amount Disclosures for Non-Financial Assets	05/29/2013 (12/19/2013)	01/01/2014	Disclosure of the recoverable amount only if an impairment was recognized or reversed. See notes (8), (39), (41)

Standard	Title	Publication (EU endorsement)	Mandatory application for RHI	Effects on RHI consolidated financial statements
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	06/27/2013 (12/19/2013)	01/01/2014	No effect
IFRS 10-12	Transition Guidance	06/28/2012 (04/04/2013)	01/01/2014	No effect
IFRS 10, IFRS 12, IAS 27	Investment Entities	10/31/2012 (11/20/2013)	01/01/2014	Not relevant

The amendments of accounting standards that influenced the asset, financial and earnings position and the notes of the RHI Group in the financial year 2014 are explained in detail in the following:

IFRS 10 "Consolidated Financial Statements" supersedes the provisions on consolidation previously defined in IAS 27 "Consolidated and Separate Financial Statements" and explains a uniform control concept for all entities including special purpose entities.

Control exists when an investor is exposed to the risks of variable returns from the company in which it holds a share or has a right to variable returns and has the ability to affect those returns through its power over the investee. If one of those elements changes, it must be reassessed whether control exists.

IAS 27 "Separate Financial Statements" now only includes provisions regarding the accounting of investments in subsidiaries, associates and joint ventures in the separate financial statements of the parent company provided they are prepared in accordance with IFRS.

IFRS 11 "Joint Arrangements" supersedes IAS 31 "Interests in Joint Ventures". It governs the accounting of joint operations and joint ventures.

The classification of a joint arrangement as a joint operation or a joint venture depends on the rights and obligations of the parties to the arrangement. The structure, the legal form of the arrangement as well as all contractual conditions and other relevant facts and circumstances must be taken into account. A joint operation is a joint arrangement by two or more entities whereby they have direct rights to the assets and obligations for the liabilities. A joint venture is defined as a joint arrangement whereby the parties that have joint control of the arrangements have rights to the net assets of the arrangement in which they are involved. Joint ventures have to be included in the consolidated financial statements using the equity method in accordance with IAS 28. In contrast, assets and liabilities as well as income and expenses of a joint operation have to be recognized proportionately in the consolidated statement of financial position and the consolidated statement of profit or loss.

The initial application of IFRS 10 and IFRS 11 as of January 1, 2014 does not result in a change of the type of consolidation for the Group companies of the RHI Group or in a change of the previous accounting of these group companies. However, as a result of the reassessment of the involvement in MAGNIFIN Magnesiaprodukte GmbH & Co KG, which had previously been classified as an associated company, this company was reclassified as a joint venture. As the equity method still has to be applied in the accounting of this company according to IFRS, there is no impact on the recognized assets, liabilities and comprehensive income of the RHI Group.

IFRS 12 "Disclosure of Interests in Other Entities" provides disclosure standards for consolidated financial statements and pools the disclosures for interests in other entities. As a result of the application of IFRS 12, taking into account the change in classification of the aforementioned entity, all disclosures required regarding interests in other entities at December 31, 2014 are more comprehensive than in the past. They can be found under notes (5), (15) and (26).

The amendments to IAS 36 “Impairment of Assets” clarify that the recoverable amount of the assets or cash-generating units only have to be indicated if impairments have been recognized or reversed during the reporting year. The related information is provided under notes (8), (39) and (41).

In the preparation of the notes required in accordance with IFRS 12 and IAS 36, transitional provisions were applied and the comparative figures of the previous years were adjusted.

(3) Other changes in comparative information

In order to improve the informative value of the consolidated financial statements as of December 31, 2014, the following changes in presentation were made for the previous year:

Amortization charges on development costs, which were previously included in general and administrative expenses, were reclassified to cost of sales with retroactive effect as this presentation is more appropriate (Adjustment 1).

Foreign exchange results were previously shown as the net amount of foreign exchange gains and losses, either under other income or under other expenses. The net results from foreign exchange contracts were shown as a correcting item to the foreign exchange result. Due to the materiality of the effects, they are no longer offset now based on the no-netting principle (Adjustment 2).

The changes in presentation had the following effects on the consolidated statement of profit or loss:

in € million	2013 as published	Effect 2013 Adjustment 1	Effect 2013 Adjustment 2	2013 adjusted	Effect 2014
Cost of sales	(1.374.2)	(2.2)	–	(1.376.4)	(2.0)
Gross profit	380.5	(2.2)	–	378.3	(2.0)
General and administrative expenses	(117.7)	2.2	–	(115.5)	2.0
Other income	7.9	–	49.4	57.3	46.1
Other expenses	(25.7)	–	(49.4)	(75.1)	(46.1)

The information for the previous year was adjusted accordingly for all of the above-mentioned changes in presentation.

(4) New financial reporting standards not yet adopted

The IASB issued further standards, amendments to standards and interpretations, whose application was, however, not yet mandatory for the year 2014. They were not applied prematurely on a voluntary basis.

The following financial reporting standards were adopted by the EU by the time of the preparation of the RHI consolidated financial statements:

Standard	Title	Publication (EU endorsement)[1]	Mandatory application for RHI	Expected effects on RHI consolidated financial statements
New interpretation				
IFRIC 21	Levies	05/20/2013 (06/13/2014)	01/01/2015	No effect
Amendments of standards				
Various	Annual improvements to IFRSs 2010-2012 Cycle	12/12/2013 (12/17/2014)	01/01/2016	Additional notes disclosures
Various	Annual improvements to IFRSs 2011-2013 Cycle	12/12/2013 (12/18/2014)	01/01/2015	No effect

(1) according to EU Endorsement Status Report of 03/04/2015

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

Standard	Title	Publication[1]	Mandatory application for RHI	Expected effects on RHI consolidated financial statements
New standards				
IFRS 9	Financial Instruments	07/24/2014	01/01/2018	A reliable assessment of the effects is not possible at the moment.
IFRS 14	Regulatory Deferral Accounts	01/30/2014	01/01/2016	Not relevant
IFRS 15	Revenue from Contracts with Customers	05/28/2014	01/01/2017	A reliable assessment of the effects is not possible at the moment.
Amendments of standards				
IAS 1	Disclosure Initiative	12/18/2014	01/01/2016	No effect
IAS 16, IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	05/12/2014	01/01/2016	No effect
IAS 16, IAS 41	Bearer Plants	06/30/2014	01/01/2016	Not relevant
IAS 27	Equity Method in Separate Financial Statements	08/12/2014	01/01/2016	Not relevant
IFRS 10, IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	09/11/2014 (endorsement postponed by EU)	01/01/2016 or later	No effect
IFRS 10, IFRS 12, IAS 28	Investment Entities: Applying the Consolidation Exception	12/18/2014	01/01/2016	Not relevant
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	05/06/2014	01/01/2016	No effect
Various	Annual Improvements to IFRSs 2012-2014 Cycle	09/25/2014	01/01/2016	No effect

(1) according to EU Endorsement Status Report of 03/04/2015

The new IFRS 9 “Financial Instruments” supersedes the current provisions of IAS 39 “Financial Instruments: Recognition and Measurement” for the accounting of financial instruments.

The measurement categories 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 can be allocated to the category amortized cost depends on the business model of the company, i.e. how the company controls its financial instruments, and on the contractual cash flows of the individual instrument. IFRS 9 introduces additional changes with respect to financial liabilities.

IFRS 9 requires not only the recognition of losses incurred, but also of expected losses, with the extent of the recognition depending on the change in the default risk of the financial assets since their addition. Exceptions are made for trade receivables, for example.

For the accounting of hedging relationships, the risk management target will be decisive in the future. In addition, the requirements to demonstrate hedge effectiveness will change.

IFRS 15 “Revenue from Contracts with Customers” provides uniform regulations for revenue realization which are applicable to all contracts with customers. IFRS 15 supersedes IAS 18 “Revenue” and IAS 11 “Construction Contracts”. The decisive factor for revenue realization is no longer the transfer of significant opportunities and risks, but rather, when the customer obtains power over the goods and services agreed and can benefit from them.

IFRS 15 introduces a five-step model to determine revenue realization. According to this model, the contract with the customer and the separate performance obligations therein have to be identified. Then the transaction price must be determined and allocated to the performance obligations identified. Revenue must then be realized separately for each performance obligation in the amount of the allocated pro-rata transaction price. For this purpose, criteria were defined which distinguish between satisfying a performance obligation either at a point in time or over time.

A reliable estimate of the effects of the application of IFRS 9 and IFRS 15 on the RHI consolidated financial statements can only be made when a detailed analysis has been conducted. Currently, no premature application of the new or changed standards and interpretations is planned.

(5) Group of consolidated companies

In addition to RHI AG as the parent company, the RHI consolidated financial statements include the financial statements of 79 subsidiaries. One joint venture is consolidated using the equity method.

Four (12/31/2013: four) subsidiaries and four (12/31/2013: three) other investments, which are considered to be immaterial for the assets, financial and earnings position of the RHI Group due to their suspended or minimal business activities, were not included in the consolidated financial statements.

The group of consolidated companies developed as follows:

	2014		2013	
Number of consolidated companies	Full consolidation	Equity method	Full consolidation	Equity method
Balance at beginning of year	**80**	**2**	**79**	**2**
Additions	1	0	2	0
Disposals	(1)	(1)	(1)	0
Balance at year-end	**80**	**1**	**80**	**2**

Changes in the group of consolidated companies in the reporting year 2014

The newly established subsidiary RHI ITALIA S.R.L. (100%), Brescia, was included in the group of consolidated companies with effect from December 15, 2014. The purpose of the company is the sale of refractory products and customer service in Italy.

With effect from January 1, 2014, the US subsidiary INTERSTOP Corporation, Cincinnati, was merged with RHI US Ltd., Wilmington, and is no longer part of the group of consolidated companies.

With effect from December 31, 2014, Società Dolomite Italiana SDI S.R.L., a company based in Brescia and previously consolidated using the equity method, has been carried at cost as its liquidation is largely completed in economic terms. In the reporting year a cash inflow from a capital decrease of € 0.1 million was recorded. The change in accounting method had no material effect on the asset, financial and earnings position of the RHI Group.

Changes in the group of consolidated companies in the previous year

On January 15 of the previous year, the RHI subsidiary Dutch US Holding B.V., Arnhem, Netherlands, signed an agreement for the acquisition of 43.6% of the share capital of Orient Refractories Ltd. (in the following "ORL"). ORL is a listed company based in India and produces special refractory products and refractory mixes for the iron and steel industry. The company's head office is based in New Delhi; the production and R&D site is located in Bhiwadi in the state of Rajasthan. Moreover, ORL operates eight sales offices in India. The closing of the acquisition of this block of shares through Dutch US Holding B.V. took place on March 4, 2013. The purchase price amounted to € 31.8 million and was paid in cash.

The mandatory public offer to the shareholders of ORL related to the acquisition of the block of shares for up to another 26% of the shares commenced on March 25, 2013 and was closed on April 29, 2013. The public offer was accepted in full. The purchase price amounted to € 19.0 million and was also paid in cash. After the execution of the mandatory offer, Dutch US Holding B.V. now holds 69.6% of the shares and voting rights in ORL. This acquisition is another important element in the implementation of its growth strategy, which focuses on emerging markets, and is aimed at strengthening the market position in the flow control business.

The acquisition is treated as a single transaction. The initial consolidation was carried out with the execution of the mandatory public offer on April 29, 2013 on the basis of 69.6% of the voting rights in ORL. Non-controlling interests were measured on the basis of the proportional share of net assets.

The IFRS measurement of the net assets acquired at the acquisition date, which were determined on a preliminary basis in the previous year, were not adjusted in the financial year 2014. The components of the purchase price at the time of initial consolidation are shown in the following table:

in € million	04/29/2013
Property, plant and equipment	6.6
Intangible assets	29.5
thereof land use rights	12.8
thereof customer relations	12.1
Other non-current assets	0.5
Inventories	9.4
Trade and other current receivables	10.4
Cash and cash equivalents	2.1
Deferred tax liabilities	(11.6)
Current financial liabilities	(0.8)
Trade payables and other current liabilities	(7.0)
Income tax liabilities	(0.2)
Net assets	**38.9**
Non-controlling interest	(11.8)
Proportional share of net assets acquired	**27.1**
Goodwill	23.7
Purchase price	**50.8**

In the measurement of the fair values of property, plant and equipment, the historical acquisition costs were adjusted for current price changes in order to obtain the replacement cost of the used assets (Level 2 in accordance with IFRS 13).

The fair value measurement of the contractual land use rights of ORL was performed by an external expert applying the comparative value method (Level 3). The intangible asset is amortized over 65 years according to the remaining term of the contracts using the straight-line method.

In the valuation of customer contracts and the related customer base of ORL, it was distinguished between Indian and non-Indian customer relationships and the multi-period-excess earnings method was applied (Level 3). The customer relationships are amortized as scheduled over a period of six and four years respectively.

The gross value of the receivables acquired amounted to € 10.6 million at the date of acquisition, of which € 0.2 million are expected to be irrecoverable.

The deferred tax liabilities recognized at a tax rate of 33.99% are related especially to the fair value measurement of the intangible assets identified.

The goodwill created in the course of the acquisition reflects the expected strategic advantage for the Group resulting from a stronger market position in the flow control business in the growing Indian and Asian steel industry. Goodwill cannot be used for tax purposes.

In the period from May to December 2013, ORL contributed € 32.2 million to revenue and € 2.4 million to profit after income tax. If the business combination had been carried out at January 1, 2013, consolidated revenue would have amounted to € 1,772.4 million (versus the revenue of € 1,754.7 million as reported) and profit after income tax to € 64.5 million (versus profit after income tax of € 63.4 million as reported). When the pro-forma items were determined it was assumed that the adjustments of fair value, which were made at the date of acquisition, would have also been applicable in the case of an acquisition as of January 1, 2013.

The external acquisition-related costs for the acquisition of ORL amounted to roughly € 0.7 million and were recognized in general and administrative expenses in the years 2012 and 2013.

With effect from November 1, 2013, the newly established subsidiary RHI Refractories Egypt LLC. (100%), based in Cairo, Egypt was included in the group of consolidated companies.

As of March 21, 2013, all shares (51%) in FC Technik AG, Winterthur, Switzerland, were sold. The proportional share of net assets disposed at the date of deconsolidation is shown below:

in € million	03/21/2013
Property, plant and equipment	0.1
Inventories	0.1
Trade and other current receivables	1.1
Cash and cash equivalents	0.7
Trade payables and other current liabilities	(0.3)
Income tax liabilities	(0.1)
Net assets disposed	**1.6**
Non-controlling interest	(0.8)
Proportional share of net assets acquired	**0.8**

The result from deconsolidation is calculated as follows:

in € million	03/21/2013
Proceeds on the sale	0.7
Proportional share of net assets disposed	(0.8)
Reclassification proportional currency translation differences	0.1
Result from deconsolidation	**0.0**

Of the selling price of € 0.7 million the amount of € 0.6 million was paid in cash in the year 2013. The remaining amount was deferred.

Acquisition of additional shares where control already exists

The RHI subsidiary Dutch Brasil Holding B.V., Arnhem, Netherlands exercised the option to acquire 40% of the shares in RHI India Private Limited, Navi Mumbai by purchase contract of November 24, 2014. For the 40% share held by the non-controlling interest, a call option existed for RHI and a put option for the non-controlling shareholder. The purchase price for this transaction amounted to € 1.2 million and was paid in cash in December 2014. The cash outflow is recognized in cash flow from financing activities. Due to the put option granted, a financial liability of the same amount was shown in the consolidated statement of financial position, which was derecognized. Hence, RHI holds 100% of the shares and voting rights in this Indian company.

Companies of the RHI Group

The ten most important operating companies of the RHI Group pursue the following core business activities:

Name and registered office of the company	Country of core activity	Core business activity
RHI AG, Austria	International	Sales, R&D, financing
Didier-Werke AG, Germany	Germany	Production
Magnesit Anonim Sirketi, Turkey	Turkey	Mining, production, sales
Orient Refractories Ltd., India	India	Production, sales
RHI Canada Inc., Canada	Canada	Production, sales, provision of services
RHI Refractories (Dalian) Co., Ltd., PR China	PR China	Production
RHI US Ltd., USA	USA	Production, sales
RHI-Refmex, S.A. de C.V., Mexico	Latin America	Sales
Veitsch-Radex America Inc., Canada	USA	Sales, provision of services
Veitsch-Radex GmbH & Co OG, Austria	Austria	Mining, production

The following list, which was drawn up in accordance with § 245a para. 1 UGB in conjunction with § 265 para 2 UGB, shows all companies in which RHI holds a share of at least 20%:

Ser. no.	Name and registered office of the company	12/31/2014 Share-holder	12/31/2014 Share in %	12/31/2013 Share-holder	12/31/2013 Share in %
1.	RHI AG, Vienna, Austria				
	Fully consolidated subsidiaries				
2.	Betriebs- und Baugesellschaft mbH, Wiesbaden, Germany	6.	100.0	6.	100.0
3.	CJSC “RHI Podolsk Refractories”, Moscow, Russia	28.,73.	100.0	28.,73.	100.0
4.	Didier Belgium N.V., Evergem, Belgium	38.,69.	100.0	38.,69.	100.0
5.	Didier Vertriebsgesellschaft mbH, Wiesbaden, Germany	6.	100.0	6.	100.0
6.	Didier-Werke AG, Wiesbaden, Germany	1.,28.	100.0	1.,28.	100.0
7.	Dolomite Franchi S.p.A., Brescia, Italy	28.	100.0	28.	100.0
8.	D.S.I.P.C.-Didier Société Industrielle de Production et de Constructions, Breuillet, France	6.	100.0	6.	100.0
9.	Dutch Brasil Holding B.V., Arnhem, Netherlands	73.	100.0	73.	100.0
10.	Dutch MAS B.V., Arnhem, Netherlands	6.	100.0	6.	100.0
11.	Dutch US Holding B.V., Arnhem, Netherlands	73.	100.0	73.	100.0
12.	Full Line Supply Africa (Pty) Limited, Sandton, South Africa	28.	100.0	28.	100.0

		12/31/2014		12/31/2013	
Ser. no.	Name and registered office of the company	Share-holder	Share in %	Share-holder	Share in %
13.	GIX International Limited, Wakefield, Great Britain	80.	100.0	80.	100.0
14.	INDRESCO U.K. Ltd., Wakefield, Great Britain	13.	100.0	13.	100.0
15.	INTERSTOP Corporation, Cincinnati, USA	–	–	70.	100.0
16.	INTERSTOP (Shanghai) Co., Ltd., Shanghai, PR China	72.	100.0	72.	100.0
17.	Latino America Refractories ApS, Hellerup, Denmark	80.	100.0	80.	100.0
18.	Liaoning RHI Jinding Magnesia Co., Ltd., Dashiqiao City, PR China(1)	28.	83.3	28.	83.3
19.	LLC "RHI Wostok", Moscow, Russia	1.,28.	100.0	1.,28.	100.0
20.	LLC "RHI Wostok Service", Moscow, Russia	1.,28.	100.0	1.,28.	100.0
21.	Lokalbahn Mixnitz-St. Erhard AG, Vienna, Austria	61.	100.0	61.	100.0
22.	Magnesit Anonim Sirketi, Eskisehir, Turkey(2)	28.	100.0	28.	100.0
23.	Magnesitwerk Aken Vertriebsgesellschaft mbH i.L., Aken, Germany	6.	100.0	6.	100.0
24.	Mezubag AG, Pfäffikon, Switzerland	72.	100.0	72.	100.0
25.	Orient Refractories Ltd., New Delhi, India	11.	69.6	11.	69.6
26.	Premier Periclase Ltd., Drogheda, Ireland	11.	100.0	11.	100.0
27.	Producción RHI México, S. de R.L. de C.V., Ramos Arizpe, Mexico	53.,80.	100.0	53.,80.	100.0
28.	Radex Vertriebsgesellschaft mbH, Leoben, Austria	77.	100.0	77.	100.0
29.	REFEL S.p.A., San Vito al Tagliamento, Italy	6.	100.0	6.	100.0
30.	Refractory Intellectual Property GmbH, Vienna, Austria	1.	100.0	1.	100.0
31.	Refractory Intellectual Property GmbH & Co KG, Vienna, Austria	1.,30.	100.0	1.,30.	100.0
32.	RHI Argentina S.R.L., San Nicolás, Argentina	17.,80.	100.0	17.,80.	100.0
33.	RHI Canada Inc., Burlington, Canada	80.	100.0	80.	100.0
34.	RHI Chile S.A., Santiago, Chile	13.,80.	100.0	13.,80.	100.0
35.	RHI Clasil Limited, Hyderabad, India(1)	80.	53.7	80.	53.7
36.	RHI Dinaris GmbH, Wiesbaden, Germany	69.	100.0	69.	100.0
37.	RHI Finance A/S, Hellerup, Denmark	1.	100.0	1.	100.0
38.	RHI GLAS GmbH, Wiesbaden, Germany	69.	100.0	69.	100.0
39.	RHI India Private Limited, Navi Mumbai, India(1)	9.,80.	100.0	80.	60.0
40.	RHI ITALIA S.R.L., Brescia, Italy	1.	100.0	–	–
41.	RHI Marvo Feuerungs- und Industriebau GmbH, Gerbstedt, Germany(3)	42.	100.0	42.	100.0
42.	RHI MARVO Feuerungs- und Industriebau GmbH, Kerpen, Germany(4)	6.	100.0	6.	100.0
43.	RHI MARVO SRL, Ploiesti, Romania	28.,73.	100.0	28.,73.	100.0
44.	RHI Monofrax, LLC, Wilmington, USA	70.	100.0	70.	100.0
45.	RHI Normag AS, Porsgrunn, Norway	28.	100.0	28.	100.0
46.	RHI-Refmex, S.A. de C.V., Ramos Arizpe, Mexico	53.,80.	100.0	53.,80.	100.0
47.	RHI Refractories Africa (Pty) Ltd., Sandton, South Africa	6.	100.0	6.	100.0
48.	RHI Refractories Andino C.A., Puerto Ordaz, Venezuela	80.	100.0	80.	100.0
49.	RHI Refractories Asia Ltd., Hongkong, PR China	71.	100.0	71.	100.0
50.	RHI Refractories Asia Pacific Pte. Ltd., Singapore	1.	100.0	1.	100.0
51.	RHI Refractories (Dalian) Co., Ltd., Dalian, PR China	28.	100.0	28.	100.0
52.	RHI Refractories Egypt LLC., Cairo, Egypt	28.,73.	100.0	28.,73.	100.0
53.	RHI Refractories España, S.L., Lugones, Spain	6.,10.	100.0	6.,10.	100.0
54.	RHI Refractories France S.A., Breuillet, France	71.	100.0	71.	100.0
55.	RHI Refractories Holding Company, Wilmington, USA	80.	100.0	80.	100.0
56.	RHI Refractories Ibérica, S.L., Lugones, Spain	71.	100.0	71.	100.0

Ser. no.	Name and registered office of the company	12/31/2014 Share-holder	Share in %	12/31/2013 Share-holder	Share in %
57.	RHI Refractories Italiana s.r.l., Brescia, Italy	71.	100.0	71.	100.0
58.	RHI Refractories Liaoning Co., Ltd., Bayuquan, PR China(1)	28.	66.0	28.	66.0
59.	RHI Refractories Mercosul Ltda, Sao Paulo, Brazil	73.,80.	100.0	73.,80.	100.0
60.	RHI Refractories Nord AB, Stockholm, Sweden	71.	100.0	71.	100.0
61.	RHI Refractories Raw Material GmbH, Vienna, Austria	1.,28.	100.0	1.,28.	100.0
62.	RHI Refractories Site Services GmbH, Wiesbaden, Germany	6.	100.0	6.	100.0
63.	RHI Refractories (Site Services) Ltd., Newark, Great Britain	14.	100.0	67.	100.0
64.	RHI Refractories UK Limited, Clydebank, Great Britain	6.	100.0	6.	100.0
65.	RHI Refratários Brasil Ltda, Belo Horizonte, Brazil	9.,80.	100.0	9.,80.	100.0
66.	RHI Rückversicherungs AG, Vaduz, Liechtenstein	28.	100.0	28.	100.0
67.	RHI Sales Europe West GmbH, Mülheim-Kärlich, Germany	6.,71.	100.0	6.,71.	100.0
68.	RHI Trading (Dalian) Co., Ltd., Dalian, PR China	28.	100.0	28.	100.0
69.	RHI Urmitz AG & Co KG, Mülheim-Kärlich, Germany	5.,6.	100.0	5.,6.	100.0
70.	RHI US Ltd., Wilmington, USA	11.	100.0	11.	100.0
71.	SAPREF AG für feuerfestes Material, Basel, Switzerland	80.	100.0	80.	100.0
72.	Stopinc AG, Hünenberg, Switzerland	6.,28.	100.0	6.,28.	100.0
73.	Veitscher Vertriebsgesellschaft mbH, Vienna, Austria	1.	100.0	1.	100.0
74.	Veitsch-Radex America Inc., Burlington, Canada	33.	100.0	33.	100.0
75.	Veitsch-Radex America LLC., Wilmington, USA	70.	100.0	70.	100.0
76.	Veitsch-Radex GmbH, Vienna, Austria	1.	100.0	1.	100.0
77.	Veitsch-Radex GmbH & Co OG, Vienna, Austria	1.,76.	100.0	1.,76.	100.0
78.	Veitsch-Radex Vertriebsgesellschaft mbH, Vienna, Austria	1.	100.0	1.	100.0
79.	VERA FE, Dnepropetrovsk, Ukraine	28.	100.0	28.	100.0
80.	VRD Americas B.V., Arnhem, Netherlands	1.,28.	100.0	1.,28.	100.0
81.	Zimmermann & Jansen GmbH, Düren, Germany	6.	100.0	6.	100.0
	Subsidiaries not consolidated due to minor significance				
82.	Dr.-Ing. Petri & Co. Unterstützungs-Gesellschaft mbH, Duisburg, Germany	6.	100.0	6.	100.0
83.	INTERSTOP do Brasil i.L., Barueri, Brazil	72.	100.0	72.	100.0
84.	INTERSTOP Licensing LLC, Dover, USA	72.	100.0	72.	100.0
85.	RHI Réfractaires Algérie E.U.R.L., Sidi Amar, Algeria	54.	100.0	54.	100.0
	Joint ventures consolidated using the equity method				
86.	MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	73.,90.	50.0	73.,90.	50.0
87.	Società Dolomite Italiana SDI S.R.L. i.L., Brescia, Italy(5)	–	–	7.	50.0
	Other immaterial investments, measured at cost				
88.	LLC “NSK Refractory Holding”, Moscow, Russia	28.	49.0	28.	49.0
89.	LLC “NSK Refractory”, Novokuznetsk, Russia	28.	49.0	28.	49.0
90.	MAGNIFIN Magnesiaprodukte GmbH, St. Jakob, Austria	73.	50.0	73.	50.0
91.	Società Dolomite Italiana SDI S.R.L. i.L., Brescia, Italy(5)	7.	50.0	–	–

(1) In accordance with IAS 32, fixed-term or puttable non-controlling interests are shown under liabilities.

(2) Further shareholders are VRD Americas B.V., Lokalbahn Mixnitz St. Erhard AG and Veitscher Vertriebsgesellschaft mbH.

(3) Formerly: MARVO Feuerungs- und Industriebau GmbH

(4) Formerly: MARVO Feuerungs- und Industriebau GmbH

(5) Formerly: Società Dolomite Italiana SDI S.p.A., Gardone Val Trompia

i.L. In liquidation

(6) Methods of consolidation

Subsidiaries

Subsidiaries are companies over which RHI AG exercises control. Control exists when the company has the power do decide on the relevant activities, is exposed to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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 at the date of acquisition or when control is obtained. Intangible assets which were previously not recognized in the separate financial statements of the company acquired are also measured at fair value. Intangible assets identified when a company is acquired, including for example patents, brand names and customer relations, are only measured separately at the time of acquisition if the conditions for the capitalization of an intangible asset in accordance with IAS 38 are met.

For the acquisition of companies in which less than 100% of the shares are acquired, IFRS 3 allows an accounting policy choice whereby either goodwill proportionate to the share held or goodwill including the share accounted for by non-controlling interests can be recognized. This accounting policy choice can be exercised anew for any company acquisition.

The measurement at the date of acquisition can be made on a preliminary basis in justified cases. If adjustments are necessary in favor or at the expense of assets and liabilities within twelve months of the acquisition, they will be made accordingly. These adjustments are presented in the notes.

The goodwill determined 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 in other income after renewed measurement of the identifiable assets, liabilities and contingent liabilities.

Shares in net assets of subsidiaries that are not attributable to RHI AG are shown separately under equity as non-controlling interests. The basis for non-controlling interests are the equity of the subsidiary concerned after adjustment to the accounting and measurement principles of the RHI Group and proportional consolidation entries.

Transaction costs which are directly related to business combinations are expensed as incurred. Conditional components of the purchase price are recorded at fair value at the date of initial consolidation.

When additional shares are acquired in companies which are already included in the consolidated financial statements as subsidiaries, the difference between the purchase price and the proportional carrying amount in the subsidiary’s net assets is offset against equity. Gains and losses from the sale of shares are also recorded in equity unless they lead to a loss of the controlling influence.

In the case of a step acquisition and the related obtaining of a possible controlling interest, the difference between the carrying amount and the fair value at the date of the initial full consolidation is realized through profit or loss.

Intragroup receivables and liabilities as well as income and expenses are fully eliminated.

Intragroup results related to intragroup deliveries of non-current assets and inventories as well as transfers of shares are eliminated.

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

Subsidiaries are deconsolidated on the day control ends.

Joint ventures

Investments in joint ventures are consolidated using the equity method. A joint venture is a joint arrangement between the RHI Group and one or several other partners whereby the parties that have joint control over the arrangement have rights to the net assets of the arrangement.

At the date of acquisition, a positive difference between the acquisition costs and the share in the fair values of identifiable assets and liabilities of the joint venture is determined and recognized as goodwill. Goodwill is shown under the item investments in joint ventures in the statement of financial position.

The acquisition cost of investments consolidated using the equity method is increased or decreased each year to reflect the change in the equity of the individual joint venture that is attributable to the RHI Group. Unrealized intragroup results from transactions with these companies are offset against the carrying amount of the investment on a pro-rata basis within the framework of consolidation, if they are material.

RHI examines at every reporting date whether there are objective indications of an impairment of the shares in the joint ventures. If such indications exist, the required impairment is determined as the difference between the recoverable amount and the carrying amount of the joint venture and recognized in profit and loss in the item share of profit of joint ventures. If the reasons for a previously recognized impairment cease to exist, a reversal of impairment is recognized in profit or loss.

The financial statements of the companies consolidated using the equity method are prepared in accordance with uniform accounting and measurement methods throughout the Group.

(7) Foreign currency translation

Functional currency and presentation currency

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

The items included in the financial statements of each Group company are valued based on 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 monetary assets and liabilities in foreign currencies at the exchange rate in effect on the reporting date are recognized in profit or loss under other income or expenses. Contrary to this, unrealized currency translation differences from monetary differences which form part of a net investment in a foreign business are recognized in other comprehensive income in equity. Non-monetary items in foreign currency are carried at historical rates.

Group companies

The annual financial statements of foreign subsidiaries that have a functional currency differing from the Group presentation currency are translated into euros as follows:

Assets and liabilities are translated at the exchange rate on the reporting date, while the statements of profit or loss are 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 in other comprehensive income without recognition to profit or loss. Cash flows are translated at average monthly exchange rates.

Goodwill and adjustments to the fair value of assets and liabilities related to the purchase price allocation of a foreign subsidiary are recognized as assets and liabilities of the respective foreign subsidiary and translated at the exchange rate at the reporting date.

The RHI sales company in Venezuela does not apply the provisions of IAS 29 for Financial Reporting in Hyperinflationary Economies as it is immaterial for the presentation of the asset, financial and earnings position of the Group.

The euro exchange rates of currencies important for the RHI Group are shown in the following table:

		Closing rate		Average monthly rate	
Currencies	1 € =	12/31/2014	12/31/2013	2014	2013
Brazilian real	BRL	3.23	3.25	3.10	2.86
Pound sterling	GBP	0.78	0.83	0.81	0.85
Chilean peso	CLP	738.25	723.59	754.40	653.11
Chinese renminbi yuan	CNY	7.53	8.33	8.22	8.13
Indian rupee	INR	76.87	85.08	81.30	77.62
Canadian dollar	CAD	1.41	1.46	1.47	1.36
Mexican peso	MXN	17.91	18.03	17.63	16.97
Norwegian krone	NOK	9.03	8.37	8.33	7.76
Swiss franc	CHF	1.20	1.23	1.22	1.22
South African rand	ZAR	14.07	14.49	14.33	12.66
US dollar	USD	1.22	1.38	1.33	1.33

(8) Principles of accounting and measurement

Property plant and equipment

Property, plant and equipment is measured at acquisition or production cost, less accumulated depreciation on a systematic basis and impairments. 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.

Leased property, plant and equipment that qualifies as asset purchase financed with long-term funds is capitalized at the market value of the asset or the lower present value in accordance with IAS 17. The leased assets are depreciated on a systematic basis over the useful life. The payment obligations resulting from future lease instalments are discounted and recorded as liabilities. Current lease payments are apportioned between a finance charge and the amortization of the outstanding liability. As of the reporting date, the property, plant and equipment leased through finance leasing is of small scale. All other leases are treated as operating leases. The lease payments resulting from operating leases are recorded as expenses.

The production costs of internally generated assets comprise direct costs as well as a proportional share of capitalizable production overheads and borrowing costs. If financing can be specifically allocated to an investment, the actual borrowing costs are capitalized as production costs. If no direct connection can be made, the average rate on borrowed capital of the Group is used as the capitalization rate due to the central funding of the Group.

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.

Real estate, land and plant under construction are not depreciated on a systematic basis. Depreciation of other material property, plant and equipment is based on the following useful lives in the RHI Group:

Factory and office buildings	15 to 50 years
Land improvement	8 to 30 years
Crusher machines and mixing facilities	8 to 20 years
Presses	10 to 12 years
Tunnel, rotary and shaft kilns	50 years
Other calcining and drying kilns	20 to 30 years
Cars, other plant, furniture and fixtures	3 to 35 years

The residual 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 statement of profit or loss.

Investment property

In accordance with IAS 40, investment property refers to land or buildings held to earn rental or for capital appreciation. Investment property is measured at cost less accumulated depreciation and less accumulated impairment losses (cost model). Buildings are depreciated on a straight-line basis over a useful life that corresponds to that of owner-occupied properties. Investment properties are included in the item property, plant and equipment of the statement of financial position.

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 through profit or loss immediately after a new assessment of the identifiable assets, liabilities and contingent liabilities.

Other intangible assets

Research costs are expensed in the year incurred and included under general and administrative expenses.

Development costs also represent expenses in the period. They are recognized under general and administrative expenses. They are only capitalized if they are expected to generate 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, however, over a maximum of ten years, and recognized in cost of sales.

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 predominantly amortized on a straight-line basis over a period of four years.

Purchased intangible assets are measured at acquisition cost, which also includes acquisition-related costs, less amortization, less accumulated amortization and impairments. Intangible assets with a specific useful life are amortized on a straight-line basis over the expected period of useful life. The following table shows the most important useful lives:

Patents	7 to 18 years
Brand rights	20 years
Land use rights	50 or 65 years
Customer relations	4 to 7 years

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 for impairment at least annually.

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 of disposal and its value in use (present value of future cash flows). If the carrying amount is higher than the recoverable amount, an impairment loss equivalent to the resulting difference is recognized in the statement of profit or loss. If the reason for an impairment loss recognized in the past for property, plant and equipment and for other intangible assets ceases to exist, a reversal of impairment on the amortized acquisition and production costs is recognized to profit or loss.

In the case of impairments related to cash-generating units (CGU) which contain goodwill, existing goodwill is initially reduced. If the required impairment exceeds the carrying amount of the goodwill, the difference is apportioned proportionately to the remaining non-current tangible and intangible assets of the CGU. Reversals of impairment losses recognized on goodwill are not permitted and are therefore not considered. The effects of impairment tests at the CGU level are shown separately in the statement of profit or loss.

If there is an indication for an impairment of a specific asset, only this specific asset will be tested for impairment. The recoverable amount is determined through fair value. If the fair value is lower than the carrying amount, an impairment loss is recorded in the operating EBIT or, in the case of restructuring, in the restructuring costs.

Cash-generating units (CGU)

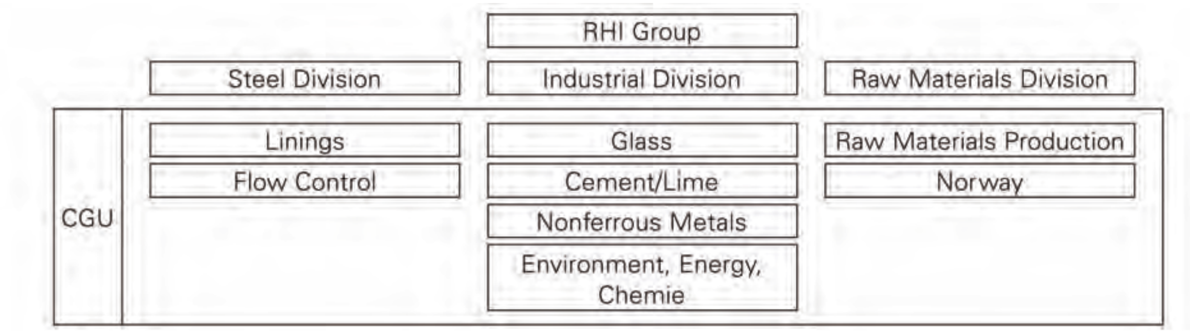
In the RHI Group the individual assets do not generate cash inflows independent of one another; therefore, no recoverable amount can be presented for individual assets. As a result, the assets are combined in CGUs, which largely generate independent cash inflows. These units correspond to the strategic business units and reflect the market presence and the market appearance and are as such responsible for cash inflows.

The organizational structures of the Group reflect these units. In addition to the joint management and control of the business activities in each unit, the sales know-how, the knowledge of RHI products and, as an important added value, the combination of this specific technical knowledge and the technical services provided to customers are also incorporated in these units. The sales know-how is reflected in long-standing customer relationships or knowledge of the customer's production facilities and processes. Product knowledge is manifested in the application-oriented knowledge of chemical, physical and thermal properties of RHI products. The services offered extend over the life cycle of RHI products at the customer's plant, from the appropriate installation and support of optimal operations, to environmentally sound disposal with the customer or the sustainable reuse in RHI's production process. These factors determine cash inflow to a significant extent and consequently form the basis for the CGU structures of RHI.

In the Steel Division two units, Linings and Flow Control, are defined as CGUs and strategic business units. These two units are determined according to the production stages in the process of steel production. In the Industrial Division, each of the four industries (glass, cement/lime, nonferrous metals and environment, energy, chemicals) represents one CGU. In the Raw Materials Division, all raw material producing facilities with the exception of Norway are combined in one CGU.

The plant in Porsgrunn, Norway, was not included in the raw materials unit, but treated as a separate CGU because a management team was installed specifically for the coordination and implementation of the optimization measures due to the dimension and the special situation at the Porsgrunn plant. This organization goes beyond plant management and also includes sub-tasks of the administration processes. Moreover, the Porsgrunn plant produces fused magnesia, which is intended exclusively for the use in the CGU Steel/Linings. This results in an isolated relationship with the CGU Steel/Linings.

The CGUs of the RHI Group are shown in the table below:



As in the previous year, the impairment test is based on the value in use. The recoverable amount of the CGU is determined using the discounted cash flow method and incorporates the terminal value. The detailed planning of the first five years is congruent with the strategic business and financial planning of the CGU. Based on the detailed planning period, it is geared to a steady-state business development, which balances out possible economic or other non-sustainable fluctuations in the detailed planning period and forms the basis for the calculation of the terminal value. In the impairment test 2014, the terminal value is based on a growth rate derived from the difference of the current and the possible degree of utilization of the assets.

The net cash flows are discounted using the weighted average cost of capital (WACC). The weighted average cost of capital is calculated taking into account comparable companies (peer group); the corresponding parameters are derived from capital market information. In addition, country-specific risk premiums of the respective CGU are considered in the weighted average cost of capital.

The weighted average cost of capital before tax is determined per legal unit and weighted according to the share of revenue of the legal units in each CGU. The weighted interest rates of the CGUs range between 5.4% and 9.2% in 2014. In the previous year, the interest rates determined on the same basis ranged between 4.5% and 8.4%.

Composition of the estimated future cash flows

The estimates of future cash flows include forecasts of the cash flows from continued use. If assets are disposed at the end of their useful life, the related cash flows are also included in the forecasts.

A simplified statement of cash flows serves to determine the cash flows on the basis of strategic business and financial planning of the CGUs. The forecasts include cash flows from future maintenance investments. Expansion investments are only taken into account in the future cash flows when there has been a significant cash outflow or significant payment obligations have been entered into due to services received and it is sufficiently certain that the investment measure will be completed. All other expansion investments are not considered; this applies in particular to expansion investments that have been decided on but not begun.

Future cash flows from financing and for income taxes are generally not included. For reasons of practicability, the expected cash flows also include tax payments, therefore the values in use of the CGUs are determined using an after-tax weighted average cost of capital. The after-tax weighted average cost of capital is iteratively reconciled to an implicit pre-tax weighted average cost of capital, which is indicated in the notes.

If the result before tax is negative in the detailed planning period, tax inflows (tax refunds) are considered regardless of whether tax loss carryforwards exist.

With respect to pension obligations, a differentiation between earned entitlements and entitlements yet to be earned. Provisions for pensions do not reduce the carrying value of a CGU; accordingly, pension payouts are not included in the recoverable amounts. Expected additions to provisions for pensions are considered cash-effective with respect to service cost. The interest expense related to pension obligations represents a financing expense and is consequently not considered in the forecast of cash flows.

Working capital is included in the carrying amount of the CGU; therefore, the recoverable amount only takes into account changes in working capital.

Basis for planning

CGU Steel/Linings

The basis for strategic market planning in this CGU is the forecast for world steel production, which is prepared by an independent institution (CRU, London, United Kingdom). This forecast is analyzed by experts in the RHI Group and, if necessary, revised and adjusted for internal analyses and evaluations. In the year 2014, RHI corrected this forecast for world steel production downwards based on an internal estimate, and assumed a more conservative development of the world steel market for strategic business planning. This results in a moderate average annual volume growth of 1.1% in the detailed planning period, with the price level remaining stable at the same time. The cost items are planned in detail for the first year of the detailed planning period taking into account cost developments for the individual types of costs at the respective sites, and adjusted for the other years in accordance with the estimates available. Overall, this leads to a gross operating margin between 19.9% and 20.2% in the planning period. As in 2013, the planning does not take into account expansion investments in 2014. As in the previous year, goodwill of € 9.4 million is allocated to the CGU Steel/Linings as of December 31, 2014. The relevant capital costs before tax amount to 8.9% (12/31/2013: 8.4%) and the assumed growth for the terminal value is 0.3% (12/31/2013: 1.5%). According to current judgment, no combination of changes in the key parameters which would lead to an impairment appears to be realistic.

CGU Steel/Flow Control

The strategic market planning of the CGU Steel/Flow Control is also based on the forecast of world steel production. In this unit, RHI also assumes low volume growth with an annual growth rate of 2.0% in the detailed planning period and moderate price increases (annual growth rate of 0.5% in the detailed planning period). Cost planning is the same as in the CGU Steel/Linings. The gross operating margin resulting from revenue and cost planning ranges between 22.5% and 22.7% in the detailed planning period. This year's planning does not contain any expansion investments. In the planning of the previous year, the unit in India, which was acquired in the year 2013 and is allocated to the CGU Steel/Flow Control, was considered for the first time. Goodwill amounting to € 25.7 million (12/31/2013: € 23.6 million) and an intangible asset of unlimited service life of € 1.8 million, unchanged compared with the previous year, is allocated to the CGU Steel/Flow Control as of December 31, 2014. This asset refers to a brand name that has been acquired. The Group plans to continue to use this brand name without a change. A weighted average cost of capital before tax of 9.2% (12/31/2013: 8.4%) was applied. The growth assumed for the terminal value also amounts to 0.3% (12/31/2013: 1.5%). An increase in the interest rate by 10% combined with a 5% reduction in profitability and no further growth of the terminal value (growth rate 0%) would cause the recoverable amount to correspond precisely to the carrying amount of this unit.

CGU Raw Materials/Norway

This unit comprises the activities of the plant in Porsgrunn, Norway. At this site, RHI produces high-grade fused magnesia, which represents an important pillar in the strategic raw material supply of the Group. The development of the sales and production volumes is essentially derived from RHI's internal demand for this raw material and thus correlates above all to the development of the CGU Steel/Linings. In addition, it is planned to market individual intermediate products and by-products as well as fused magnesia for non-refractory applications. The measurement of the external and internal sales volume is based on market prices. However, as no fused magnesia comparable in terms of quality and availability is available in the market, the market price is determined as the reference price of a basket of commodities for the Group's internal requirements. Every single reference raw material of the basket of commodities available in the market is measured at the respective expected market price. Production costs for the first year in the detailed planning period are planned for every single phase in the production process for individual types of cost and subsequently adjusted for the following years in accordance with the defined plan of measures. Due to the currently very low market price of fused magnesia, the reference value of the basket of commodities has also declined. The Management Board of RHI AG therefore decided to temporarily decrease the production volume, which will reduce the negative contribution to earnings in the coming periods. In the detailed planning period, the originally planned production volume of 60,000 tons of fused magnesia per year will already be reached again. In this CGU, a weighted average cost of capital before tax of 5.4% (12/31/2013: 4.5%) was applied. The growth assumed for the terminal value amounts to 0.3% as for the CGU Steel/Linings (12/31/2013: 1.5%).

CGU Industrial/Glass

The market of the CGU Industrial/Glass is characterized by global excess capacities. However, in the planning period it is assumed that investments in the glass industry will increase again after the subdued investment activities of the past years and that an increasing number of projects will consequently be won again in the medium term, especially in the flat glass segment. Against this backdrop the RHI management introduced a realignment of this unit; as a result, RHI will increasingly act as a full-range supplier and additionally offer services. All of this will lead to an annual volume growth of 4.8% in the detailed planning period, combined with generally stable prices. In the CGU Industrial/Glass, the cost items for the first year of the detailed planning period are also planned taking into account cost developments for the individual types of cost at the respective sites and adjusted for further years in accordance with existing estimates. These plans also incorporate the market initiatives for improved utilization of existing capacities, which are included in volume growth, as well as the measures to accomplish sustainable cost savings at the production sites, which were introduced at the beginning of the year 2014. Consequently, average gross margins between 15.6% and 17.4% will be realized in the long term. A pre-tax weighted average cost of capital of 8.1% (12/31/2013: 8.3%) was applied. The growth assumed for the terminal value amounts to 0.3% (12/31/2013: 1.5%).

Result of impairment test

Based on the impairment test conducted in the year 2014, the recoverability of the assets was demonstrated in all CGUs with the exception of the CGU Raw Materials/Norway and the CGU Industrial/Glass.

For the CGU Raw Materials/Norway, an expense of € 7.5 million (2013: € 65.3 million) was recognized in the item impairment losses in the statement of profit or loss, of which € 3.7 million (2013: € 23.9 million) are related to buildings, € 2.1 million (2013: € 20.8 million) to technical plant and machinery and € 1.7 million (2013: € 18.4 million) to furniture and fixtures, and goodwill of € 2.2 million in the previous year. The recoverable amount of the CGU Raw Materials/Norway was determined on the basis of the value in use and amounts to € 24.1 million at December 31, 2014 (12/31/2013: € 34.4 million).

The impairment recognized in the item impairment losses in the statement of profit or loss for the CGU Industrial/Glass amounts to € 12.3 million, of which land and buildings account for € 3.0 million, technical plant and machinery for € 4.1 million, other plant, furniture and fixtures for € 0.8 million, plant under construction for € 0.2 million, goodwill for € 0.4 million and other intangible assets for € 3.8 million. The recoverable amount of this CGU was determined on the basis of the value in use and amounts to € 99.4 million at December 31, 2014.

As in the previous year, no reversals of impairments were made in the financial year 2014.

Other financial assets and liabilities

The item other financial assets in the consolidated statement of financial position of RHI includes shares in non-consolidated subsidiaries and other investments, securities, financial receivables and positive fair values of derivative financial instruments. The item other financial liabilities includes negative fair values of derivative financial instruments.

Shares in non-consolidated subsidiaries, investments in other companies and securities are classified entirely as "available for sale" in the RHI Group. Available-for-sale financial assets are initially measured at fair value including any related transaction expenses. Subsequent measurement reflects fair value, with changes in fair value being recorded in other comprehensive income. The accumulated gains and losses from fair value measurement that are recorded under other comprehensive income are reclassified to the statement of profit or loss with the disposal of the financial assets. Impairments are charged to profit or loss. Impairment losses on equity instruments recognized to profit and loss are reversed through other comprehensive income. Reversals of impairment for debt instruments are recognized to profit and loss. Available-for-sale financial assets of minor significance are measured at cost. If there are indications that fair value is lower, the lower value is recognized.

Financial receivables are measured at amortized cost applying the effective interest method. Any doubt concerning the collectability of the receivables is reflected in the use of the lower fair value. Foreign currency receivables are translated at the exchange rate effective on reporting date.

Derivative financial instruments, which are not part of an effective hedging relationship in accordance with IAS 39, must be classified as held for trading in accordance with IFRS and measured at fair value. In the RHI Group, this measurement category includes forward exchange contracts as well as embedded derivatives in open orders that are denominated in currencies other than the functional currency. Derivative financial instruments are valued individually using the applicable forward rate as of the reporting date. These forward rates are based on spot rates, and also include forward premiums and discounts. Unrealized valuation gains or losses and results from the realization of the forward exchange contracts are recognized to the statement of profit or loss under other income or expenses. The underlying transactions for the derivatives are carried at amortized cost.

For derivative financial instruments, which are incorporated in an effective hedging relationship in accordance with IAS 39, the hedge is recognized as such (hedge accounting). RHI applies the stipulations regarding hedge accounting to protect future cash flows (cash flow hedge). This reduces volatilities in the statement of profit or loss and in the cash flows. Derivative financial instruments are concluded in the form of interest rate swaps to protect the cash flow risk of financial liabilities carrying variable interest. The interest rate swaps as hedging instruments are measured at fair value, which corresponds to the amount which RHI would receive or have to pay on the reporting date when the financial instrument is terminated. The fair value is calculated using the interest rates and yield curves relevant on the reporting date. The effective part of the fair value changes is initially recorded in other comprehensive income as unrealized gain or loss. Only at the time of the realization of the hedged item, the contribution of the hedged item is shown in the statement of profit or loss. Ineffective parts of the fair value changes of cash flow hedges are recognized immediately in the statement of profit or loss.

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 joint ventures, 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 to the extent that 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.

The calculation of deferred taxes is based on the tax rate expected in the individual countries at the time of realization and generally reflects the enacted or substantively enacted tax rate on the reporting date. As in the previous year, deferred taxes of the Austrian Group companies are determined at the corporation tax rate of 25%. Tax rates from 9.0% to 37.2% (12/31/2013: 9.0% to 40.0%) were applied for foreign companies.

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.

Inventories

Inventories are stated at acquisition or production cost, or at net realizable value as of the reporting date.

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

Finished goods and work in process are valued at fixed and variable production cost.

The net realizable value is the estimated selling price in the ordinary course of business minus any estimated cost to complete and to sell the goods. Impairments due to reduced usability are reflected in the calculation of the net realizable value.

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 revenue. 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.

Trade and other current receivables

Receivables are initially measured at fair value and subsequently carried at amortized cost minus any valuation allowances. These valuation allowances are determined on an individual basis and reflect any recognizable risk of default. Specific cases of default are reflected in the derecognition of the relevant receivables.

Receivables denominated in foreign currencies are translated using the mean rate of exchange on the reporting date.

Emission certificates

Emission certificates acquired for a consideration are carried at cost and recognized to profit and loss in 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 accounted for. Proceeds from the sale of these rights are recognized under revenue.

Cash and cash equivalents

Cash on hand, checks received and cash at banks with an original term of a maximum of three months are shown under cash and cash equivalents. Moreover, shares in money market funds, which are only exposed to insignificant value fluctuations due to their high credit rating and investments in extremely short-term money market instruments and can be converted to defined cash amounts within two days at any time, are also recorded under cash equivalents under IAS 7.

Cash and cash equivalents denominated in foreign currencies are translated at the mean rate of exchange at the reporting date.

Liabilities to fixed-term or puttable non-controlling interests

Capital shares of non-controlling interests in subsidiaries with a fixed term are recognized under financial liabilities in the consolidated statement of financial position in accordance with IAS 32. The share of profit attributable to non-controlling interests is recognized under interest expenses in the statement of profit or loss. Dividend payments to non-controlling interests reduce liabilities.

Furthermore, the RHI Group has entered into purchase obligations with non-controlling shareholders of subsidiaries. Based on these agreements, the shareholders receive the right to tender their shares at any time on previously defined conditions. In this case, IAS 32 provides for carrying a liability in the amount of the probable future exercise price. The difference between the estimated liability and the carrying amount of the non-controlling interest was recognized to equity at the time of the initial recognition without affecting profit or loss. Subsequently, changes of liabilities are recorded in net finance costs.

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 reporting 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 to earmarked pension plans. The related expenses are shown in the functional areas and thus in EBIT. No provisions are necessary.

Defined benefit plans require the company to provide the agreed amount of benefits to active and former employees and their dependents, with a differentiation made between pension systems financed through provisions and pension systems financed by funds.

For pension plans financed through external funds, the pension obligation is calculated according to the projected unit credit method and reduced by the fair value of the plan assets. If the plan assets are not sufficient to cover the obligation, the net obligation is recognized under provisions for pensions. However, if the plan assets exceed the obligations, the asset recognized is limited to reductions of future contribution payments to the plan and is shown under other non-current assets.

The present value of defined benefit obligations for current pensions, future pension benefits and similar obligations and the related expenses are calculated separately for each plan annually by independent qualified actuaries in accordance with the provisions of IAS 19. The present value of future benefits is based on the length of service, expected wage/salary developments and pension adjustments.

The expense to be recognized in a period includes the current and past service costs, settlement gains and losses, interest expenses from the interest accrued on obligations and interest income from plan assets. The net interest expense is shown separately in net finance costs. All other expenses related to defined benefit plans are allocated to the costs of the relevant functional areas.

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 starting age and probability of employee turnover and actual claims. The calculation is based on local biometric parameters.

Interest rates chosen on the basis of the average interest on high-quality corporate bonds issued with adequate maturities and currencies are applied to determine the present value of pension obligations. In countries where there is no sufficiently liquid market for high-quality corporate bonds, the returns on government bonds are used as a basis.

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

Remeasurement gains and losses are recorded under other comprehensive income in the period incurred after taking into account deferred taxes.

Provisions for termination benefits

Provisions for termination benefits are primarily related to obligations to employees whose employment is subject to Austrian law.

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 and ranges between two and twelve monthly salaries. These obligations are measured in accordance with IAS 19 using the projected unit credit method applying an accumulation period of 25 years. Remeasurement gains and losses are recorded directly to other comprehensive income after considering tax effects and shown in the statement of comprehensive income.

For employees who joined an Austrian company 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 like defined contribution pension plans and included under personnel expenses of the functional areas.

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. Obligations related to service anniversary bonuses exist in Austrian and German Group companies.

Under IAS 19 service anniversary bonuses are treated as other long-term employee benefits. Provisions for service anniversary bonuses are calculated based on the projected unit credit method. Remeasurement gains or losses are recorded in the personnel costs of the functional areas in the period incurred.

Individual companies are required by company agreements to make lump-sum settlement payments.

Local labor laws and other similar regulations require individual Group companies to create provisions for semi-retirement obligations. The obligations are partially covered by qualified plan assets and are reported on a net basis in the statement of financial position.

Provisions for warranties

Provisions for warranties are created for individual contracts at the time of the sale of the goods concerned, or after a service has been provided. The amounts of the provisions are based on the 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 prior to the reporting date or whose implementation was commenced prior to the reporting date.

Trade payables and other current liabilities

These liabilities are initially recognized at fair value, and subsequently measured at amortized cost. Foreign currency liabilities are translated at the mean rate of exchange in effect on the reporting date.

Government grants

Government grants to promote investments are recognized as deferred income and released through profit or loss over the useful life of the relevant asset distributed on a straight-line basis.

Grants that were granted as compensation for expenses or losses are recognized to profit or loss in the periods in which the subsidized expenses are incurred. In the RHI Group, they mainly include grants for research and employee development. Grants for research are recorded as income in general and administrative expenses.

Revenue and expenses

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

Revenue is realized when ownership and risk are transferred to the customer or when a service is performed, 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, proceeds from the sale of CO_2 emission rights is recognized under revenue.

Expenses are recognized to the statement of profit or loss 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 consolidated using the equity method 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. Current and deferred income taxes are recognized in the statement of profit or loss unless they are related to items which were recorded directly in equity or in other comprehensive income. In such a case, income taxes are also recorded in equity or other comprehensive income.

The Austrian tax reform of 2005 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.

(9) 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 Steel segment specializes in supporting customers in the steel-producing and steel-processing industry. The Industrial segment serves customers in the glass, cement/lime, nonferrous metals and environment, energy, chemicals industries. The main activities of the two segments consist of market development, global sales of high-grade refractory bricks, mixes and special products as well as providing services at the customers' sites.

The operating activities of the segment Raw Materials primarily consist of supplying Group companies with raw materials. This includes mining magnesite and dolomite in mines owned by the Group and raw material production based on seawater, processing and finishing raw materials as well as purchasing and selling raw materials. Within the Group, raw materials are carried at market price. The globally located manufacturing sites, which process the raw materials, are combined in one organizational unit. The allocation of manufacturing cost variances of the production plants to the Steel and Industrial Divisions is based on the supply flow.

The research activities of the RHI Group are managed centrally. R&D costs are allocated directly to the three segments.

The Shared Service Center costs of the Group are allocated to the three operating segments according to the agreed Service Level Agreements. The allocation of expenses of Group management is based on external revenue.

Statements of profit or loss up to EBIT are available for each segment. The operating EBIT (EBIT adjusted for special effects) serves for internal management and as an indicator of sustainable earnings power of a business as presented in the statement of profit or loss. The profit of joint ventures is allocated to the segments. Net finance costs and income taxes are managed on a group basis and are not allocated.

Segment assets include trade receivables and inventories, which are available to the operating segments and are reported to the management for control and measurement, as well as property plant and equipment, goodwill and other intangible assets, which are allocated to the segments based on the utilization of such assets. Investments in joint ventures are allocated to the segments. All other assets are shown under unallocated assets. The recognition of segment assets is determined on the basis of the accounting and measurement methods applied to the IFRS consolidated financial statements.

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

(10) Discretionary decisions, assumptions and estimates

The RHI Group used forward-looking assumptions and estimates, especially with respect to business combinations, non-current assets, valuation adjustments to inventories and receivables, provisions and income taxes to a certain extent in the application of accounting and measurement methods. The estimates are based on comparable values in the past, plan data and other findings regarding transactions to be accounted. The actual values may ultimately deviate from the assumptions and estimates made. The resulting changes in value of assets, liabilities, revenue and expenses are accounted for in the reporting period in which the change is made and in the affected future reporting periods.

Business combinations (initial consolidation)

Estimates relating to the calculation of fair values of acquired assets, liabilities and contingent liabilities are required within the context of business combinations.

If intangible assets are identified, discretionary estimates are necessary for the determination of fair values by means of discounted cash flows, especially regarding the duration and amount of future cash flows, as well as for the determination of an adequate discount rate. When determining the fair value of land, buildings and technical plant, above all the estimate of comparability of the reference objects with the objects subject to valuation is discretionary.

When making discretionary decisions in the context of purchase price allocations on major company acquisitions, RHI consults with independent experts who accompany the execution of the discretionary decisions and record it in expert documents.

Impairment of intangible assets with finite useful lives and property, plant and equipment

Intangible assets with a finite 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. The carrying amounts of these assets amounted to € 616.4 million at December 31, 2014 (12/31/2013: € 621.5 million). 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 (CGU).

As part of the annual planning process, the impairment test is conducted for the CGUs defined in the RHI Group, thus taking into account all changes resulting from updates of strategic planning. Sensitivity analyses are also performed as part of the impairment test. In their calculation one of the following parameters is changed: increase in the discount rate by 10%, reduction in the form of the contribution margin by 10% und reduction of the growth rate in terminal value by 50%.

In all CGUs with the exception of the two impaired CGUs Raw Materials/Norway and Industrial/Glass these simulations do not result in impairments. For the two impaired CGUs the sensitivity analysis shows the following results:

		12/31/2014		12/31/2013
in € million	Change in assumption	CGU Raw Materials/ Norway	CGU Industrial/ Glass	CGU Raw Materials/ Norway
Discount rate	+10%	(4.7)	(10.3)	(7.1)
Profitability	(10)%	(2.4)	(10.9)	(8.8)
Growth rate	(50)%	(1.0)	(2.0)	(6.8)

Impairment of goodwill

The effect of an adverse change by plus 10% to the estimated interest rates as of December 31, 2014 or by minus 10% in the contribution margin would not result in an impairment charge to the goodwill recognized (carrying amount 12/31/2014: € 36.1 million, 12/31/2013: € 34.5 million).

Impairment of other intangible assets with indefinite useful life

The effect of an adverse change by plus 10% to the estimated interest rate as of December 31, 2014 or by minus 10% in the contribution margin would not result in an impairment charge to intangible assets with indefinite useful lives recognized (carrying amount at 12/31/2014 and 12/31/2013: € 1.8 million).

Provisions for pensions and termination benefits

The present value of pension and termination benefit obligations depends on a number of factors, which are based on actuarial assumptions such as interest rates, future salary and pension increases as well as life expectancy. Due to the long-term orientation of these obligations, these assumptions are subject to significant uncertainties.

The following sensitivity analysis shows the change in present value of the pension and termination benefit obligations if one key parameter changes, while the other influences are maintained constant. In reality, however, it is rather unlikely that these influences do not correlate. The present value of the pension obligations for the sensitivities shown was calculated using the same method as for the actual present value of the pension obligations (projected unit credit method).

in € million	Change of assumption in percentage points or years	12/31/2014 Pension plans	12/31/2014 Termination benefits	12/31/2013 Pension plans	12/31/2013 Termination benefits
Present value of the obligations	–	353.1	66.0	319.0	55.7
Interest rate	+0.25	(9.5)	(1.8)	(8.4)	(1.4)
	(0.25)	9.8	1.8	8.9	1.5
Salary increase	+0.25	0.6	1.7	0.7	1.4
	(0.25)	(0.8)	(1.6)	(0.7)	(1.3)
Pension increase	+0.25	5.8	–	6.6	–
	(0.25)	(5.8)	–	(6.3)	–
Life expectancy	+1 year	10.5	–	8.8	–
	(1) year	(10.3)	–	(8.5)	–

These changes would have no immediate effect on the result of the period as remeasurement gains and losses are recorded in other comprehensive income without impact on profit or loss. The assumptions regarding the interest rate are reviewed quarterly; all other assumptions are reviewed at the end of the year.

Other provisions

The recognition and measurement of other provisions totaling € 46.0 million (12/31/2013: € 47.2 million) were based on the best possible estimates using the information available at the reporting date. The estimates take into account the underlying legal relationships and are performed by internal experts or, when appropriate, also by external experts. Despite the best possible assumptions and estimates, cash outflows expected at the reporting day may deviate from actual cash outflows. As soon as additional information is available, the estimates made are reviewed and provisions are also adjusted.

Income taxes

The calculation of income taxes of RHI AG and its subsidiaries is based on the tax laws applicable in the individual countries. Due to their complexity, the tax items presented in the financial statements may be subject to deviating interpretations by local finance authorities.

When determining the amount of the capitalizable deferred tax claims, an estimate of the management is required regarding the amount of future taxable income and the expected time. Should the future taxable profit deviate by 10% from the assumption made on the reporting date within the planning period defined for the accounting and measurement of deferred taxes, the net position of deferred tax assets amounting to € 113.6 million (12/31/2013: € 104.0 million) would have to be increased by € 0.5 million (12/31/2013: € 0.3 million) or reduced by € 1.0 million (12/31/2013: € 0.3 million).

Other items

With respect to the other items of the statement of financial position, RHI assumes that no material effects on the asset, financial and earnings position would result for the following financial year due to changes in the estimates and assumptions.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(11) Property plant and equipment

Property, plant and equipment developed as follows in the year 2014 and in the previous year:

in € million	Real estate, land and buildings	Raw material deposits	Technical equipment, machinery	Other plant, office equipment	Prepayments made and plant under construction	Total
Cost 12/31/2013[1]	430.4	32.5	822.5	268.9	50.0	1,604.3
Currency translation	2.7	0.0	13.2	3.1	0.2	19.2
Additions	4.2	0.4	17.7	8.0	36.5	66.8
Retirements and disposals	(2.5)	0.0	(17.5)	(9.1)	(0.5)	(29.6)
Reclassifications	6.3	(1.1)	27.2	9.8	(43.0)	(0.8)
Cost 12/31/2014	**441.1**	**31.8**	**863.1**	**280.7**	**43.2**	**1,659.9**
Accumulated depreciation 12/31/2013[1]	249.2	24.3	584.2	202.9	0.0	1,060.6
Currency translation	(0.3)	0.0	6.1	1.3	0.0	7.1
Depreciation charges	9.2	0.3	32.5	14.4	0.0	56.4
Impairment losses	6.8	0.0	7.5	2.8	0.6	17.7
Retirements and disposals	(1.7)	0.0	(14.9)	(9.0)	(0.5)	(26.1)
Reclassifications	0.6	(0.7)	(0.4)	0.5	0.0	0.0
Accumulated depreciation 12/31/2014	**263.8**	**23.9**	**615.0**	**212.9**	**0.1**	**1,115.7**
Carrying amounts 12/31/2014	**177.3**	**7.9**	**248.1**	**67.8**	**43.1**	**544.2**

in € million	Real estate, land and buildings	Raw material deposits	Technical equipment, machinery	Other plant, office equipment	Prepayments made and plant under construction	Total
Cost 12/31/2012	401.6	32.0	792.0	241.9	124.8	1,592.3
Currency translation[1]	(10.3)	0.0	(11.3)	(4.4)	(2.1)	(28.1)
Additions to consolidated companies	1.5	0.0	4.5	0.5	0.1	6.6
Disposals of consolidated companies	0.0	0.0	(0.1)	(0.1)	0.0	(0.2)
Additions	4.3	0.5	15.1	6.0	51.3	77.2
Retirements and disposals	(8.5)	0.0	(18.4)	(7.9)	(5.2)	(40.0)
Reclassifications[1]	41.8	0.0	40.7	32.9	(116.3)	(0.9)
Reclassification to current assets	0.0	0.0	0.0	0.0	(2.6)	(2.6)
Cost 12/31/2013[1]	**430.4**	**32.5**	**822.5**	**268.9**	**50.0**	**1,604.3**
Accumulated depreciation 12/31/2012	219.3	23.9	545.9	177.4	0.0	966.5
Currency translation[1]	(1.2)	0.0	(3.6)	(1.3)	0.0	(6.1)
Disposals of consolidated companies	0.0	0.0	0.0	(0.1)	0.0	(0.1)
Depreciation charges[1]	12.0	0.4	34.1	15.2	0.0	61.7
Impairment losses[1]	26.8	0.0	24.4	19.4	5.2	75.8
Retirements and disposals	(7.7)	0.0	(16.6)	(7.7)	(5.2)	(37.2)
Accumulated depreciation 12/31/2013[1]	**249.2**	**24.3**	**584.2**	**202.9**	**0.0**	**1,060.6**
Carrying amounts 12/31/2013[1]	**181.2**	**8.2**	**238.3**	**66.0**	**50.0**	**543.7**

Investment property is included in real estate, land and buildings. Explanations are provided under note (12).

(1) Values adjusted

In the financial year 2014 necessary adjustments to the statement of property, plant and equipment were identified. In the previous year, assets were reclassified from the item plant under construction to the item real estate, land and buildings at the date of their commissioning, rather than to the item other plant, furniture and fixtures in accordance with the Group standard. Consequently, depreciation and impairment losses were also not allocated correctly. The inconsistencies in the presentation of property plant and equipment were corrected with retroactive effect at December 31, 2014. As a result, the carrying amount of real estate, land and buildings was reduced by € 5.8 million, technical plant and machinery by € 1.7 million and of plant under construction by € 0.1 million as of December 31, 2013. The carrying amount of other plant increased by € 7.6 million. This adjustment had no effect on other parts of the financial statements.

The additions to property, plant and equipment include capitalized borrowing costs of € 0.1 million (2013: € 2.9 million). The average capitalization rate amounted to 2.3% in the financial year 2014 (2013: 2.5%).

The item prepayments made and plant under construction includes plant under construction with a carrying amount of € 41.3 million at the reporting date (12/31/2013: € 48.0 million), of which the replacement investment in tempering kilns including a desulfurization plant at the Austrian production site Veitsch represents the largest investment of the financial year 2014.

As in the previous year, there are no restrictions on the sale of property, plant and equipment.

(12) Investment properties

The investment properties held by RHI with a carrying amount of € 10.9 million (12/31/2013: € 6.2 million) predominantly consist of undeveloped, unleased properties. The increase in carrying amount results from the reclassification of the property, which was originally designated for the construction of a production site in Brazil in Rio de Janeiro and has a carrying amount of € 5.5 million, from owner-occupied properties to investment properties. A utilization of this property cannot be expected within the next twelve months.

At December 31, 2014, the fair value of investment properties totals € 15.9 million (12/31/2013: € 8.5 million). The fair value was determined exclusively internally on the basis of observed or realized transactions which are comparable with the location and type of investment properties (Level 3 in accordance with IFRS 13).

Rental income and direct operating expenses related to investment properties were immaterial.

(13) Goodwill

Goodwill developed as follows:

in € million	2014	2013
Cost at beginning of year	36.7	17.4
Currency translation	1.9	(4.4)
Additions to consolidated companies	0.0	23.7
Cost at year-end	**38.6**	**36.7**
Accumulated impairment at beginning of year	(2.2)	0.0
Currency translation	0.1	0.0
Impairment losses	(0.4)	(2.2)
Accumulated impairment at year-end	**(2.5)**	**(2.2)**
Carrying amount at year-end	**36.1**	**34.5**

(14) Other intangible assets

Other intangible assets changed as follows in the financial year 2014 and in the previous year:

in € million	Internally generated intangible assets	Other intangible assets	Total
Cost 12/31/2013	33.0	123.6	156.6
Currency translation	0.3	5.1	5.4
Additions	4.4	1.5	5.9
Retirements and disposals	0.0	(0.5)	(0.5)
Reclassifications	0.0	0.8	0.8
Cost 12/31/2014	**37.7**	**130.5**	**168.2**
Accumulated amortization 12/31/2013	18.6	58.4	77.0
Currency translation	0.2	1.2	1.4
Amortization charges	3.1	8.3	11.4
Impairment losses	0.4	4.5	4.9
Retirements and disposals	0.0	(0.5)	(0.5)
Accumulated amortization 12/31/2014	**22.3**	**71.9**	**94.2**
Carrying amounts 12/31/2014	**15.4**	**58.6**	**74.0**

in € million	Internally generated intangible assets	Other intangible assets	Total
Cost 12/31/2012	28.7	98.2	126.9
Currency translation	(0.2)	(5.5)	(5.7)
Additions to consolidated companies	0.0	29.5	29.5
Additions	5.0	1.3	6.3
Retirements and disposals	(0.5)	(0.8)	(1.3)
Reclassifications	0.0	0.9	0.9
Cost 12/31/2013	**33.0**	**123.6**	**156.6**
Accumulated amortization 12/31/2012	16.4	51.5	67.9
Currency translation	(0.1)	(0.3)	(0.4)
Amortization charges	2.5	7.9	10.4
Impairment losses	0.3	0.1	0.4
Retirements and disposals	(0.5)	(0.8)	(1.3)
Accumulated amortization 12/31/2013	**18.6**	**58.4**	**77.0**
Carrying amounts 12/31/2013	**14.4**	**65.2**	**79.6**

Internally generated intangible assets comprise capitalized software and product development costs. Other intangible assets include in particular acquired patents, trademark rights, software, customer relations of the Indian company Orient Refractories Ltd. and land use rights.

As of December 31, 2014 and December 31, 2013 there are no restrictions on the sale of intangible assets.

(15) Investments in joint ventures

As in the previous year, the RHI Group holds a share of 50% in MAGNIFIN Magnesiaprodukte GmbH & Co KG, a company based in St. Jakob, Austria. The company's core business activity is the production and sale of halogen-free flame retardants for plastics. The investment in MAGNIFIN is treated as a financial investment.

MAGNIFIN is set up as an independent vehicle. RHI has a residual interest in the net assets of the company and accordingly classified its share as a joint venture. The share for which no listed market price is available is consolidated using the equity method in the RHI consolidated financial statements.

MAGNIFIN generated revenue amounting to € 34.7 million in the financial year 2014 (2013: € 33.5 million). Profit before income tax amounts to € 15.5 million (2013: € 14.5 million) and includes depreciation on property, plant and equipment and amortization of intangible assets of € 2.2 million (2013: € 2.3 million), interest income of € 0.1 million (2013: € 0.1 million) and interest expenses of € 0.3 million (2013: € 0.2 million). Total comprehensive income including other comprehensive income before income tax of € (0.4) million (2013: € 0.0 million) amounts to € 15.1 million (2013: € 14.5 million).

Income taxes on the share of profit of MAGNIFIN amounting to € 2.1 million (2013: € 1.9 million) are recognized by RHI AG, as the group parent in terms of taxes, due to the legal form of the joint venture.

The net assets of MAGNIFIN at the two reporting dates is shown in the table below:

in € million	12/31/2014	12/31/2013
Non-current assets	9.2	10.6
Current assets (without cash and cash equivalents)	10.7	10.7
Cash and cash equivalents	14.3	11.7
Non-current personnel provisions	(4.1)	(3.8)
Current provisions	(1.0)	(1.1)
Trade payables and other current liabilities	(2.3)	(1.9)
Net assets	**26.8**	**26.2**

The development of the carrying amount of the share in this joint venture in the RHI consolidated financial statements is shown below:

in € million	2014	2013
Proportional share of net assets at beginning of year	**13.1**	**9.0**
Share of profit	8.2	8.0
Share of other comprehensive income (remeasurement losses)	(0.2)	0.0
Dividends received	(7.5)	(3.7)
Other changes in value	(0.2)	(0.2)
Proportional share of net assets at year-end	**13.4**	**13.1**
Goodwill	4.9	4.9
Carrying amount of share in joint ventures	**18.3**	**18.0**

(16) Other non-current financial assets and liabilities

Other non-current financial assets consist of the following items:

in € million	12/31/2014	12/31/2013
Available-for-sale investments	0.5	0.4
Available-for-sale securities and shares	37.0	33.9
Other non-current financial receivables	2.1	2.2
Interest derivatives designated as cash flow hedges	0.0	0.6
Other non-current financial assets	**39.6**	**37.1**

As in the previous year, accumulated impairments on investments and securities of € 2.0 million are recognized as of December 31, 2014.

The negative fair values of interest derivatives amount to € 1.3 million (12/31/2013: € 0.0 million) and are recognized under other non-current financial liabilities in the statement of financial position.

(17) Other non-current assets

Other non-current assets include the following items:

in € million	12/31/2014	12/31/2013
Stripping costs	10.0	6.8
Receivables from other taxes	7.2	0.0
Plan assets from overfunded pension plans	1.9	1.9
Prepaid expenses	0.5	0.4
Other non-current assets	**19.6**	**9.1**

Prepaid expenses for stripping costs arising from mining raw materials in a surface mine are shown in non-current assets due to the planned use of the mine. In the previous year, stripping costs of a surface mine amounting to € 2.0 million were shown under current assets. Receivables from other taxes are related to input tax credits, which are expected to be utilized in the medium term. In the previous year, these receivables were shown under current assets.

(18) Deferred taxes

The net position of deferred taxes of the Group, derived from items of the statement of financial position, is calculated as follows:

in € million	12/31/2014	12/31/2013
Deferred tax assets	130.1	121.4
Deferred tax liabilities	(16.5)	(17.4)
Net position	**113.6**	**104.0**

The following table shows the development of the Group's net position:

in € million	2014	2013
Net position at beginning of year	**104.0**	**109.3**
Currency translation	(1.1)	1.0
Additions to consolidated companies	0.0	(11.6)
Changes recognized in profit or loss	(2.9)	6.1
Changes recognized in other comprehensive income	13.3	(1.1)
Tax rate changes recognized in profit or loss	0.3	0.3
Net position at year-end	**113.6**	**104.0**

The change in net position classified according to the type of temporary differences and loss carryforwards is shown below:

in € million	Tax loss carryforwards	Non-current assets	Personnel provisions	Other provisions	Inventories, other	Total
12/31/2013	**77.6**	**(28.3)**	**44.8**	**4.2**	**5.7**	**104.0**
Currency translation	0.3	(1.9)	0.1	0.0	0.4	(1.1)
Changes recognized in profit or loss	(10.0)	6.1	(0.1)	(0.2)	1.3	(2.9)
Changes recognized in other comprehensive income	0.0	0.0	13.4	0.0	(0.1)	13.3
Tax rate changes recognized in profit or loss	0.1	0.0	0.1	0.0	0.1	0.3
12/31/2014	**68.0**	**(24.1)**	**58.3**	**4.0**	**7.4**	**113.6**

in € million	Tax loss carryforwards	Non-current assets	Personnel provisions	Other provisions	Inventories, other	Total
12/31/2012	**88.6**	**(39.0)**	**47.6**	**6.5**	**5.6**	**109.3**
Currency translation	(0.7)	2.3	(0.3)	(0.1)	(0.2)	1.0
Additions to consolidated companies	0.0	(11.4)	0.0	0.0	(0.2)	(11.6)
Changes recognized in profit or loss	(10.2)	19.7	(1.7)	(2.4)	0.7	6.1
Changes recognized in other comprehensive income	0.0	0.0	(0.8)	0.0	(0.3)	(1.1)
Tax rate changes recognized in profit or loss	(0.1)	0.1	0.0	0.2	0.1	0.3
12/31/2013	**77.6**	**(28.3)**	**44.8**	**4.2**	**5.7**	**104.0**

As of December 31, 2014, subsidiaries which generated tax losses in the past year or the previous year recognized net deferred tax assets on temporary differences and on loss carryforwards of € 9.3 million (12/31/2013: € 21.1 million). These assets are considered to be unimpaired because the companies concerned are expected to generate taxable income in the future.

Tax loss carryforwards totaled € 433.6 million (12/31/2013: € 458.7 million) in the RHI Group as of December 31, 2014. A significant portion of the tax loss carryforwards originates in Austria and can be carried forward indefinitely. The annual offset of the Austrian tax loss carryforwards is limited to 75% of the respective tax result.

No deferred taxes were recognized for tax loss carryforwards of € 167.7 million (12/31/2013: € 153.8 million). The main part of the non-capitalized tax losses can be carried forward indefinitely. Roughly € 4.3 million (12/31/2013: € 4.7 million) can be used in the year 2015, € 2.4 million (12/31/2013: € 0.4 million) until the year 2024 and € 9.9 million (12/31/2013: € 9.5 million) until 2029. Roughly € 18.3 million (12/31/2013: € 17.7 million) will lapse at the earliest in the year 2030 if not used by then.

In addition, no deferred tax assets were recognized for temporary differences totaling € 16.1 million (12/31/2013: € 8.5 million, value adjusted) as it is not sufficiently probable that they can be used. The main part of these deductible temporary differences can be carried forward for up to 20 years.

Taxable temporary differences of € 67.2 million were not recognized on shares in subsidiaries because the corresponding distributions of profit or the sale of the investments are not expected in the foreseeable future.

The maturity structure of deferred taxes is shown in the table below:

	12/31/2014			12/31/2013		
in € million	Current	Non-current	**Total**	Current	Non-current	**Total**
Deferred tax assets	25.4	104.7	**130.1**	24.3	97.1	**121.4**
Deferred tax liabilities	0.3	16.2	**16.5**	0.7	16.7	**17.4**

(19) Inventories

Inventories as presented in the statement of financial position consist of the following items:

in € million	12/31/2014	12/31/2013
Raw materials and supplies	88.2	87.9
Unfinished products and unfinished services	119.5	114.2
Finished products and goods	213.0	178.2
Prepayments made	8.3	9.1
Inventories	**429.0**	**389.4**

The inventories recognized as of December 31, 2014 totaled € 429.0 million (12/31/2013: € 389.4 million), of which roughly € 3.0 million (12/31/2013: € 3.2 million) were carried at net realizable value. The impairment losses recognized in the year 2014, netted out against reversals of impairment losses, amount to roughly € 4.1 million. In contrast, reversals of impairment losses, netted out against impairment losses, of € 4.7 million had to be recognized in the financial year 2013, which were attributable to lower inventory ranges and higher turnover rates compared with 2012.

There are no restrictions on the disposal of inventories.

(20) Trade and other current receivables

Trade and other current receivables as presented in the statement of financial position are classified as follows:

in € million	12/31/2014	12/31/2013
Trade receivables	331.0	277.7
Receivables from long-term construction contracts	7.1	11.0
Receivables from joint ventures	0.6	0.8
Receivables from Personalfürsorgestiftung	0.8	0.8
Taxes other than income tax	49.3	55.3
Receivables employees	1.0	1.0
Prepaid expenses	3.1	4.8
Other current receivables	15.5	17.2
Trade and other current receivables	**408.4**	**368.6**
thereof financial assets	334.0	280.1
thereof non-financial assets	74.4	88.5

Receivables from long-term construction contracts consist of the following components:

in € million	12/31/2014	12/31/2013
Contract costs incurred up to the reporting date	9.1	32.3
Profits recognized by the reporting date	0.8	28.2
Prepayments received	(2.8)	(49.5)
Receivables from long-term construction contracts	**7.1**	**11.0**

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

As in the previous year, trade receivables with a total nominal value of € 34.0 million were assigned for financial liabilities as of December 31, 2014.

Accumulated valuation allowance to trade and other current receivables developed as follows:

in € million	2014	2013
Accumulated valuation allowance at beginning of year	**20.5**	**15.0**
Currency translation	(0.2)	(0.4)
Additions to consolidated companies	0.0	0.2
Disposals of consolidated companies	0.0	(0.2)
Addition	8.4	9.7
Use	(0.6)	(0.8)
Reversal	(2.3)	(3.0)
Accumulated valuation allowance at year-end	**25.8**	**20.5**

(21) Income tax receivables

Income tax receivables amounting to € 6.9 million (12/31/2013: € 7.8 million) are mainly related to tax prepayments and deductible withholding taxes.

(22) Other current financial assets and liabilities

Other current financial assets consist of the following items:

in € million	12/31/2014	12/31/2013
Other current financial receivables	1.6	2.0
Financial assets held for trading	1.6	0.2
Other current financial assets	**3.2**	**2.2**

Other current financial liabilities amount to € 0.4 million (12/31/2013: € 0.3 million) and include the negative fair values 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, which are categorized as held for trading. An overview of forward exchange contracts can be found under note (59).

(23) Cash and cash equivalents

This item of the statement of financial position consists of the following components:

in € million	12/31/2014	12/31/2013
Cash at banks	148.2	110.3
Money market funds	2.4	1.5
Checks	0.4	0.5
Cash on hand	0.1	0.1
Cash and cash equivalents	**151.1**	**112.4**

(24) Share capital

The fully paid-up capital of RHI AG amounts to € 289,376,212.84. As in the previous year, it consists of 39,819,039 zero par value bearer shares. One share grants a rounded calculated share of € 7.27 in capital stock, as in the previous year.

All shares grant the same rights. The shareholders are entitled to payment of the dividend adopted and have one voting right per share at the Annual General Meeting.

The following investors holding a significant share in RHI AG are known to RHI: MS Private Foundation with a share of more than 25% as well as Chestnut Beteiligungsgesellschaft mbH and Silver Beteiligungsgesellschaft mbH with a share of more than 5% each. The voting rights of Chestnut Beteiligungsgesellschaft mbH and Silver Beteiligungs¬gesellschaft mbH are exercised jointly. Hence, the joint share in voting rights of the two companies exceeds 10%. The remaining RHI shares are in free float.

With a resolution of the Annual General Meeting of RHI AG of May 9, 2014, 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 share price of the day on which this authorization to issue shares to employees and executives of RHI AG as well as to members of the management, executives and employees of Group companies of RHI AG is exercised as part of the employee stock ownership plan "4 plus 1". The authorization is valid for 18 months starting on the day of the resolution. In the year 2014, 6,472 (2013: 4,245) shares were acquired over the stock exchange for the employee stock ownership plan and issued to employees. As of December 31, 2014 and December 31, 2013 no treasury shares were held by RHI AG.

The Management Board was authorized by resolution of the Annual General Meeting of RHI AG on April 30, 2010, in accordance with § 169 AktG, to increase share capital with the approval of the Supervisory Board, 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). No capital increase out of the authorized capital 2010 was made by December 31, 2014.

(25) Group reserves

Additional paid-in capital

Additional paid-in capital comprises premiums on the issue of shares and convertible bonds by RHI AG and has not changed in comparison with December 31, 2013. The difference to the additional paid-in capital as shown in the financial statements of RHI AG is attributable to deviating regulations in the Austrian Commercial Code with respect to the accounting of convertible bonds. Due to legal regulations, additional paid-in capital cannot be distributed and can only be reversed to cover losses.

Retained earnings

The item retained earnings includes the result of the financial year and results that were earned by consolidated companies during prior periods, but not distributed. Distributable profit and dividends are generally related to the accumulated profit of RHI AG, which is determined in accordance with Austrian commercial law.

Accumulated other comprehensive income

The item cash flow hedges includes gains and losses from the effective part of cash flow hedges less tax effects. The accumulated gain or loss from the hedge allocated to reserves is only reclassified to the statement of profit or loss if the hedged item also influences the result or is terminated.

Unrealized fair value changes of available-for-sale securities and shares in other investments are recognized in the item available-for-sale financial instruments. Deferred tax effects are deducted, unless gains from the sale of these financial instruments are treated as tax free under the applicable tax law.

The item defined benefit plans includes the gains and losses from the remeasurement of defined benefit pension and termination benefit plans taking into account tax effects. No reclassification of these amounts to the statement of profit or loss will be made in future periods.

Currency translation includes the accumulated currency translation differences from translating the financial statements of foreign subsidiaries as well as unrealized currency translation differences from monetary items which are part of a net investment in a foreign business. If foreign companies are deconsolidated, the currency translation differences are recognized in the statement of profit or loss as part of the gain or loss from the sale of shares in subsidiaries.

(26) Non-controlling interests

Non-controlling interests hold a share of 30.4% (12/31/2013: 30.4%) in the listed company Orient Refractories Ltd. (in the following "ORL"), based in New Delhi, India. ORL has been included in the RHI consolidated financial statements since April 29, 2013 and is allocated to the Steel segment. The summarized financial information of ORL shown below corresponds to the amounts before intercompany elimination.

Based on the net assets of the company, the carrying amount of the non-controlling interests is determined as follows:

in € million	12/31/2014	12/31/2013
Non-current assets	30.3	29.1
Current assets	28.5	20.9
Non-current liabilities	(9.1)	(8.8)
Current liabilities	(9.6)	(7.7)
Net assets	**40.1**	**33.5**
Percentage of non-controlling interests	30.4%	30.4%
Carrying amount of non-controlling interests	**12.2**	**10.2**

The aggregate statement of profit or loss and statement of comprehensive income are shown below:

in € million	01-12/2014	05-12/2013
Revenue	55.1	33.2
Operating expenses, net finance costs and income taxes	(50.4)	(30.6)
Profit after income tax	**4.7**	**2.6**
thereof attributable to non-controlling interests of ORL	1.5	0.8

in € million	01-12/2014	05-12/2013
Profit after income tax	4.7	2.6
Other comprehensive income	3.8	(6.7)
Total comprehensive income	**8.5**	**(4.1)**
thereof attributable to non-controlling interests of ORL	2.6	(1.2)

The following table shows the summarized statement of cash flows of ORL:

in € million	01-12/2014	05-12/2013
Net cash flow from operating activities	2.5	2.7
Net cash flow from investing activities	(0.9)	(0.6)
Net cash flow from financing activities	(1.7)	(1.5)
Total cash flow	**(0.1)**	**0.6**

Net cash flow from financing activities includes dividend payments to non-controlling interests amounting to € 0.6 million (05-12/2013: € 0.4 million).

Accumulated other comprehensive income attributable to non-controlling interests is solely related to currency translation differences. The development is shown in the following table:

in € million	2014	2013
Accumulated other comprehensive income at beginning of year	**(2.0)**	**0.1**
Unrealized results from currency translation	1.1	(2.0)
Change due to disposal of subsidiaries	0.0	(0.1)
Accumulated other comprehensive income at year-end	**(0.9)**	**(2.0)**

In the previous year, the 51% share in the Swiss company FC Technik AG, Winterthur, was sold and currency translation differences attributable to non-controlling interests were reclassified to the statement of profit or loss.

(27) Financial liabilities

Financial liabilities include all interest-bearing liabilities of the RHI Group vis-à-vis financial institutions, fixed-term and puttable non-controlling interests in Group companies and other lenders at the respective reporting date.

The financial liabilities have the following contractual remaining terms:

in € million	Total 12/31/2014	up to 1 year	Remaining term 2 to 5 years	over 5 years
"Schuldscheindarlehen"	312.0	58.5	156.5	97.0
Export credits and one-time financing	194.7	58.4	126.4	9.9
Utilized other credit lines	73.0	73.0	0.0	0.0
Accrued interest	2.3	2.3	0.0	0.0
Liabilities to financial institutions	582.0	192.2	282.9	106.9
Liabilities to fixed-term or puttable non-controlling interests	29.2	6.7	1.6	20.9
Other financial liabilities	6.8	2.1	4.7	0.0
Financial liabilities	**618.0**	**201.0**	**289.2**	**127.8**

in € million	Total 12/31/2013(1)	up to 1 year	Remaining term 2 to 5 years	over 5 years
"Schuldscheindarlehen"	142.0	0.0	125.5	16.5
Export credits and one-time financing	236.1	41.4	145.3	49.4
Utilized other credit lines	122.6	122.6	0.0	0.0
Accrued interest	1.5	1.5	0.0	0.0
Liabilities to financial institutions	502.2	165.5	270.8	65.9
Liabilities to fixed-term or puttable non-controlling interests	25.9	5.4	1.5	19.0
Other financial liabilities	7.2	2.3	4.7	0.2
Financial liabilities	**535.3**	**173.2**	**277.0**	**85.1**

(1) To increase transparency, the classification of financial liabilities has been extended. Prior-year figures have been adjusted to the current presentation.

In early October 2014, RHI AG placed a "Schuldscheindarlehen" of € 170.0 million with terms of five, seven and ten years primarily with Austrian and German investors. The proceeds from the transaction serve to refinance repayments and to secure liquidity in the long term.

Taking into account existing interest rate swaps, 53.0% (12/31/2013: 45.4%) of the liabilities to financial institutions carry fixed interest and 47.0% (12/31/2013: 54.6%) carry variable interest.

The following table shows fixed interest terms and conditions, taking into account interest rate swaps, without liabilities from deferred interest:

Interest terms fixed until	Effective annual interest rate	Currency	12/31/2014 Carrying amount in € million	Interest terms fixed until	Effective annual interest rate	Currency	12/31/2013 Carrying amount in € million
2015	EURIBOR + margin	EUR	205.1	2014	EURIBOR + margin	EUR	141.7
	Variable interest rate + margin	EUR	34.0		Variable interest rate + margin	EUR	34.0
	3.45%	EUR	12.0		LIBOR + margin	CAD	34.1
	Floating interest rate + margin	EUR	10.1		Floating interest rate + margin	EUR	27.1
	0.75% + margin	EUR	5.0		ECB interest rate + margin	EUR	10.0
	LIBOR + margin	USD	1.9		LIBOR + margin	USD	15.9
	Interbank rate + margin	Var.	21.3		Interbank rate + margin	Var.	13.1
				2015	3.45%	EUR	12.0
					0.75% + margin	EUR	5.0
2017	0.69%	EUR	50.0	2017	0.69%	EUR	50.0
2019	0.68%	EUR	25.0	2019	0.68%	EUR	25.0
	3.25%	EUR	24.0		3.25%	EUR	24.0
	0.72%	EUR	17.9		0.72%	EUR	21.4
	3.15%	EUR	16.0		3.15%	EUR	16.0
	1.46% + margin	EUR	10.0		1.46% + margin	EUR	10.0
	1.42% + margin	EUR	3.0		1.42% + margin	EUR	3.0
	1.49%	EUR	16.0				
2020	3.15% + margin	EUR	38.8	2020	3.15% + margin	EUR	38.8
	3.90%	EUR	13.6		3.90%	EUR	13.6
2021	1.97%	EUR	17.0				
2022	4.50%	EUR	6.0	2022	4.50%	EUR	6.0
2024	3.00%	EUR	53.0				
			579.7				**500.7**

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

Of the liabilities to financial institutions recognized at December 31, 2014 € 34.0 million were secured by assignment of receivables, unchanged in comparison with the previous year. In case the loan agreement is not met, the bank is entitled to inflows from the receivables assigned.

The indicator net debt factor (see note (61) for its calculation) represents the covenants in the most important loan agreements. If the value of 3.8 is exceeded, the loan conditions are renegotiated. Compliance with the covenants is reviewed on a quarterly basis.

For liabilities of roughly € 422 million, lenders have a termination option in the case of a change of control. In the event that certain reasons for termination exist, the lenders may declare the loan due with immediate effect and demand immediate repayment of the principal including interest, as well as the payment of other amounts payable that may have been incurred.

(28) Personnel provisions

Personnel provisions include the following provisions:

in € million	12/31/2014	12/31/2013
Pensions	268.7	238.4
Termination benefits	66.0	55.7
Other personnel provisions	20.4	18.8
Personnel provisions	**355.1**	**312.9**

Provisions for pensions

The net debt from pension obligations in the consolidated statement of financial position is derived as follows:

in € million	12/31/2014	12/31/2013
Present value of pension obligations	353.1	319.0
Fair value of plan assets	(87.9)	(86.5)
Funded status	**265.2**	**232.5**
Asset ceiling	1.6	4.0
Net debt from pension obligations	**266.8**	**236.5**
thereof assets from overfunded pension plans	1.9	1.9
thereof provisions for pensions	268.7	238.4

The present value of pension obligations by beneficiary group is structured as follows:

in € million	12/31/2014	12/31/2013
Active beneficiaries	76.5	70.4
Terminated Beneficiaries	39.0	35.5
Retirees	237.6	213.1
Present value of pension obligations	**353.1**	**319.0**

The calculation of pension obligations is based on the following actuarial assumptions:

in %	12/31/2014	12/31/2013
Interest rate	2.4%	3.7%
Future salary increase	2.0%	2.2%
Future pension increase	1.4%	1.7%

These are average values which were weighted with the present value of the respective pension obligation.

The calculation of the actuarial interest rate for the European currency area is based on a yield curve for returns of high-quality corporate bonds denominated in EUR with an average rating of AA, which is derived from pooled index values. Where there are very long-term maturities, the yield curve follows the performance of bonds without credit default risk. The interest rate is calculated annually at December 31, taking into account the expected future cash flows which were determined based on the current personal and commitment data.

As in the previous year, the calculation in Austria was based on the Pagler & Pagler AVÖ 2008 P biometric calculation principles for salaried employees. In Germany, the Heubeck 2005 G actuarial tables were used as a basis. In the other countries, country-specific mortality tables were applied.

The probability of employee turnover was estimated based on age or length of service.

The retirement age used for the calculation depends on the respective legal requirements of the relevant country. The calculation is based on the earliest possible retirement age in accordance with the current legal requirements of the relevant country, depending amongst other things on gender and date of birth.

The main pension regulations are described below:

The Austrian Group companies account for € 136.0 million (12/31/2013: € 131.8 million) of the present value of pension obligations and for € 25.7 million (12/31/2013: € 28.5 million) of the plan assets. The agreed benefits include pensions, invalidity benefits and benefits for surviving dependents. Commitments in the form of company or individual agreements depend on length of service and the salary at the time of retirement. For the majority of commitments the amount of the company pension subsidy is limited to 75% of the final remuneration including a pension pursuant to the General Social Insurance Act (ASVG). RHI has concluded pension reinsurance policies for part of the commitments. The pension claims of the beneficiaries are limited to the coverage capital required for these commitments. Pensions are predominantly paid in the form of annuities and are partially indexed. For employees joining the company after January 1, 1984, no defined benefits were granted. Rather, a defined contribution pension model is in place. In addition, there are commitments based on the deferred compensation principle, which are fully covered by pension reinsurance policies, and commitments for preretirement benefits for employees in mining operations.

The pension plans of the German Group companies account for € 128.6 million (12/31/2013: € 111.7 million) of the present value of pension obligations and for € 0.7 million (12/31/2013: € 0.7 million) of plan assets. The benefits included in company agreements comprise pensions, invalidity benefits and benefits for surviving dependents. The amount of the pension depends on the length of service for the majority of the commitments and is calculated as a percentage of the average monthly wage/salary of the last twelve months prior to retirement. In some cases commitments to fixed benefits per year of service have been made. The pensions are predominantly paid in the form of annuities and are adjusted in accordance with the development of the consumer price index for Germany. The pension plans are closed for new entrants. There is no defined contribution model on a voluntary basis. Individual commitments have been made, by now to the majority of the beneficiaries.

The following table shows the development of net debt from pension obligations:

in € million	2014	2013
Net debt from pension obligations at beginning of year	**236.5**	**247.5**
Currency translation	0.6	(1.3)
Pension cost	12.2	12.5
Remeasurement losses/(gains)	38.9	0.7
Benefits paid	(17.9)	(17.8)
Contributions to external funds	(3.5)	(5.3)
Reclassifications	0.0	0.2
Net debt from pension obligations at year-end	**266.8**	**236.5**

The present value of pension obligations developed as follows:

in € million	2014	2013
Present value of pension obligations at beginning of year	**319.0**	**339.8**
Currency translation	3.6	(2.7)
Current service cost	3.7	3.9
Past service cost	0.1	0.0
Interest cost	11.5	11.7
Remeasurement losses/(gains)		
from changes in demographic assumptions	0.2	0.1
from changes in financial assumptions	39.1	(6.1)
due to experience adjustments	3.4	3.1
Benefits paid	(27.9)	(31.1)
Employee contributions to external funds	0.4	0.4
Transfers/reclassifications	0.0	(0.1)
Present value of pension obligations at year-end	**353.1**	**319.0**

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

in € million	2014	2013
Fair value of plan assets at beginning of year	**86.5**	**95.6**
Currency translation	3.0	(1.4)
Interest income	3.2	3.1
Income on plan assets less interest income	1.3	(2.9)
Benefits paid	(10.0)	(13.3)
Employers' contributions to external funds	3.5	5.3
Employee contributions to external funds	0.4	0.4
Transfers	0.0	(0.3)
Fair value of plan assets at year-end	**87.9**	**86.5**

The changes in the asset ceiling are shown below:

in € million	2014	2013
Asset ceiling at beginning of year	**4.0**	**3.3**
Interest	0.1	0.0
Changes less interest	(2.5)	0.7
Asset ceiling at year-end	**1.6**	**4.0**

At December 31, 2014 the weighted average duration of pension obligations amounts to 11 years (12/31/2013: 11 years).

The following amounts were recorded in the statement of profit or loss:

in € million	2014	2013
Current service cost	3.7	3.9
Past service cost	0.1	0.0
Interest cost	11.5	11.7
Interest income	(3.2)	(3.1)
Interest from asset ceiling	0.1	0.0
Pension expense recognized through profit or loss	**12.2**	**12.5**

The remeasurement results recognized in other comprehensive income are shown in the table below:

in € million	2014	2013
Accumulated remeasurement losses at beginning of year	**77.7**	**77.0**
Remeasurement losses/(gains) on present value of pension obligations(1)	42.8	(2.9)
Income on plan assets less interest income	(1.3)	2.9
(Gains)/losses from changes in asset ceiling less interest	(2.5)	0.7
Accumulated remeasurement losses at year-end	**116.7**	**77.7**

(1) Including € 0.1 million (2013: € 0.0 million) from a joint venture consolidated using the equity method

The present value of plan assets is distributed to the following classes of investment:

	12/31/2014			12/31/2013		
in € million	Active market	No active market	Total	Active market	No active market	Total
Insurances	0.0	64.7	64.7	0.0	63.9	63.9
Equity instruments	8.3	0.0	8.3	7.5	0.0	7.5
Debt instruments	1.9	8.9	10.8	1.9	8.7	10.6
Cash and cash equivalents	0.3	0.1	0.4	0.8	0.3	1.1
Other assets	0.5	3.2	3.7	0.3	3.1	3.4
Fair value of plan assets	**11.0**	**76.9**	**87.9**	**10.5**	**76.0**	**86.5**

The present value of the insurances to cover the Austrian pension plans corresponds to the coverage capital. Insurance companies predominantly invest in debt instruments and to a low extent in equity instruments and properties.

Plan assets do not include own financial instruments of the Group or assets utilized by the RHI Group.

RHI works with professional fund managers for the investment of plan assets. They act on the basis of specific investment guidelines adopted by the pension fund committee of the respective pension plans. The committees consist of management staff of the finance department and other qualified executives. They meet regularly in order to approve the target portfolio with the support of independent actuarial experts and to review the risks and the performance of the investments. In addition, they approve the selection or the extension of contracts of external fund managers.

The largest part of the assets is invested in pension reinsurance, which creates a low counterparty risk towards insurance companies. In addition, the Group is exposed to interest risks and longevity risks resulting from defined benefit commitments.

The Group generally endows the pension funds with the amount necessary to meet the legal minimum allocation requirements of the country in which the fund is based. Moreover, the Group makes additional allocations at its discretion from time to time. RHI expects employer contributions of € 3.4 million to external plan assets in the financial year 2015 and direct payments to entitled beneficiaries amounting to € 15.4 million

Provisions for termination benefits

Provisions for termination benefits were based on the following weighted average measurement assumptions:

in %	12/31/2014	12/31/2013
Interest rate	2.1%	3.6%
Future salary increase	3.3%	3.3%

The interest rate for the measurement of termination benefit obligations in the euro area was determined taking into account the company specific duration of the portfolio.

Provisions for termination benefits developed as follows in the financial year and the previous year:

in € million	2014	2013
Provisions for termination benefits at beginning of year	**55.7**	**57.7**
Currency translation	0.1	(0.2)
Current service cost	1.6	1.7
Interest cost	1.9	2.1
Remeasurement losses/(gains)[1]		
from changes in financial assumptions	10.3	(1.0)
due to experience adjustments	(0.2)	0.1
Benefits paid	(3.4)	(4.7)
Provisions for termination benefits at year-end	**66.0**	**55.7**

(1) allocation of prior-year figures adjusted

Payments for termination benefits are expected to amount to € 1.8 million in the year 2015.

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

in € million	2014	2013
Accumulated remeasurement losses at beginning of year	**17.0**	**17.9**
Remeasurement losses/(gains)[1]	10.2	(0.9)
Accumulated remeasurement losses at year-end	**27.2**	**17.0**

(1) Including € 0.1 million (2013: € 0.0 million) from a joint venture consolidated using the equity method

At December 31, 2014 the weighted average duration of termination benefit obligations amounts to 11 years (12/31/2013: 11 years).

Other personnel provisions

Other personnel provisions consisted of the following items:

in € million	12/31/2014	12/31/2013
Service anniversary bonuses	18.9	16.4
Lump-sum settlements	0.5	0.7
Semi-retirements	1.0	1.7
Other personnel provisions	**20.4**	**18.8**

The measurement of provisions for service anniversary bonuses is based on an average weighted interest rate of 1.9% (12/31/2013: 3.4%) and takes into account salary increases of 4.4% (12/31/2013: 4.5%).

The discount rate of provisions for semi-retirement amounts to 0.2% as of December 31, 2014 (12/31/2013: 3.4%).

The funded status of provisions for obligations to employees with semi-retirement contracts is shown in the table below:

in € million	12/31/2014	12/31/2013
Present value of semi-retirement obligations	3.8	4.7
Fair value of plan assets	(2.8)	(3.0)
Provisions for semi-retirement obligations	**1.0**	**1.7**

External plan assets are beyond the reach of all creditors and exclusively serve to meet semi-retirement obligations.

(29) Other non-current provisions

The development of non-current provisions is shown in the table below:

in € million	2014
Provisions at beginning of year	**4.1**
Currency translation	0.1
Reversal	(0.8)
Addition	5.0
Reclassifications	(2.3)
Provisions at year-end	**6.1**

The provisions of € 6.1 million recognized at December 31, 2014 are primarily related to provisions for obligations related to leases. Currently, these provisions are expected to be used in a period from two to six years.

At December 31 of the previous year, this item predominantly included provisions for demolition and disposal costs for buildings and plant on land and property owned by third parties, which were based on legal obligations. Parts of these provisions were reclassified to current provisions in the reporting year 2014 as they are expected to be used in the year 2015.

(30) Other non-current liabilities

Other non-current liabilities of € 8.8 million (12/31/2013: € 7.9 million) include deferred income for subsidies received from third parties amounting to € 5.5 million (12/31/2013: € 4.3 million) and liabilities to employees.

(31) Trade payables and other current liabilities

Trade payables and other current liabilities included in the statement of financial position consist of the following items:

in € million	12/31/2014	12/31/2013
Trade payables	175.7	173.8
Prepayments received on orders	20.5	23.3
Liabilities to subsidiaries	0.1	0.0
Liabilities to joint ventures	0.1	0.6
Taxes other than income tax	17.2	16.8
Liabilities employees	53.1	51.8
Payables from commissions	8.9	10.2
Customers with credit balances	5.2	2.0
Other current liabilities	15.6	13.3
Trade payables and other current liabilities	**296.4**	**291.8**
thereof financial liabilities	195.8	186.7
thereof non-financial liabilities	100.6	105.1

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

(32) Income tax liabilities

Income tax liabilities amounting to € 24.1 million (12/31/2013: € 25.7 million) primarily include income taxes for the current year and previous years which have not yet been definitively audited by domestic and foreign tax authorities. Taking into account a multitude of factors, including the interpretation, commenting and case law regarding the respective tax laws as well as past experiences, adequate tax provisions have been formed as far as apparent.

(33) Current provisions

The development of current provisions is shown in the table below:

in € million	Demolition/ disposal costs, environmental damages	Warranties	Guarantees provided	Restructuring costs, other	Total
12/31/2013	**12.1**	**10.8**	**6.4**	**13.8**	**43.1**
Currency translation	0.0	0.1	0.0	0.0	0.1
Use	(0.2)	(4.1)	0.0	(12.0)	(16.3)
Reversal	(0.8)	(1.8)	(0.5)	(0.4)	(3.5)
Addition	2.2	4.0	0.7	6.0	12.9
Reclassifications	2.3	0.0	0.0	0.0	2.3
Reclassification from current liabilities	0.5	0.2	0.0	0.6	1.3
12/31/2014	**16.1**	**9.2**	**6.6**	**8.0**	**39.9**

The item demolition and disposal costs, environmental damages includes provisions for the estimated dismantling and demolition costs of plant and buildings as well as winding-up costs of the former sites in Duisburg and Kretz in Germany in the amount of € 10.1 million (12/31/2013: € 7.0 million). It is assumed that the cash outflow of these provisions will occur within the coming months, at the latest by the end of the year 2015. Furthermore, provisions for recultivation and expected refurbishment costs resulting from environmental damage at other locations exist at the reporting date.

Provisions for warranties include provisions for claims arising from warranties and other similar obligations from the sale of refractory products and to a small extent provisions for onerous contracts.

Provisions for guarantees provided include obligations from sureties and guarantees to banks and insurance companies in the country and abroad. It is currently uncertain when precisely the cash outflow is due.

The item restructuring costs, other includes provisions for restructuring costs, provisions for process risks as well as several provisions, which are individually immaterial and cannot be allocated to one of the above-mentioned categories.

Provisions for restructuring costs amount to € 3.6 million as of December 31, 2014 (12/31/2013: € 11.7 million) and primarily consist of benefit obligations to employees due to termination of employment, and costs of lease obligations of the former sites in Duisburg and Kretz. A large part of these costs is expected to be paid within twelve months.

In the context of the legal proceedings to review the cash compensation of the former minority shareholders of Didier-Werke AG, Wiesbaden, Germany, a provision in the amount of the settlement proposed by the Frankfurt Higher Regional Court was formed as of December 31, 2014. This amount was offset against equity. The related estimated interest expense was recognized through profit or loss. Further provisions were created for expected expenses related to further ongoing or probable legal disputes. The provision amounts, which are of minor importance individually, were determined on the basis of information and cost estimates made by the lawyers of the Group companies. It is currently uncertain when precisely the cash outflow is due.

NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(34) Revenue

Revenue consists of the following components:

in € million	2014	2013
Revenue from the sale of goods and the rendering of services	1,649.5	1,689.5
Revenue from long-term construction contracts	71.7	65.2
Revenue	**1,721.2**	**1,754.7**

The distribution of revenue by product group, division and country is given in the explanations to segment reporting under note (55).

(35) 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 material and production costs, it also includes overheads including depreciation on production equipment, the amortization of intangible assets and impairment charges to inventories. Moreover, cost of sales also includes the costs of services provided by the Group or services received.

At the plant in Porsgrunn, Norway, significant progress was made in the year 2014 in the implementation of the project plan to optimize the production process at the fusion plant built by RHI. Nevertheless, individual problems in different stages of the production process caused additional costs of € 27.1 million compared with external purchases in the year 2014. This amount includes both expenses and income from insurance of € 1.6 million related to a fire damage in May 2014 resulting from a power outage in the entire industry park. In the previous year, cost of sales included € 37.9 million related to problems in production.

(36) Selling and marketing expenses

This item includes personnel expenses for the sales staff, commissions, as well as depreciation and other operating expenses related to the market and sales processes.

(37) General and administrative expenses

General and administrative expenses consist primarily of personnel expenses for the administrative functions and expenses for research and non-capitalizable development costs as well as legal and consulting costs.

Research and development expenses totaled € 22.6 million (2013: € 22.5 million), of which development costs amounting to € 3.8 million (2013: € 4.2 million) were capitalized. Income from research grants amounted to € 4.3 million in the reporting year 2014 (2013: € 3.8 million).

(38) Other income

The individual components of other income are:

in € million	2014	2013[(1)]
Foreign exchange gains	44.9	43.5
Gains from derivative financial instruments	1.8	5.9
Income from the disposal of non-current assets	1.3	3.5
Income from the derecognized liability of share purchase price Podolsk	0.0	0.5
Miscellaneous income	2.9	3.9
Other income	**50.9**	**57.3**

(1) Explanations regarding changes in presentation are provided in note (3).

Income from the disposal of non-current assets predominantly includes income from the sale of land. Miscellaneous income primarily consists of other revenue and other operating income related to prior periods.

(39) Other expenses

Other expenses include:

in € million	2014	2013[1]
Foreign exchange losses	(34.7)	(65.0)
Losses from derivative financial instruments	(11.4)	(1.3)
Losses from the disposal of non-current assets	(1.2)	(1.2)
Impairment losses of investment project Brazil	(0.4)	(5.3)
Other expenses of investment project Brazil	(1.2)	(1.2)
Miscellaneous expenses	(1.4)	(1.1)
Other expenses	**(50.3)**	**(75.1)**

(1) Explanations regarding changes in presentation are provided in note (3).

The net foreign currency effects amount to € 10.2 million (2013: € (21.5) million). The net amount of gains and losses from derivative financial instruments amounts to € (9.6) million (2013: € 4.6 million). This amount includes realized effects from forward exchange contracts of € (11.3) million (2013: € 2.4 million).

In 2014 the RHI Management Board evaluated a concept for the establishment of a production facility in Brazil with a substantially lower investment total than originally planned. Against the backdrop of the current market situation and the expected further market development, it was decided not to implement this plan. At the end of the year 2014, acquired property, plant and equipment of € 0.4 million was fully written down, after impairment losses of € 5.3 million had already been recognized for plant under construction as the original plan was abandoned. € 0.3 million (2013: € 3.6 million) of this expense is allocated to the Steel Division and € 0.1 million (2013: € 1.7 million) to the Industrial Division. The property, plant and equipment written down in the year 2014 had a recoverable amount (fair value less costs of disposal) of € 0.4 million at December 31, 2013.

(40) Impairment losses

CGU Raw Materials/Norway

The optimization program for the plant in Porsgrunn, Norway, which started in 2013 and will run for several years, has been continued and significant progress has been made. However, as the market price of fused magnesia is currently low, a temporary adjustment of production volume was made. Therefore, an impairment of € 7.5 million was recognized on property, plant and equipment in the statement of profit or loss in the year 2014. In the previous year, impairment losses of € 65.3 million were recorded.

CGU Industrial/Glass

The cash-generating unit Industrial/Glass is influenced by a difficult market environment with worldwide excess capacities in the glass industry. In view of the currently low contract volumes and an intensified price war, no significant improvement of the results is to be expected in the short term.

Given this prospect, the management of RHI realigned this unit in the year 2014 and introduced not only market initiatives, but also a sustainable cost saving program. In addition, raw materials that had previously been purchased externally for application in the industrial business, will in the future be produced at the US site in Falconer in order to improve capacity utilization. Despite these measures, which are already being implemented, an impairment of € 12.3 million had to be recognized on property, plant and equipment and intangible assets in the statement of profit or loss at the end of the year 2014.

(41) Restructuring costs

Duisburg plant, Germany

Restructuring costs totaling € 3.9 million (2013: € 24.7 million) were recorded for the winding-up of the former production facility in Duisburg, Germany, in 2014.

As of March 31, 2014, the majority of the employees of the plant were transferred to a transitional company. Contrary to the original plans regarding the winding-up of the site and the utilization of existing equipment and other assets, no such utilization possibilities arose in 2014. As a result, existing employment relationships and the impairment of the assets concerned had to be reassessed. This reassessment, which was performed as of September 30, 2014, led to restructuring costs totaling € 3.0 million, of which € 1.0 million were related to impairment losses on non-current assets.

The impairment losses are made up of the following components: € 0.9 million (2013: € 1.9 million) for technical plant and machinery, € 0.1 million (2013: € 0.9 million) for other plant and in the previous year € 2.9 million for buildings and € 0.1 million for intangible assets. € 0.6 million (2013: € 3.7 million) are attributable to the Steel Division and € 0.4 million (2013: € 2.1 million) to the Industrial Division. The recoverable amount was calculated on the basis of fair value less costs of disposal (Level 3 in accordance with IFRS 13) and amounts to € 1.9 million as of December 31, 2014 (12/31/2013: € 3.8 million).

Payments of € 12.0 million have been made for the social plan so far.

Kretz site, Germany

At the site in Kretz, Germany, magnesite raw materials were treated at a leased plant. As part of the optimization of the Group's raw material treatment, the Management Board of RHI AG decided to terminate operations at this site because significant investments would have been necessary due to additional official regulations.

Provisions for lease payments to be effected, the measures required for the restoration of the original state of the leased object as well as the expected costs related to the termination payments for the employees of the site totaling € 8.1 million were formed in the fourth quarter of 2014. Furthermore, impairments of € 1.6 million were recognized for property, plant and equipment and intangible assets. Of this total, € 0.1 million are related to conversions, € 0.4 million to technical plant and machinery, € 0.2 million to other plant and € 0.9 million to other intangible assets. The recoverable amount (fair value less costs of disposal, Level 3 in accordance with IFRS 13) amounts to zero at December 31, 2014. The total cost of € 9.7 million is allocated to the Raw Materials Division in its entirety.

Dashiqiao plant, PR China

Impairment losses on fusion lines of € 1.7 million resulting from capacity adjustments were incurred at the Chinese raw material plant Dashiqiao in the previous year. The recoverable amount (fair value less costs of disposal, Level 3) amounts to zero at December 31, 2013.

(42) Net income from US Chapter 11 proceedings

With effect from April 30, 2013, the reorganization proceedings under Chapter 11 of the US Bankruptcy Code of the US companies NARCO, Harbison-Walker, AP Green and GIT (together with their subsidiaries referred to as "ANH companies"), which had been deconsolidated as of December 31, 2001, and the associated asbestos-related claims for damages were definitively completed with full legal security. After the termination of the proceedings, € 76.0 million were recognized to profit or loss, of which USD 40.0 million were related to a payment agreed with a previous owner of the ANH companies and € 32.6 million to the reversal of provisions. Further information on the Chapter 11 proceedings is provided under note (32) of the RHI consolidated financial statements 2013.

The income of € 0.8 million recognized in this item in the financial year 2014 results from the reduction of provisions that still exist in the context of outstanding guarantees due to a reassessment of the scope of obligations.

(43) Interest income

This item includes interest on cash at banks and similar income amounting to € 1.4 million (2013: € 1.3 million), interest income on available-for-sale securities and shares amounting to € 1.0 million (2013: € 1.0 million) and interest on financial receivables amounting to € 0.2 million (2013: € 0.2 million).

(44) Interest expenses

This item includes interest expenses for "Schuldscheindarlehen" and bank loans less capitalized interest on borrowings, interest from interest rate swaps, tax-related interest, interest expenses attributable to non-controlling interests totaling € 2.7 million (2013: € 3.2 million) and other interest and similar expenses.

(45) Other net financial expenses

Other net financial expenses consist of the following items:

in € million	2014	2013
Interest income on plan assets	3.2	3.1
Interest expense on provisions for pensions	(11.6)	(11.7)
Interest expense on provisions for termination benefits	(1.9)	(2.1)
Interest expense on other personnel provisions	(0.7)	(0.8)
Net interest expense personnel provisions	(11.0)	(11.5)
Expenses from the valuation of put options	(2.1)	0.0
Reversal of impairment losses on securities	0.0	0.4
Other net financial expenses	**(13.1)**	**(11.1)**

(46) Income taxes

Income taxes consist of the following items:

in € million	2014	2013
Current tax expense	29.7	33.3
Deferred tax (income)/expense relating to		
temporary differences	(7.3)	(16.8)
tax loss carryforwards	9.9	10.1
	2.6	(6.7)
Income taxes	**32.3**	**26.6**

The current tax expense of the year 2014 includes tax income relating to other periods of € 3.6 million (2013: € 3.4 million) and tax expenses for previous periods of € 3.3 million (2013: € 9.9 million). Tax expenses of the previous year were primarily attributable to external tax audits.

In addition to the income taxes recognized in the statement of profit or loss, tax income totaling € 13.3 million (2013: tax expenses of € 1.1 million), which are attributable to other comprehensive income were also recognized in other comprehensive income.

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

in € million	2014	2013
Profit before income tax	**84.8**	**89.3**
Arithmetic tax expense with tax rate of 25% (2013: 25%)	**21.2**	**22.3**
Different foreign tax rates	(0.5)	(0.2)
Expenses not deductible for tax purposes, non-creditable taxes	8.5	10.4
Income not subject to tax and tax advantages	(6.0)	(6.2)
Non-capitalized tax losses and temporary differences of the financial year	6.7	5.3
Utilization of previously unrecognized loss carryforwards and temporary differences	(3.0)	(2.6)
Capitalization of previously unrecognized loss carryforwards and temporary differences	(0.1)	(0.9)
Change in valuation allowance on deferred tax assets(1)	2.6	3.2
Deferred tax income due to changes in tax rates	(0.3)	(0.3)
Deferred income tax relating to prior periods	0.5	(0.5)
Current income tax relating to prior periods	(0.3)	6.5
Other(1)	3.0	(10.4)
Recognized tax expense	**32.3**	**26.6**
Effective tax rate (in %)	**38.1%**	**29.8%**

(1) Prior-year figures adjusted to current presentation.

Changes in tax rates in the USA due to the expansion of business activities to other states, in Chile and in several other countries, led to deferred tax income of € 0.3 million in the financial year 2014. Changes in tax rates abroad also led to deferred tax income of € 0.3 million in the previous year.

As a result of the definitive disposal of the ANH companies due to the termination of the Chapter 11 proceedings, RHI Refractories Holding Company recorded a reduction of income tax expenses of € 8.7 million in the previous year, which was recognized in the other reconciliation item. Income tax expenses directly attributable to the effects of the termination of the Chapter 11 proceedings amounted to € 13.5 million for the RHI Group in 2013.

(47) Profit after income tax from discontinued operations

In the previous year, this item included non-cash income from the reversal of provisions in the context of the Insulating Division, which was sold in the year 2006, of € 1.0 million less deferred income taxes amounting to € 0.3 million. The result is attributable to the shareholders of RHI AG in its entirety.

(48) Expense categories

The presentation of the consolidated statement of profit or loss is based on the cost of sales method. The following table shows a classification by expense category for the financial year 2014 and the previous year:

in € million	Cost of sales	Selling and marketing expenses	General and administrative expenses	Other income/ expenses	Impairment losses	Restructuring expenses	Total 2014
Changes in inventories, own work capitalized	(35.6)	0.0	(3.8)	0.0	0.0	0.0	(39.4)
Cost of materials	873.8	0.5	2.7	0.0	0.0	0.0	877.0
Personnel costs	253.4	60.6	81.0	0.0	0.0	3.0	398.0
Depreciation	60.1	2.9	5.0	0.4	19.8	2.6	90.8
Other income	(6.7)	0.0	(7.7)	(50.9)	0.0	(0.8)	(66.1)
Other expenses	205.3	50.7	37.7	49.9	0.0	8.8	352.4
Total	**1,350.3**	**114.7**	**114.9**	**(0.6)**	**19.8**	**13.6**	**1,612.7**

in € million	Cost of sales	Selling and marketing expenses	General and administrative expenses	Other income/ expenses	Impairment losses	Restructuring expenses	Total 2013
Changes in inventories, own work capitalized	3.8	0.0	(4.2)	0.0	0.0	0.0	(0.4)
Cost of materials	856.5	0.3	2.2	0.0	0.0	0.0	859.0
Personnel costs	256.3	65.3	81.0	0.0	0.0	11.7	414.3
Depreciation	64.9	3.5	4.0	5.4	65.3	7.4	150.5
Other income	(8.2)	0.0	(7.3)	(57.3)	0.0	0.0	(72.8)
Other expenses	203.1	49.1	39.8	69.7	0.0	7.3	369.0
Total	**1,376.4**	**118.2**	**115.5**	**17.8**	**65.3**	**26.4**	**1,719.6**

Cost of materials includes expenses for raw materials and purchased goods of € 682.3 million (2013: € 664.5 million) as well as expenses for services received, especially energy, amounting to € 194.7 million (2013: € 194.5 million).

Systematic amortization of intangible assets is largely recognized in cost of sales and general and administrative expenses within functional costs.

(49) Personnel costs

The individual components of personnel costs are listed below:

in € million	2014	2013
Wages and salaries	305.6	320.0
Pensions		
Defined benefit plans	3.8	3.9
Defined contribution plans	3.0	2.9
Termination benefits		
Defined benefit plans	1.6	1.7
Defined contribution plans	1.9	1.8
Other expenses	1.5	1.7
Fringe benefits	80.6	82.3
Personnel expenses (without interest expenses)	**398.0**	**414.3**

Personnel costs include restructuring costs amounting to € 3.0 million (2013: € 11.7 million), lump-sum settlements of € 1.5 million (2013: € 6.3 million) and remeasurement losses from the measurement of other benefits to employees of € 2.1 million (2013: € 2.3 million) due in the long term. Personnel costs do not include amounts resulting from the interest accrued on personnel provisions. They amount to € 11.0 million (2013: € 11.5 million) and are recorded in net finance costs.

As in the previous year, employees of RHI AG and Group companies had the opportunity to receive bonus shares free of charge as part of the voluntary RHI stock option plan "4 plus 1" in the financial year 2014. The employees receive one RHI share free of charge for every four RHI shares they have purchased themselves. The expense resulting from this employee stock option plan amounts to € 0.1 million (2013: € 0.1 million) and was recorded in the item wages and salaries.

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The statement of cash flows shows how cash and cash equivalents of the Group change through cash inflows and cash outflows during the reporting year. In accordance with IAS 7, cash flows from operating activities, from investing activities and from financing activities are distinguished. Cash flows from investing and financing activities are determined on the basis of cash payment, while cash flow from operating activities is derived from the consolidated financial statements using the indirect method.

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

(50) Net cash flow from operating activities

Net cash flow from operating activities is derived indirectly based on profit after income tax. Profit after income tax is adjusted for results which are allocable to the cash flows from investing or financing activities and for non-cash expenses and income. Other non-cash expenses and income include in particular the net interest expenses for defined benefit pension plans amounting to € 11.0 million (2013: € 11.5 million), net remeasurement gains of monetary foreign currency positions and derivative financial instruments of € 3.3 million (2013: net losses of € 14.7 million) and non-cash funding of provisions for restructuring amounting to € 10.3 million (2013: € 18.7 million). Taking into account the change in funds tied up in working capital as well as other operating assets and liabilities and income taxes paid, the result is net cash flow from operating activities.

In the previous year, the termination of the reorganization proceedings of the US ANH Group had an effect on cash and cash equivalents of the RHI Group through net cash inflow of € 24.8 million. With the termination of the proceedings, RHI received a payment of € 30.5 million (USD 40.0 million) from Honeywell, a previous owner of the ANH companies, and recorded a cash outflow of € 2.8 million, which was predominantly related to calling guarantees which served as collateral for premiums and deductibles for insurance policies of the ANH companies. RHI also received a payment of € 0.8 million from the ANH companies. Income taxes paid to tax authorities amounted to roughly € 3.7 million.

(51) 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. The cash outflows for investments in property, plant and equipment and intangible assets differ from the additions to assets primarily through additions to assets capitalized in the previous year, which only had a cash effect in the following year.

Cash effects from business combinations or the sale of companies (net change in cash and cash equivalents from initial consolidations and deconsolidations) are shown separately. In the reporting year 2014, no acquisitions of companies or divestments were carried out. In the previous year, expenses for the acquisition of subsidiaries amounted to € 49.9 million, of which € 48.7 million were attributable to the acquisition of 69.6% of the shares in Orient Refractories Ltd. (purchase price paid of € 50.8 million less acquired cash and cash equivalents of € 2.1 million), € 1.0 million to the payment for the acquisition of CJSC “RHI Podolsk Refractories” in the year 2011 as the purchase price was made final as well as € 0.2 million to the final instalment for the acquisition of RHI Normag AS in the year 2011.

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

(52) Net cash flow from financing activities

Net cash flow from financing activities includes outflows from the acquisition of non-controlling interests, dividend payments and interest payments. In contrast, interest on borrowings capitalized in accordance with IAS 23 is included in cash flow from investing activities, and tax-related interest is recognized in cash flow from operating activities.

The interest expenses recognized in the consolidated statement of profit or loss include non-cash accrued interest of € 2.3 million (2013: € 1.4 million) as well as non-cash interest expenses from discounting non-current assets amounting to € 1.7 million (2013: € 0.0 million), which are therefore not included in interest paid in the consolidated statement of cash flows.

Inflows resulting from the proceeds and repayments of loans and other financial liabilities are classified as non-current or current according to the term of financing.

(53) Total interest paid and total interest received

Total interest paid amounts to € 20.9 million in the reporting period (2013: € 22.1 million), of which € 1.0 million (2013: € 1.1 million) are included in cash flow from operating activities, € 0.1 million (2013: € 2.8 million) in cash flow from investing activities and € 19.8 million (2013: € 18.2 million) in cash flow from financing activities.

Total interest received amounts to € 2.6 million in the financial year 2014 (2013: € 2.5 million), of which € 0.2 million (2013: € 0.1 million) are included in cash flow from operating activities and € 2.4 million (2013: € 2.4 million) in cash flow from investing activities.

(54) Cash and cash equivalents

Cash and cash equivalents as presented in the consolidated statement of cash flows corresponds to the cash and cash equivalents recognized in the statement of financial position.

The use of cash and cash equivalents of € 7.0 million (12/31/2013: € 21.0 million) is restricted by foreign exchange regulations in various countries, which, based on previous experience, are for the short term.

OTHER DISCLOSURES

(55) Segment reporting

Segment reporting by operating company division

The following tables show the financial data for the operating segments for the year 2014 and the previous year:

in € million	Steel	Industrial	Raw Materials	Elimination/ Unallocated assets	Group 2014
External revenue	1,108.8	566.6	45.8	0.0	1,721.2
Internal revenue	0.0	0.0	257.5	(257.5)	0.0
Segment revenue	**1,108.8**	**566.6**	**303.3**	**(257.5)**	**1,721.2**
Operating EBIT	**93.1**	**48.6**	**0.2**	**0.0**	**141.9**
Impairment losses	0.0	(12.3)	(7.5)	0.0	(19.8)
Restructuring costs	(2.2)	(1.7)	(9.7)	0.0	(13.6)
Net income from US Chapter 11 proceedings	0.5	0.3	0.0	0.0	0.8
EBIT	**91.4**	**34.9**	**(17.0)**	**0.0**	**109.3**
Net finance costs	0.0	0.0	0.0	(32.7)	(32.7)
Share of profit of joint ventures	0.0	0.0	8.2	0.0	8.2
Profit before income tax					**84.8**
Depreciation and amortization charges	(23.7)	(16.3)	(27.8)	0.0	(67.8)
Segment assets 12/31/2014	619.9	302.0	499.5	420.8	1,842.2
Investments in joint ventures 12/31/2014	0.0	0.0	18.3	0.0	18.3
					1,860.5
Investments in property, plant and equipment and intangible assets (according to non-current assets statement)	30.5	21.1	21.1	0.0	72.7

in € million	Steel	Industrial	Raw Materials	Elimination/ Unallocated assets	Group 2013
External revenue	1,097.5	619.0	38.2	0.0	1,754.7
Internal revenue	0.0	0.0	236.2	(236.2)	0.0
Segment revenue	**1,097.5**	**619.0**	**274.4**	**(236.2)**	**1,754.7**
Operating EBIT	**64.4**	**70.2**	**(7.8)**	**0.0**	**126.8**
Impairment losses	0.0	0.0	(65.3)	0.0	(65.3)
Restructuring costs	(16.0)	(8.6)	(1.8)	0.0	(26.4)
Net income from US Chapter 11 proceedings	48.9	25.2	1.9	0.0	76.0
EBIT	**97.3**	**86.8**	**(73.0)**	**0.0**	**111.1**
Net finance costs	0.0	0.0	0.0	(29.8)	(29.8)
Share of profit of joint ventures	0.0	0.0	8.0	0.0	8.0
Profit before income tax					**89.3**
Depreciation and amortization charges	(25.2)	(17.3)	(29.6)	0.0	(72.1)
Segment assets 12/31/2013	574.2	266.8	494.9	369.9	1,705.8
Investments in joint ventures 12/31/2013	0.2	0.0	18.0	0.0	18.2
					1,724.0
Investments in property, plant and equipment and intangible assets (according to non-current assets statement)	61.0	12.5	10.0	0.0	83.5

Revenue amounting to approximately € 209.1 million (2013: € 219.8 million) was realized with one customer in 2014, which is predominantly included in the Steel segment. No other single customer contributed 10% or more to consolidated revenue in 2014 or 2013. Companies which are known to be part of a group are treated as one customer.

Segment assets include the external receivables and inventories which are reported to the management for control and measurement and which are available to operating segments as well as property, plant and equipment, goodwill and other intangible assets which are allocated to the segments based on utilization of the assets. Investments in joint ventures are allocated to the segments. All other assets are recognized under unallocated assets.

When allocating revenue to product groups, a distinction is made between shaped products (e.g. hydraulically pressed bricks, fused cast bricks, isostatically pressed products) and unshaped products (e.g. repair mixes, construction mixes and castables) as well as other revenue. Other includes revenue from the provision of services as well as the sale of non-Group refractory products.

In the reporting year, revenue is classified by product group as follows:

in € million	Steel	Industrial	Raw Materials	Group
Shaped products	707.7	423.8	0.0	1,131.5
Unshaped products	313.1	51.6	45.1	409.8
Other	88.0	91.2	0.7	179.9
Revenue	**1,108.8**	**566.6**	**45.8**	**1,721.2**

In 2013, revenue was classified by product group as follows:

in € million	Steel	Industrial	Raw Materials	Group
Shaped products	700.9	467.6	0.1	1,168.6
Unshaped products	312.3	53.2	38.0	403.5
Other	84.3	98.2	0.1	182.6
Revenue	**1,097.5**	**619.0**	**38.2**	**1,754.7**

Segment reporting by country

Revenue is classified by customer sites as follows:

in € million	2014	2013
Austria	38.4	37.2
All other countries		
USA	157.2	156.5
India	153.1	127.7
Germany	141.1	155.0
Mexico	111.7	105.9
Italy	94.3	92.5
PR China	90.0	89.1
Canada	75.3	67.9
Russia	64.9	50.5
France	47.2	44.9
Saudi Arabia	45.1	48.7
Brazil	38.8	47.2
Other countries (each below € 44.0 million)	664.1	731.6
Revenue	**1,721.2**	**1,754.7**

The carrying amounts of property, plant and equipment and intangible assets are classified as follows by the respective sites of the Group companies:

in € million	12/31/2014	12/31/2013
Austria	188.0	184.3
All other countries		
PR China	142.8	138.2
Germany	83.3	82.1
India	58.7	54.2
Mexico	32.5	31.9
Norway	24.7	34.4
Other countries (each below € 26.0 million)	124.3	132.7
Property, plant and equipment and intangible assets	**654.3**	**657.8**

(56) Earnings per share

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

	2014	2013
Share of shareholders of RHI AG in profit after income tax (in € million)	51.0	62.6
thereof continuing operations (in € million)	51.0	61.9
thereof discontinued operations (in € million)	0.0	0.7
Weighted average number of shares	39,819,039	39,819,039
Earnings per share (in €)	**1.28**	**1.57**
thereof continuing operations (in €)	1.28	1.55
thereof discontinued operations (in €)	0.00	0.02

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.

(57) Dividend payments and proposed dividend

In accordance with the Stock Corporation Act, the dividend payable to the shareholders of RHI AG is based on the accumulated profit as shown in the annual financial statements of RHI AG, which are prepared in accordance with the Austrian Commercial Code. Accumulated profit developed as follows in the financial year 2014:

in € million	2014
Accumulated profit carried forward	590.4
Dividend payments	(29.9)
Profit for the year	42.4
Accumulated profit 12/31/2014	**602.9**
Proposed dividend	(29.9)
Profit carryforward	**573.0**

Based on a resolution adopted by the 35th Annual General Meeting on May 9, 2014, dividends totaling € 29.9 million were paid out in the financial year 2014 for the year 2013, which corresponded to a dividend of € 0.75 per share.

At the 36th Annual General Meeting on May 8, 2015, the Management Board will propose a dividend of € 0.75 per share for the financial year 2014, which corresponds to a dividend payment of € 29.9 million. The proposed dividend is subject to the approval by the Annual General Meeting and was not recognized as a liability in the consolidated financial statements 2014.

Dividend payments to the shareholders of RHI AG have no income tax consequences for RHI AG.

(58) Additional disclosures on financial instruments

The following tables show the carrying amounts and fair values of financial assets and liabilities by measurement category and level and the allocation to the measurement category in accordance with IFRS 13. In addition, carrying amounts are shown aggregated according to measurement category.

in € million	IAS 39 Measurement category[1]	Level	(Amortized) cost	Fair value recognized in profit/ loss	Fair value recognized in equity	12/31/2014[2] Carrying amount	12/31/2014[2] Fair value
Assets							
Available-for-sale investments	FAAC	–	0.5	–	–	0.5	–
Available-for-sale securities	AfS	1	–	–	33.7	33.7	33.7
Available-for-sale shares	AfS	3	–	–	2.2	2.2	2.2
Available-for-sale shares	FAAC	–	1.1	–	–	1.1	–
Other non-current financial receivables	LaR	–	2.1	–	–	2.1	–
Trade and other current receivables	LaR	–	334.0	–	–	334.0	–
Other current financial receivables	LaR	–	1.6	–	–	1.6	–
Financial assets held for trading	FAHfT	2	–	1.6	–	1.6	1.6
Cash and cash equivalents	LaR	–	151.1	–	–	151.1	–
Equity and liabilities							
Non-current financial liabilities	FLAAC	2	417.0	–	–	417.0	444.0
Interest derivatives designated as cash flow hedges	–	2	–	–	1.3	1.3	1.3
Current financial liabilities	FLAAC	2	201.0	–	–	201.0	201.3
Financial liabilities held for trading	FLHfT	2	–	0.4	–	0.4	0.4
Trade payables and other current liabilities	FLAAC	–	195.8	–	–	195.8	–
Aggregated according to measurement category							
Loans and receivables	LaR		488.8	–	–	488.8	
Available for sale financial instruments	AfS		–	–	35.9	35.9	
Financial assets at cost	FAAC		1.6	–	–	1.6	
Financial assets held for trading	FAHfT		–	1.6	–	1.6	
Financial liabilities measured at amortized cost	FLAAC		813.8	–	–	813.8	
Financial liabilities held for trading	FLHfT		–	0.4	–	0.4	

in € million	IAS 39 Measurement category[1]	Level	(Amortized) cost	Fair value recognized in profit/ loss	Fair value recognized in equity	12/31/2013[2] Carrying amount	12/31/2013[2] Fair value
Assets							
Available-for-sale investments	FAAC	–	0.4	–	–	0.4	–
Available-for-sale securities	AfS	1	–	–	31.2	31.2	31.2
Available-for-sale shares	AfS	3	–	–	1.6	1.6	1.6
Available-for-sale shares	FAAC	–	1.1	–	–	1.1	–
Other non-current financial receivables	LaR	–	2.2	–	–	2.2	–
Interest derivatives designated as cash flow hedges	–	2	–	–	0.6	0.6	0.6
Trade and other current receivables	LaR	–	280.1	–	–	280.1	–
Other current financial receivables	LaR	–	2.0	–	–	2.0	–
Financial assets held for trading	FAHfT	2	–	0.2	–	0.2	0.2
Cash and cash equivalents	LaR	–	112.4	–	–	112.4	–
Equity and liabilities							
Non-current financial liabilities	FLAAC	2	362.1	–	–	362.1	373.3
Current financial liabilities	FLAAC	2	173.2	–	–	173.2	173.2
Financial liabilities held for trading	FLHfT	2	–	0.3	–	0.3	0.3
Trade payables and other current liabilities	FLAAC	–	186.7	–	–	186.7	–

in € million	IAS 39 Measurement category[1]	Level	(Amortized) cost	Fair value recognized in profit/ loss	Fair value recognized in equity	12/31/2013[2] Carrying amount	Fair value
Aggregated according to measurement category							
Loans and receivables	LaR		394.5	–	–	394.5	
Available for sale financial instruments	AfS		–	–	32.8	32.8	
Financial assets at cost	FAAC		1.5	–	–	1.5	
Financial assets held for trading	FAHfT		–	0.2	–	0.2	
Financial liabilities measured at amortized cost	FLAAC		722.0	–	–	722.0	
Financial liabilities held for trading	FLHfT		–	0.3	–	0.3	

(1) FAAC: Financial assets at cost
AfS: Available for sale financial instruments
LaR: Loans and receivables
FAHfT: Financial assets held for trading
FLAAC: Financial liabilities measured at amortized cost
FLHfT: Financial liabilities held for trading

(2) The presentation of carrying amounts and fair values of financial assets and liabilities by level and measurement category as well as the presentation of carrying amounts by IAS 39 measurement category are summarized in an overview table. The items trade and other non-current receivables and payables also include non-financial assets and liabilities and are therefore not considered in the table of financial instruments. The reconciliation to the respective items of the statement of financial position is provided in notes (20) and (31). The comparative period was adjusted accordingly.

In the RHI Group especially securities, derivative financial instruments and shares in a residential property company are measured at fair value on a recurring basis.

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between market participants in an arm's length transaction on the day of measurement. When the fair value is determined it is assumed that the transaction in which the asset is sold or the liability is transferred takes place either in the main market for the asset or liability, or in the most favorable market if there is no main market. RHI considers the characteristics of the asset or liability to be measured which a market participant would consider in pricing. It is assumed that market participants act in their best economic interest.

RHI takes into account the availability of observable market prices in an active market and uses the following hierarchy to determine fair value:

Level 1: Prices quoted in active markets for identical financial instruments.

Level 2: Measurement techniques in which all important data used are based on observable market data.

Level 3: Measurement techniques in which all important data used are not based on observable market data.

The fair value of available-for-sale securities is based on price quotations at the reporting date (Level 1).

The fair value of interest derivatives in a hedging relationship (interest rate swaps) is determined by calculating the present value of future cash flows based on current yield curves taking into account the corresponding terms (Level 2).

The fair value of financial assets and liabilities held for trading corresponds to the market value of the forward exchange contracts and derivatives in orders denominated in a currency other than the functional currency. They are measured based on quoted forward rates (Level 2).

The fair value of available-for-sale shares which are not listed is determined by discounting the expected cash flow taking into account the country-specific weighted average cost of capital in the RHI Group (Level 3). The development of Level 3 fair values is presented below:

in € million	2014	2013
Fair values at beginning of year	**1.6**	**1.6**
Unrealized results from fair value change recognized in other comprehensive income	0.6	0.0
Fair values at year-end	**2.2**	**1.6**

If the weighted average cost of capital had been 25 basis points higher or lower, the fair value would have been € 0.1 million (12/31/2013: € 0.0 million) lower or higher.

RHI takes into account reclassifications in the measurement hierarchy at the end of the reporting period in which the changes occur. There were no shifts between the different measurement levels in the two reporting periods.

Financial liabilities are carried at amortized cost in the statement of financial position; the fair values of the financial liabilities are only shown in the notes. They are calculated as the present value of the discounted future cash flows using yield curves that are currently observable (Level 2).

Available-for-sale investments of € 0.5 million (12/31/2013: € 0.4 million) and available-for-sale shares of € 1.1 million (12/31/2013: € 1.1 million) are equity instruments carried at cost for which there is no quoted price on an active market. It was not possible to derive a fair value based on comparable transactions. These investments and shares are immaterial in comparison with the total position of the Group. The RHI Group intends to liquidate an investment with a carrying amount of € 0.1 million.

The financial receivables roughly correspond to the fair value as no material deviation between the fair value and the carrying amount is assumed due to the amount of the receivables and the credit default risk is accounted for by forming valuation allowances.

The remaining terms of trade and other current receivables and liabilities as well as cash and cash equivalents are predominantly short. Therefore, the carrying amounts of these items approximate fair value at the reporting date.

At the two reporting dates, no contractual netting agreements of financial assets and liabilities were in place.

Net results by measurement category in accordance with IAS 39

The effect of financial instruments on the income and expenses recognized in the reporting years 2014 and 2013 is shown in the following table, classified according to the measurement categories defined in IAS 39:

in € million	2014	2013
Net gain on available-for-sale financial instruments		
recognized in the statement of profit or loss	1.0	1.4
recognized in other comprehensive income	3.1	0.5
	4.1	1.9
Net loss from loans and receivables as well as financial liabilities at amortized cost	(16.3)	(46.4)
Net loss/gain on financial assets and financial liabilities classified as held for trading	(9.6)	4.6

The net gain on available-for-sale financial instruments recognized in the statement of profit or loss includes income from securities and income from reversals of impairment.

The net loss arising from loans and receivables as well as financial liabilities includes interest income and expenses, changes in valuation allowances, foreign exchange gains and losses as well as losses on derecognition.

The net result of financial assets held for trading and financial liabilities includes changes in the market value and realized results of forward exchange contracts and embedded derivatives in open orders in a currency other than the functional currency of RHI.

Net finance costs include interest income amounting to € 2.4 million (2013: € 2.4 million) and interest expenses of € 19.8 million (2013: € 19.6 million). They result from financial assets and liabilities which are carried at fair value without recognition to profit or loss.

(59) Derivative financial instruments

Interest rate swaps

In the financial year 2013, RHI AG concluded interest rate swaps amounting to € 100.0 million to hedge the cash flow risk of financial liabilities carrying variable interest rates ("pay fixed rates – receive floating rates"). Financial liabilities carrying variable interest in the amount of the nominal value of the interest rate swaps were designated as hedged items. The cash flow changes of the hedged items, which result from the changes of the variable interest rates, are balanced out by the cash flow changes of the interest rate swaps. These hedging measures pursue the objective to transform variable-interest financial liabilities into fixed-interest financial liabilities, thus hedging the cash flow from the financial liabilities. Credit risks are not part of the hedge.

The term of two hedging relationships with a nominal volume of € 42.9 million at the reporting date (12/31/2013: € 46.4 million) ends in the financial year 2019. The interest payments from the hedged item and the compensation payments from the two interest rate swaps are made quarterly at the end of the quarter.

A hedging relationship with a nominal value of € 50.0 million (12/31/2013: € 50.0 million) runs until the financial year 2017. The interest and compensation payments for this hedging relationship are due semi-annually at the end of January and at the end of July. The interest expenses are recognized accordingly on a period basis.

Fixed interest rates amount to roughly 0.7%, the variable interest rates are based on the EURIBOR.

The effectiveness of a hedging relationship is tested on a prospective and retrospective basis. The conditions of the interest rate swaps correspond to the conditions of the hedged items. In the two reporting years no hedge ineffectiveness had to be recognized through profit or loss.

The fair values of the interest rate swaps totaled € (1.3) million at the reporting date (12/31/2013: € 0.6 million). Unrealized losses of € 1.9 million from the value change of hedges were recognized in other comprehensive income in the financial year 2014 taking into account deferred tax assets amounting to € 0.5 million. A gain of € 0.1 million recognized in other comprehensive income in the previous year was reclassified to interest expenses. In the preceding reporting year, unrealized gains of € 0.6 million were recognized in other comprehensive income taking into account deferred tax liabilities of € 0.2 million. In addition, losses recognized in other comprehensive income amounting to € 0.1 million were reclassified to interest expenses.

Forward exchange contracts

The nominal value and fair value of forward exchange contracts are shown in the table below:

		12/31/2014			12/31/2013		
Purchase	Sale	Nominal value in million		Fair value in € million	Nominal value in million		Fair value in € million
EUR	USD	USD	84.6	(0.2)	USD	35.0	0.0
EUR	CNY	EUR	24.2	(0.1)	EUR	41.7	0.0
MXN	USD	USD	10.0	0.0		–	–
EUR	INR	EUR	6.0	(0.1)	EUR	6.5	0.1
EUR	CAD	CAD	5.4	0.0		–	–
INR	EUR	EUR	0.5	0.0	EUR	0.3	0.0
INR	USD	USD	0.5	0.0		–	–
Forward exchange contracts				**(0.4)**			**0.1**

(60) Financial risk management

Financial risks are incorporated in RHI’s corporate risk management and are centrally controlled by Group Treasury. None of the following risks represent a significant risk for the RHI Group:

Credit risk in the RHI Group is primarily related to operating receivables due from customers. In order to counteract the default risk related to a hedged item, receivables are hedged as far as possible through credit insurance and collateral arranged through banks (guarantees, letters of credit), even if the contractual partner has a top class credit rating. Credit and default risks are monitored continuously, and provisions are formed for risks that have occurred and for identifiable risks.

The Group’s financing policy is based on long-term financial planning and is centrally controlled and monitored continuously at RHI. The liquidity requirement resulting from budget and medium-term planning is secured by concluding appropriate financing agreements. These lines of credit were concluded with different Austrian and international financial institutions in order to ensure independence of banks. The companies of the RHI Group are integrated into a clearing process managed by Central Treasury and provided with financing limits in order to minimize the need of borrowings for the Group as a whole.

Foreign exchange risks arise especially where business transactions (operating activities, investments, financing) are conducted in a currency other than the functional currency of a company. They are monitored at the Group level and analyzed with respect to hedging options. The net position of the Group in the relevant currency serves as the basis for decisions regarding the use of hedging instruments.

The interest risk in the RHI Group is primarily related to financial instruments carrying variable interest rates, which may lead to fluctuations in results and cash flows. The RHI Group is predominantly exposed to interest risks in the euro area. In the year 2013, interest hedges totaling € 100.0 million were concluded. A variable interest rate was converted into a fixed interest rate through an interest rate swap. This affected loans with maturity beyond 2016. A small part of these loans has been repaid, so that the liability of interest hedges amounts to € 92.9 million at December 31, 2014.

Credit risk

Hereinafter the credit risk from trade receivables is shown classified by customer industry, by foreign currency and by term:

The credit risk, which is hedged by existing credit insurance, letters of credit and bank guarantees, is shown by customer segment in the following table:

in € million	12/31/2014	12/31/2013(1)
Segment Steel	219.3	202.8
Segment Industrial	106.8	72.1
Segment Raw Materials	4.9	2.8
Trade receivables	331.0	277.7
Credit insurance and bank guarantees	(206.4)	(177.3)
Net credit exposure	**124.6**	**100.4**

(1) Receivables from long-term construction contracts are deemed non-financial assets and are therefore not considered. The prior-year figures were adjusted to the current presentation.

The following table shows the carrying amounts of receivables denominated in currencies other than the functional currencies of the Group companies. The carrying amounts of the receivables in the functional currency of the respective Group company are included under other functional currencies:

in € million	12/31/2014	12/31/2013(1)
US dollar	67.7	73.7
Pound sterling	4.8	3.2
Other currencies	4.5	5.0
Other functional currencies	254.0	195.8
Trade receivables	**331.0**	**277.7**

(1) Prior-year figures adjusted

The classification of receivables by days outstanding is shown below:

in € million	12/31/2014	12/31/2013(1)
Neither impaired nor past due at reporting date	225.3	178.8
Not impaired at reporting date and past due in the following time frames		
Less than 30 days	25.8	30.4
Between 30 and 59 days	7.4	8.5
Between 60 and 89 days	7.1	7.3
More than 90 days	12.4	3.3
Impaired at reporting date	77.5	67.9
Valuation allowance	(24.5)	(18.5)
Trade receivables	**331.0**	**277.7**

(1) The age structure analysis of trade receivables is presented adapted in accordance with the provisions of IFRS 7. The individual maturity bands are shown at gross value; impaired receivables and valuation allowances are shown separately. The comparative period was adjusted.

With respect to receivables that were neither impaired nor overdue, there were no indications at the reporting date that the debtors would be unable to meet their payment obligations. No valuation allowance was recognized for overdue receivables amounting to € 52.7 million at the reporting date (12/31/2013: € 49.5 million adjusted) and impaired receivables of € 53.0 million (12/31/2013: € 49.4 million) because the risk of default is essentially covered by credit insurance, bank guarantees and letters of credit.

Liquidity risk

Liquidity risk refers to the risk that financial obligations cannot be met when due.

Financial planning in the RHI Group is centrally managed and monitored continuously. The liquidity requirements determined by the planning process are secured through adequate financing agreements.

As of December 31, 2014, the RHI Group has a credit facility of € 427.1 million (12/31/2013: € 262.3 million) at its disposal, which is unused and available immediately, as well as unused credit lines from the sale of receivables amounting to € 8.1 million (12/31/2013: € 11.2 million).

Non-derivative financial instruments

An analysis of the terms of non-derivative financial liabilities based on undiscounted cash flows including the related interest payments shows the following expected cash outflows:

in € million	Carrying amount 12/31/2014	Cash outflows	Remaining term up to 1 year	2 to 5 years	over 5 years
Liabilities to financial institutions					
fixed interest	215.2	249.2	33.9	126.3	89.0
variable interest	366.8	382.7	169.3	185.3	28.1
Liabilities to fixed-term or puttable non-controlling interests	29.2	124.6	6.7	10.8	107.1
Other financial liabilities	6.8	6.9	2.1	4.8	0.0
Trade payables and other current liabilities	195.8	195.8	195.8	0.0	0.0
Non-derivative financial liabilities	**813.8**	**959.2**	**407.8**	**327.2**	**224.2**

in € million	Carrying amount 12/31/2013(1)	Cash outflows	Remaining term up to 1 year	2 to 5 years	over 5 years
Liabilities to financial institutions					
fixed interest	130.6	150.4	6.9	98.1	45.4
variable interest	371.6	388.9	170.6	195.3	23.0
Liabilities to fixed-term or puttable non-controlling interests	25.9	115.4	5.4	10.1	99.9
Other financial liabilities	7.2	7.4	2.4	4.8	0.2
Trade payables and other current liabilities	186.7	186.7	186.7	0.0	0.0
Non-derivative financial liabilities	**722.0**	**848.8**	**372.0**	**308.3**	**168.5**

(1) Retrospective adjustment of presentation resulting from the changed presentation of financial liabilities (note (27)).

Derivative financial instruments

The remaining terms of derivative financial instruments based on expected undiscounted cash flows as of December 31, 2014 and December 31, 2013 are shown in the table below:

in € million	Carrying amount 12/31/2014	Cash flows	Remaining term up to 1 year	2 to 5 years	over 5 years
Receivables from derivatives with net settlement					
Financial assets held for trading	1.6	1.6	1.6	0.0	0.0
Liabilities from derivatives with net settlement					
Interest derivatives designated as cash flow hedges	1.3	1.4	0.4	1.0	0.0
Financial liabilities held for trading	0.4	0.4	0.4	0.0	0.0

in € million	Carrying amount 12/31/2013	Cash flows	Remaining term up to 1 year	2 to 5 years	over 5 years
Receivables from derivatives with net settlement					
Interest derivatives designated as cash flow hedges	0.6	0.8	(0.3)	1.0	0.1
Financial assets held for trading	0.2	0.2	0.2	0.0	0.0
Liabilities from derivatives with net settlement					
Financial liabilities held for trading	0.3	0.3	0.3	0.0	0.0

Foreign currency risks

Foreign currency risks according to IFRS 7 are created through financial instruments which are denominated in a currency other than the functional currency (in the following: foreign currency) and are monetary in nature. Important primary monetary financial instruments include trade receivables and payables, cash and cash equivalents as well as financial liabilities as shown in the statement of financial position. Equity instruments are not of a monetary nature and therefore not linked to a foreign currency risk in accordance with 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 monetary items, which represent part of a net investment in a foreign operation in accordance with IAS 21 are eliminated or hedged through forward exchange contracts. Significant foreign currency provisions are also included in the analysis of risk.

The following table shows the foreign currency positions in the major currencies as of December 31, 2014:

in € million	USD	EUR	CHF	Other	Total
Financial assets	214.6	45.4	0.6	26.2	286.8
Financial liabilities and provisions	(166.5)	(79.7)	(13.5)	(14.8)	(274.5)
Net foreign currency position	**48.1**	**(34.3)**	**(12.9)**	**11.4**	**12.3**

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

in € million	USD	EUR	CHF	Other	Total
Financial assets	218.1	55.6	0.6	33.1	307.4
Financial liabilities and provisions	(191.3)	(80.0)	(12.3)	(39.6)	(323.2)
Net foreign currency position	**26.8**	**(24.4)**	**(11.7)**	**(6.5)**	**(15.8)**

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 reporting date. It is assumed that the positions on the reporting 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% appreciation or devaluation of the relevant functional currency against the following major currencies as of December 31, 2014 would have had the following effect on profit or loss and equity (both excluding income tax):

	Appreciation of 10%		Devaluation of 10%	
in € million	Gain/(loss)	Equity	Gain/(loss)	Equity
US dollar	(4.4)	(6.9)	5.3	8.4
Euro	2.7	8.7	(4.0)	(11.3)
Swiss franc	1.2	1.2	(1.4)	(1.4)
Other currencies	(1.0)	(5.2)	1.2	6.3

The hypothetical effect on profit or loss as of December 31, 2013 can be summarized as follows:

	Appreciation of 10%		Devaluation of 10%	
in € million	Gain/(loss)	Equity	Gain/(loss)	Equity
US dollar	(2.4)	(4.4)	3.0	5.3
Euro	1.7	7.7	(3.2)	(10.4)
Swiss franc	1.1	1.1	(1.3)	(1.3)
Other currencies	0.6	(1.2)	(0.7)	1.6

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. A hypothetical change in the market interest rates for these financial instruments at the reporting date would have had no effect on profit and loss or equity.

Changes in market interest rates on financial instruments designated as hedges as a part of cash flow hedges to protect against interest rate-related payment fluctuations have an effect on equity and are therefore included in the equity-related sensitivity analysis. If the market interest rate as of December 31, 2014 had been 25 basis points higher or lower, equity would have been € 0.5 million (12/31/2013: € 0.6 million) higher or lower taking into account tax effects.

Changes in market interest rates have an effect on the interest result of primary, variable interest financial instruments whose interest payments are not designated as hedged items as a part of cash flow hedge relationships against interest rate risks, and are therefore included in the calculation of the result-related sensitivities. If the market interest rate as of December 31, 2014 had been 25 basis points higher or lower, the interest result would have been € 0.3 million (12/31/2013: € 0.4 million) lower or higher.

Other financial market risks

RHI holds certificates in an investment fund amounting to € 33.7 million (12/31/2013: € 31.2 million) to cover the legally required protection of personnel provisions of Austrian Group companies. The market value of these certificates is influenced by fluctuations of the worldwide volatile stock and bond markets.

(61) Capital management

The objectives of the capital management strategy of the RHI Group are to secure going concern in the long term by creating a solid capital base to finance future growth, to increase company value on a sustained basis and to generate adequate returns to enable attractive dividend payments to the shareholders and to service debt. The overall strategy of the RHI Group has not changed in comparison with 2013.

The RHI Group manages its capital structure through internal targets with respect to net debt, equity ratio, and net gearing ratio through careful monitoring and assessment of the overall economic framework conditions, the requirements and risks related to operations and taking into account fixed strategic projects.

The capital structure key figures at the reporting date are shown below:

	12/31/2014	12/31/2013
Net debt (in € million)	466.9	422.9
Net debt factor	2.3	1.6
Net gearing ratio (in %)	94.5%	87.1%
Equity ratio (in %)	26.5%	28.2%

Net debt, which reflects financial liabilities net of cash and cash equivalents, is controlled centrally by RHI in coordination with Corporate Treasury. The main task of the Corporate Treasury department is to secure liquidity to support business operations on a sustained basis, to use banking and financial services efficiently and to limit financial risks while at the same time optimizing earnings and costs. Due to central controlling, optimum effectiveness is accomplished by utilizing central and local instruments and opportunities.

The key performance indicator for net debt in the RHI Group is the net debt factor, which reflects the ratio of net financial liabilities to EBITDA (earnings before interest, taxes, depreciation and amortization taking into account the reversal of investment subsidies). It is a measure of the ability of a company to repay its debt and amounts to 2.3 for the current financial year. At December 31 of the previous year, this ratio was 1.6. RHI's target is to keep the debt factor below 3.0.

The net gearing ratio is the ratio of net debt to equity; it amounts to 94.5% for the financial year. In the previous year, the net gearing ratio amounted to 87.1%. RHI's internal objective provides for a balanced capital structure with a minimum equity ratio of 30%. The target regarding the net gearing ratio is consequently derived from the equity ratio.

RHI controls the operating business via the profitability indicator ROACE (Return on Average Capital Employed). This indicator describes the interest on the capital employed in operating business or for an investment. In the RHI Group, ROACE designates the ratio of the net operating profit after taxes (NOPAT) to the average capital employed in the reporting period. By extension, the comparison of this profitability key figure with the capital costs of RHI enables statements with respect to changes in company value. The objective of the RHI Group is a ROACE which exceeds the weighted average cost of capital (WACC) by at least 500 basis points.

in € million	12/31/2014	12/31/2013
Ø Working capital		
Ø Inventories	409.2	406.3
Ø Trade receivables	304.4	270.4
Ø Receivables from long-term construction contracts	9.1	7.2
Ø Trade payables	(174.8)	(177.5)
Ø Prepayments received on orders	(21.9)	(26.1)
	526.0	**480.3**
Ø Assets		
Ø Property, plant and equipment	544.0	584.8
Ø Goodwill and other intangible assets	112.1	95.3
	656.1	**680.0**
Average capital employed	**1,182.1**	**1,160.3**
EBIT	109.3	111.1
Taxes	(32.3)	(26.6)
Net operating profit after taxes	**77.0**	**84.5**
Return on average capital employed (in %)	**6.5%**	**7.3%**
Ø RHI WACC (in %)	6.7%	7.0%

The ROACE amounts to 6.5% in the reporting year and is lower than the profitability of 7.3% in the previous year. This decline is primarily due to special effects, which were higher in 2014 than in 2013. In the year 2014 these effects were related to impairments of the cash-generating units Raw Materials/Norway and Industrial/Glass as well as restructuring costs for the plant in Kretz, Germany. In the year 2013, special effects related to the raw material plant in Norway, restructuring costs for the plant in Duisburg, Germany, and effects from the termination of the US Chapter 11 proceedings were included.

In the reporting year 2014 and in the previous year, all externally imposed capital requirements were met.

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

(62) Contingent liabilities

At December 31, 2014 warranties, performance guarantees and other guarantees amount to € 28.5 million (12/31/2013: € 24.0 million) and are exclusively accounted for by third parties. The terms of contingent liabilities range between 2 months and 3 years, depending on the type of liability. Based on experiences of the past, the probability that contingent liabilities are used is considered to be low.

In addition, liabilities from sureties of € 0.9 million (12/31/2013: € 1.0 million) were recorded, of which € 0.3 million are related to contingent liabilities to creditors from joint ventures.

Individual proceedings and lawsuits which result from ordinary activities including the securing of raw materials are pending as of December 31, 2014 or can potentially be exercised against RHI in the future. The related risks were analyzed with a view to their probability of occurrence. This analysis showed that the proceedings and lawsuits, both individually and overall, have no significant negative influence on the asset, financial and earnings position of the RHI Group.

(63) Other financial obligations

Other financial obligations consist of the following items:

in € million	Total 12/31/2014	Remaining term up to 1 year	2 to 5 years	over 5 years
Obligations from rental and leasing contracts	71.1	13.7	35.7	21.7
Capital commitments	6.7	6.7	0.0	0.0
Miscellaneous financial obligations	3.8	1.0	2.8	0.0
Other financial obligations	**81.6**	**21.4**	**38.5**	**21.7**

in € million	Total 12/31/2013	Remaining term up to 1 year	2 to 5 years	over 5 years
Obligations from rental and leasing contracts	83.5	14.3	40.8	28.4
Capital commitments	2.0	2.0	0.0	0.0
Miscellaneous financial obligations	3.5	0.9	2.6	0.0
Other financial obligations	**89.0**	**17.2**	**43.4**	**28.4**

Other financial obligations are exclusively accounted for by third parties. They are shown at nominal value.

Rental and leasing obligations for property, plant and equipment of € 24.9 million (2013: € 23.6 million) are recognized in the statement of profit or loss of the financial year 2014. The conditions of the most important operating rental and leasing agreements can be summarized as follows:

At the company's head office in Vienna a rental agreement exists which ends on October 28, 2020. Both contracting parties are entitled to terminate the rental agreement prematurely with a notice period of six months. However, the landlord may only exercise this right under certain conditions. The rent is indexed.

Another rental contract for offices has a term until April 30, 2020. The tenant has a two-time optional right to extend the contract by 3 years each. The annual rent is coupled to the development of an index.

At one production site, the area for operating a plant has been leased for the long term. The related contract ends in April 2062 and includes an extension option for another 30 years. The rent is subject to indexing.

The Group also rents numerous mining vehicles, diggers, forklifts and the like within the framework of cancelable leasing agreements. The contracts have terms ranging from 2 to 7 years. Most of them do not include a purchasing option after the contract ends.

In addition to the aforementioned financial obligations, the RHI Group also has long-term purchase obligations related to the supply with raw materials, especially for electricity, natural gas, strategic basic and non-basic raw materials as well as for the transport of raw materials within the Group. This results in other financial obligations of € 388.9 million at the reporting date (12/31/2013: € 430.4 million). The terms of the contracts amount to up to twelve years. Income from these arrangements is recognized in accordance with the usual course of business. Purchase contracts are regularly reviewed for onerous contracts, which may occur, for example, when requirements fall below the agreed minimum purchase volume.

(64) Notes to off-balance sheet items

To secure liquidity requirements RHI AG regularly sells trade receivables amounting to the portion covered by credit insurance to a domestic financial institution. At December 31, 2014 the receivables sold totaled € 73.0 million (12/31/2013: € 63.2 million). The default and foreign currency risks from the receivables sold were transferred from RHI AG to the buyer. The sale of receivables has reduced receivables in accordance with the provisions of IAS 39.

(65) Investment project Turkey

In early April 2014 the Turkish subsidiary Magnesit Anonim Sirketi, Eskisehr, signed a contract for the acquisition of a raw material plant as well as mining rights in Erzurum, Turkey, with the Cihan Group. This contract provided for numerous contractual conditions for the closing of the transaction. Although the deadline was repeatedly extended, several of these contractually defined conditions were not met. Consequently, the transaction was not closed when the long stop date expired on September 30, 2014. The RHI Group will not extend the long stop date for the closing again and will therefore not pursue the transaction any further.

(66) 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 € 0.3 million in the financial year 2014 (2013: € 0.3 million). The fee included € 0.2 million (2013: € 0.2 million) for the audit of the consolidated financial statements and the annual financial statements of RHI AG, and € 0.1 million (2013: € 0.1 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 certifications regarding compliance with certain contractual agreements.

(67) Annual average number of employees

The average number of employees of the RHI Group weighted by employment level amounts to:

	2014	2013
Salaried employees	3,675	3,701
Waged workers	4,361	4,584
Number of employees on annual average	**8,036**	**8,285**

(68) Notes on related party transactions

Related companies include subsidiaries that are not fully consolidated, joint ventures and MS Private Foundation as a shareholder of RHI AG, as it exercises significant influence based on its unchanged share of more than 25% in RHI AG. In accordance with IAS 24, the Personalfürsorgestiftung der Firma Stopinc AG, Hünenberg, Switzerland, also has to be considered a related company.

Related persons are persons holding a key position in the Group (active members of the Management Board and the Supervisory Board of RHI AG) and their close relatives.

Related companies

In the financial year 2014, the Group charged electricity and stock management cost amounting to € 2.8 million (2013: € 2.9 million) and interest of € 0.1 million (2013: € 0.1 million) to the joint venture MAGNIFIN Magnesia¬produkte GmbH & Co KG, St. Jakob, Austria. In the same period, the Group purchased raw materials in the amount of € 2.1 million (2013: € 2.5 million). Furthermore, the Group received dividend payments of € 7.5 million (2013: € 3.7 million). At December 31, 2014 receivables from MAGNIFIN amount to € 0.6 million (12/31/2013: € 0.8 million); liabilities amount to € 0.1 million (12/31/2013: € 0.6 million). Neither in the reporting period nor in the previous financial years were valuation allowances formed for receivables from this company. The balance at the end of the financial year is unsecured and will be paid in cash. To secure a pension claim of a former employee of MAGNIFIN RHI has assumed a guarantee for € 0.3 million. A resulting cash outflow is not expected. No guarantees were received.

Business transactions with non-consolidated subsidiaries are not listed as they are of minor significance.

In the financial years 2014 and 2013 no transactions were carried out between the RHI Group and MS Private Foundation, with the exception of the dividend paid.

A service relationship with respect to the company pension scheme of the employees of Stopinc AG exists between the Personalfürsorgestiftung der Firma Stopinc AG and the fully consolidated subsidiary Stopinc AG. Stopinc AG makes contribution payments to the plan assets of the foundation to cover pension obligations. The pension plan is recognized as a defined benefit plan and is included in note (28). At December 31, 2014 current account receivables of € 0.8 million (12/31/2013: € 0.8 million) from the personnel welfare foundation existed, for which an interest of 3.25% is paid as in the previous year. In the past reporting period, employer contributions amounting to € 0.4 million (2013: € 0.4 million) were made to the personnel welfare foundation. The overfunding of the pension plan is recognized as a non-current asset of € 1.9 million (12/31/2013: € 1.9 million).

Related persons

Remuneration of key management personnel of the Group, which is subject to disclosure in accordance with IAS 24, comprises the remuneration of the active Management Board and Supervisory Board of RHI AG.

The expenses for the remuneration of the Management Board in the financial year 2014 recognized in the statement of profit or loss amount to € 2.5 million (2013: € 7.3 million). The expenses not including non-wage labor costs amount to € 2.2 million (2013: € 6.2 million), of which € 2.2 million (2013: € 2.4 million) were related to current benefits (fixed, variable and other earnings) and in the previous year € 3.8 million to the termination of employment. At December 31, 2014 liabilities for performance-linked variable earnings of active members of the Management Board of € 0.3 million (12/31/2013: € 0.5 million) are recognized as liabilities. There are no obligations arising from post-employment benefits and legally required termination benefits towards active members of the Management Board.

For members of the Supervisory Board (capital representatives), remuneration totaling € 0.4 million (2013: € 0.3 million) was recognized through profit or loss in the year 2014.

Employee representatives in the Supervisory Board, who are employed by the RHI Group, do not receive compensation for their activity in the Supervisory Board. For their activity as employees in the company and the activity of their close relatives employed with RHI, expenses of € 0.8 million (2013: € 0.7 million) were incurred. This group of persons received 116 (2013: 108) RHI shares in the reporting year as part of the employee stock ownership plan “4 plus 1”.

No advance payments or loans were granted to members of the Management Board or Supervisory Board. The RHI Group did not enter into contingent liabilities on behalf of the Management Board and Supervisory Board. The company has the obligation to pay one member of the Management Board a compensation of up to € 2.5 million in the case of a public takeover bid.

As in the previous year, no stock option plans existed for members of the Management Board. Directors Dealings reports are published on the websites of RHI AG and of the Austrian Financial Market Authority. All members of the Management Board and the Supervisory Board are covered by D&O insurance at RHI.

Detailed and individual information on the remuneration of the Management Board and the Supervisory Board is presented in the Corporate Governance Report 2014 of the RHI Group.

Earnings of former members of the Management Board amounted to € 3.5 million (2013: € 1.2 million).

(69) Corporate bodies of RHI AG

Members of the Management Board

Franz Struzl, Vienna, Chairman
Barbara Potisk-Eibensteiner, Hagenbrunn
Franz Buxbaum, Bad Vöslau
Reinhold Steiner, Trofaiach

Members of the Supervisory Board

Herbert Cordt, Vienna, Chairman
Helmut Draxler, Vienna, Deputy Chairman
Wolfgang Ruttensdorfer, Vienna, Deputy Chairman
Hubert Gorbach, Frastanz
Alfred Gusenbauer, Vienna
Gerd Peskes, Düsseldorf, Germany
Stanislaus Prinz zu Sayn-Wittgenstein-Berleburg, Munich, Germany
David A. Schlaff, Vienna

Employee representatives:

Walter Geier, Leoben
Christian Hütter, Vienna
Roland Rabensteiner, Veitsch
Franz Reiter, St. Jakob in Haus

(70) Material events after the reporting date

After the reporting date on December 31, 2014, there were no events of special significance which may have a material effect on the asset, financial and earnings position of the RHI Group.

Vienna, March 4, 2015

Management Board

Franz Struzl
CEO
CSO Industrial Division

Barbara Potisk-Eibensteiner
CFO

Franz Buxbaum
COO
CTO R&D

Reinhold Steiner
CSO Steel Division

The following auditor's report (Bestätigungsvermerk) has been issued in accordance with § 275 UGB in German language on the German version of the audited consolidated financial statements of RHI AG as of and for the fiscal year ended December 31, 2014 and on the management report. The management report is not included in this Prospectus.

Auditor's Report

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of RHI AG, Vienna, for the financial year from January 1, 2014 to December 31, 2014. These consolidated financial statements comprise the consolidated statement of financial position as of December 31, 2014, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year ended December 31, 2014, and the notes to the consolidated financial statements.

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 as well as the additional requirements of § 245a of the Austrian Commercial Code. 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, 2014 and of its financial performance and its cash flows for the fiscal year from January 1, 2014 to December 31, 2014 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, March 4, 2015

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Marieluise KRIMMEL m.p.
Austrian Certified Public Accountant

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

The publication or dissemination of the consolidated financial statements bearing our opinion may only take place in the approved version. This opinion relates exclusively to the German language version of the complete consolidated financial statements including the Group management report. For any other versions, the regulations contained in section 281 para. 2 UGB (Austrian Commercial Code) are to be observed.

Magnesita Refratários S.A.

Special purpose consolidated historical interim financial statements at June 30, 2017 and independent auditor's report

Independent Auditor's Report

To the Board of Directors and Stockholders
Magnesita Refratários S.A.

Opinion

We have audited the accompanying special purpose consolidated historical interim financial statements of Magnesita Refratários S.A. (the "Company") and its subsidiaries, which comprise the consolidated statement of financial position as at June 30, 2017 and the consolidated statements of operations, other comprehensive income (loss), changes in equity and cash flows for the six-month period then ended, and notes to the financial statements, including a summary of significant accounting policies.

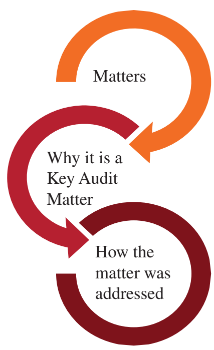
In our opinion, the special purpose consolidated historical interim financial statements referred to above present fairly, in all material respects, the consolidated financial position of Magnesita Refratários S.A. and its subsidiaries as at June 30, 2017, and their consolidated financial performance and their consolidated cash flows for the six-month period then ended, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the special purpose consolidated historical interim financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



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Why it is a Key Audit Matter	How the matter was addressed in the audit
Impairment of non-financial assets (Note 16)	
The Company has significant amounts of intangible assets and property, plant and equipment for which an impairment provision may be required whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The estimates used in the determination of the recoverable amount include relevant and not always objective judgments from management in relation to the projections of results and discounted cash flows, which are dependent of future economic events. Therefore, the use of different assumptions could result in materially different results. Considering the relevance of the Company's non-financial assets such as goodwill, property, plant and equipment and investment properties and the significance of the judgments in determining the recoverable amount, we considered this as a key audit matter in our audit process.	In the context of auditing the special purpose consolidated historical interim financial statements, we performed the following principal procedures in relation to the recoverable amount of non-financial assets. With the support of our valuation specialists, we checked the logical and arithmetic consistency of cash flow projections, as well as tested the consistency of information and key assumptions used by management in the preparation of cash flow projections, such as revenue growth, costs and expenses by comparison with budgets and market data. We also analyzed the process of preparing management projections, comparing the projections of previous years with the subsequent effective results. We performed a sensitivity analysis and recalculated the projections considering different intervals and scenarios of growth and discount rates, as well as read the disclosures made verifying their consistency. Our audit procedures have demonstrated that the criteria and assumptions used by management are reasonable and the disclosures are consistent with the data and information obtained.
Realization of deferred income tax and social contribution asset and ICMS tax credits (Notes 11 and 12)	
The Company presents a consolidated deferred income tax and social contribution asset arising from tax losses and temporarily non-deductible provisions raised by the parent company and its subsidiaries in different countries, recorded to the extent management believes it is probable the Company will generate future taxable income. The Company also presents ICMS tax credits to be recovered in the long-term and which were recorded to the extent management believes it is probable that the Company will generate sufficient ICMS debits to offset the balance held. The past experience with the recovery of these credits indicates that it may be necessary to sell credits to other taxpayers considering that the offset by its own operations may be longer than initially expected. We considered this to be an area of focus, since these assets are material amounts whose analysis of realization involves significant and subjective judgments in order to determine projected future tax basis.	Among other auditing procedures, we engaged our tax specialists to assist us in recalculating income tax losses, social contribution negative basis and temporary differences. Our tax specialists were also engaged to understand management's process of assessing the ICMS tax credits and, together with us, to reperform and verify accuracy of management's calculations related to the discount applied on the ICMS credits in the event of their transfer to other taxpayers, based on external documentation of negotiations with third parties corroborating the estimated realization amount. We also tested the consistency of information and key assumptions used by management in the preparation of the projections and analyzed the realization period considered in the studies and the Company's historical data to corroborate the adequacy and consistency of these realization estimates in relation to both deferred tax assets and ICMS tax credits used in previous years. Finally, we reviewed the disclosures related to the recognition of the deferred tax assets and ICMS tax credits. As a result, we find that the criteria and assumptions adopted by the Company are reasonable and the disclosures are consistent with the information obtained.

Why it is a Key Audit Matter	How the matter was addressed in the audit
Non-current assets and liabilities held for sale (Note 15)	
On June 28, 2017, the European Commission approved the transaction between Magnesita Refratários S.A. and RHI AG to combine their operations, under certain conditions, which included, among others, the sale of the Company's entire business for manufacture and supply of carbon magnesite bricks and other products to customers (or associates) operating in the plant located in Oberhausen, Germany, as well as of all essential assets and personnel to ensure the feasibility and competitiveness of this business. Due to the conditions mentioned above, management reclassified the assets and liabilities of the Oberhausen plant to be disposed-off to held for sale, which were also remeasured at the fair value less costs to sell. In addition, a portion of the goodwill of the dolomite cash-generating unit was allocated to the assets held for sale of the Oberhausen plant. The determination of the amount of goodwill to be allocated and the market value of the assets and liabilities when negotiations with potential acquirers were still underway, required significant judgments. Therefore, the amount to be received in the sale of the plant when negotiations close may differ from the estimated fair value. Due to these aspects, we considered this to be an area of focus in our audit.	As an audit response, among the key procedures performed, we analyzed documentation provided by management related to the agreement signed with third parties for the sale of Oberhausen plant, and the evaluation of management that the plant is available for immediate sale and the sale is highly probable. We also involved our valuation specialists to review the models and assumptions used by management to prepare the projections considered to evaluate the impairment of non-current assets such as goodwill and property, plant and equipment of the Oberhausen plant. Finally, we read the information disclosed in the notes and believe that the disclosures in the special purpose consolidated historical interim financial statements are consistent with the information obtained from applying our auditing procedures.

Other matters

Audit of prior-year information

The special purpose consolidated historical interim financial statements mentioned in the first paragraph includes financial information, presented for comparison purposes, related to the statements of operations, other comprehensive income (loss), changes in equity and cash flows for the six-month period ended June 30, 2016, which were not audited by us or by other independent auditors. Consequently, we do not express an opinion on those interim financial statements. In addition, the special purpose consolidated historical interim financial statements include information corresponding to the balance sheet as of December 31, 2016, obtained from the financial statements of December 31, 2016, presented for comparison purposes. The audit of the financial statements for the year ended December 31, 2016 were conducted by other independent auditors, whose unqualified audit reports were dated October 17, 2017.

Responsibilities of management and those charged with governance for the special purpose consolidated historical interim financial statements

Management is responsible for the preparation and fair presentation of these special purpose consolidated historical interim financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose consolidated historical interim financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Auditor's responsibilities for the audit of the special purpose consolidated historical interim financial statements

Our objectives are to obtain reasonable assurance about whether the special purpose consolidated historical interim financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these special purpose consolidated historical interim financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the special purpose consolidated historical interim financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 internal control of the Company and its subsidiaries.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the special purpose consolidated historical interim financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the special purpose consolidated historical interim financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the special purpose consolidated historical interim financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the special purpose consolidated historical interim financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Belo Horizonte, October 17, 2017

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F" MG

Fábio Abreu de Paula
Contador CRC 1MG075204/O-0

Magnesita Refratários S.A.

Special purpose consolidated historical interim statement of financial position – assets

At June 30, 2017 and December 31, 2016

(In thousands of reais)	Notes	06/30/2017	12/31/2016
Assets			
Current assets			
Cash and cash equivalent	(8)	669,126	960,342
Marketable securities		78,535	25,253
Trade accounts receivable	(9)	536,337	480,592
Inventories	(10)	811,556	826,489
Income tax and social contribution recoverable		36,108	35,456
Other taxes recoverable	(11)	56,704	74,104
Receivables from sale of property		9,930	1,953
Other		54,001	33,517
		2,252,297	**2,437,706**
Non-current asset held for sale	(15)	81,095	–
		2,333,392	**2,437,706**
Non-current assets			
Marketable securities		9,904	13,062
Trade accounts receivable	(9)	17,126	17,223
Deferred income tax and social contribution	(12)	23,048	33,498
Other taxes recoverable	(11)	58,307	55,406
Judicial deposits	(20)	18,503	16,917
Receivables from sale of property		201	6,071
Investments		10,076	9,342
Investment property		13,004	13,004
Property, plant and equipment – PP&E	(13)	1,420,069	1,433,036
Intangible assets	(14)	2,076,984	2,105,211
		3,647,222	**3,702,770**
Total assets		**5,980,614**	**6,140,476**

Magnesita Refratários S.A.

Special purpose consolidated historical interim statement of financial position – liabilities

At June 30, 2017 and December 31, 2016

(In thousands of reais)	Notes	06/30/2017	12/31/2016
Liabilities and equity			
Current liabilities			
Trade accounts payable		510,519	536,111
Liabilities arising from the purchase of raw materials	(17)	125,131	99,523
Loans and financing	(18)	394,413	584,213
Salaries, provisions and social charges		122,186	146,872
Income and social contribution taxes payable		21,927	22,307
Other taxes payable	(19)	31,365	31,602
Dividends		366	87,652
Accounts payable for investment acquisition		3,284	7,008
Other liabilities		67,574	69,333
		1,276,765	**1,584,621**
Liabilities linked to non-current asset held for sale	(15)	4,557	–
		1,281,322	**1,584,621**
Non-current liabilities			
Loans and financing	(18)	2,102,128	1,906,851
Provisions	(20)	59,293	50,266
Post-employment liabilities	(21)	340,218	322,250
Deferred income tax and social contribution	(12)	248,005	262,778
Other liabilities		36,042	35,848
		2,785,686	**2,577,993**
Equity	(22)		
Capital		1,576,215	1,576,215
Capital reserves		157,731	157,731
Treasury shares		(63,856)	(25,588)
Revenue reserves		293,153	293,153
Accumulated losses		(166,440)	–
Other comprehensive income (loss)		96,719	(42,460)
Controlling shareholders		**1,893,522**	**1,959,051**
Non-controlling shareholders		20,084	18,811
		1,913,606	**1,977,862**
Total liabilities and equity		**5,980,614**	**6,140,476**

Magnesita Refratários S.A.

Special purpose consolidated historical interim statement of operations

Six-month periods ended June 30, 2017 and 2016

(In thousands of reais, except for basic and diluted earnings (losses) per share in reais)	Notes	06/30/2017	06/30/2016 (unaudited)
Net revenue from sales and services	(28)	1,755,072	1,799,534
Cost of sales	(24)	(1,170,842)	(1,186,627)
Gross profit		**584,230**	**612,907**
Selling expenses	(24)	(239,059)	(252,621)
General and administrative expenses	(24)	(130,577)	(141,005)
Stock options		–	(711)
Share of profit (loss) of investees		914	(238)
Other operating income (expenses), net	(24)	(216,978)	(10,586)
Operating profit (loss) before financial income (expenses)		**(1,470)**	**207,746**
Financial (expenses) income	(26)		
Financial income		69,970	264,720
Financial expenses		(215,451)	(224,407)
		(145,481)	**40,313**
Income (loss) before income tax and social contribution		**(146,951)**	**248,059**
Income tax and social contribution	(12.b)	(19,680)	(86,946)
Net income (loss) for the period		**(166,631)**	**161,113**
Attributable to:			
Controlling shareholders		(166,440)	157,738
Non-controlling shareholders		(191)	3,375
		(166,631)	**161,113**
Earnings/(loss) per share attributable to Company's shareholders for the period (R$ per share)			
Basic earnings/(loss) per share	(27.a)	(3.28)	3.01
Diluted earnings/(loss) per share	(27.b)	(3.28)	2.84

Magnesita Refratários S.A.

Special purpose consolidated historical interim statement of other comprehensive income (loss)

Six-month periods ended June 30, 2017 and 2016

(In thousands of reais)	06/30/2017	06/30/2016 (unaudited)
Net income (loss) for the period	**(166,631)**	**161,113**
Other comprehensive income not to be reclassified to profit and loss (P&L) for subsequent periods		
Actuarial gain (loss) on post-employment benefit obligations		
Results of actuarial valuation (net of tax)	(7,765)	–
Other comprehensive income to be reclassified to profit and loss (P&L) for subsequent periods		
Foreign exchange gains (losses) on investments in subsidiaries abroad	149,758	(185,802)
Hedge accounting (net of tax)	(1,350)	(4,909)
	140,643	**(190,711)**
Total comprehensive income (loss) for the period	**(25,988)**	**(29,598)**
Attributable to:		
Controlling shareholders	(27,261)	(30,104)
Non-controlling shareholders – profit (loss) for the period	(191)	3,375
Non-controlling shareholders – Foreign exchange gains (losses) on investments	1,464	(2,869)
	(25,988)	**(29,598)**

Magnesita Refratários S.A.

Special purpose consolidated historical interim statement of changes in equity

Six-month periods ended June 30, 2017 and 2016

	Attributable to owners of the parent												
			Capital reserves				Revenue reserves						
(In thousands of reais)	Capital	Treasury shares	Share issue premium reserve	Stock options granted	Special law no 8.200/91	Goodwill reserve	For investments	Legal reserve	Retained Earnings (accum. losses)	Other compreh. income (loss)	Total	Non controlling interest	Total equity
Balance at December 31, 2015	**1,632,849**	**(3,643)**	**29,965**	**47,155**	**5,973**	**88,874**	**–**	**–**	**(129,363)**	**191,485**	**1,863,295**	**23,485**	**1,886,780**
Exchange gains (losses) on foreign investments	–	–	–	–	–	–	–	–	–	(182,933)	(182,933)	(2,869)	(185,802)
Hedge accounting	–	–	–	–	–	–	–	–	–	(4,909)	(4,909)	–	(4,909)
Treasury shares purchase	–	(13,547)	–	–	–	–	–	–	–	–	(13,547)	–	(13,547)
Cancellation of treasury shares	–	17,190	(15,804)	–	–	–	–	–	–	–	1,386	–	1,386
Stock options granted	–	–	–	710	–	–	–	–	–	–	710	–	710
Profit for the period	–	–	–	–	–	–	–	–	157,738	–	157,738	3,375	161,113
Balance at June 30, 2016 (unaudited)	**1,632,849**	**–**	**14,161**	**47,865**	**5,973**	**88,874**	**–**	**–**	**28,375**	**3,643**	**1.821,740**	**23,991**	**1,845,731**
Balance at December 31, 2016	**1,576,215**	**(25,588)**	**14,161**	**48,723**	**5,973**	**88,874**	**274,812**	**18,341**		**(42,460)**	**1,959,051**	**18,811**	**1,977,862**
Actuarial gain (loss) on post-employ. benefit obligations	–	–	–	–	–	–	–	–	–	(7,765)	(7,765)	–	(7,765)
Exchange gains (losses) on foreign investments	–	–	–	–	–	–	–	–	–	148,294	148,294	1,464	149,758
Hedge accounting	–	–	–	–	–	–	–	–	–	(1,350)	(1,350)	–	(1,350)
Treasury shares purchase	–	(38,268)	–	–	–	–	–	–	–	–	(38,268)	–	(38,268)
Loss for the period	–	–	–	–	–	–	–	–	(166,440)	–	(166,440)	(191)	(166,631)
Balance at June 30, 2017	**1,576,215**	**(63,856)**	**14,161**	**48,723**	**5,973**	**88,874**	**274,812**	**18,341**	**(166,440)**	**96,719**	**1,893,522**	**20,084**	**1,913,606**

Magnesita Refratários S.A.

Special purpose consolidated historical interim statement of cash flows

Six-month periods ended June 30, 2017 and 2016

(In thousands of reais)	06/30/2017	06/30/2016 (unaudited)
Cash flow from operating activities		
Net income (loss) for the period	**(166,631)**	**161,113**
Adjustments		
Monetary and foreign exchange gains, net	11,296	(154.363)
Interest charges	113,865	114,050
Depreciation and depletion	70,560	71,117
Amortization of intangible assets	8,890	7,647
Impairment losses	164,317	–
Share of profit (loss) of investees	(914)	238
Deferred income and social contribution taxes	(4,554)	59,995
Derivative instruments – fair value swap	20,320	(12,895)
Stock options	–	711
Write-down of inventories	(3,112)	(17,416)
Losses (reversal) on non-current non-financial assets	(3,354)	7,677
Allowance for doubtful accounts	5,416	(5,849)
	216,099	**232,025**
(Increase) decrease in assets		
Trade accounts receivable	(39,527)	(62,615)
Inventories	(12,785)	(6,611)
Taxes recoverable	15,164	8,468
Other	78,783	37,246
	41,635	**(23,512)**
Increase (decrease) in liabilities		
Trade accounts payable	(42,339)	2,620
Financial liabilities arising from the purchase of raw materials	24,129	(29,259)
Taxes payable	5,589	2,292
Other	(108,422)	(27,872)
	(121,043)	**(52,219)**
Income tax and social contribution paid	(6,039)	(13,246)
Net cash from operating activities	**130,652**	**143,048**

Magnesita Refratários S.A.

Special purpose consolidated historical interim statement of cash flows

Six-month periods ended June 30, 2017 and 2016 – continued

(In thousands of reais)	06/30/2017	06/30/2016 (unaudited)
Cash flow from investing activities		
Marketable securities	(89,651)	(1,478)
PP&E, investments and intangible assets disposals	–	(3,269)
PP&E and intangible asset purchases	(70,539)	(84,655)
Investments in non-subsidiaries	(1,928)	–
Credits due to sale of PP&E	1,000	(452)
Interest on capitalized loans	–	952
Net cash used in investing activities	**(161,118)**	**(88,902)**
Cash flow from financing activities		
Loans and financing	576,785	102,780
Loans and financing repayments	(572,615)	(61,892)
Payment of interest on loans and financing	(96,786)	(86,957)
Derivative instruments	(20,320)	12,895
Dividends paid	(86,848)	–
Treasury shares purchased	(38,268)	(12,161)
Net cash used in financing activities	**(238,052)**	**(45,335)**
Increase (decrease) in cash and cash equivalents	**(268,518)**	**8,811**
Cash and cash equivalents at beginning of period	960,342	796,187
Effect of exchange rate changes on cash	(22,698)	(62,502)
Cash and cash equivalents at end of period	669,126	742,496
Increase (decrease) in cash and cash equivalents	**(268,518)**	**8,811**

(1) Operations

Magnesita Refratários S.A. ("Company" or "Magnesita"), controlled through investment vehicles of GP Investments, Ltd. and Rhône Group is a public company listed in the "Novo Mercado" of BM&F BOVESPA and whose business purpose, in conjunction with its subsidiaries ("Magnesita Group" or "Group"), is to manufacture refractory products, which are essential for processes performed under high temperatures. Group products are basically made of magnesite or dolomite and are available in a wide range of forms, such as: bricks, masses, mortars and concrete. Taking advantage of its synergy with customers, the Group renders electromechanical maintenance and refractory assembly services. In addition, the Group operates with processing and sale of industrial minerals such as talc, caustic magnesia and magnesite sinter.

In addition to its plant located in Contagem, MG, Brazil (the Company's headquarters), the Company has other direct and indirect subsidiaries and jointly-controlled entities, holdings, manufacturing plants, trading companies, mining or non-operating subsidiaries, which are included in these special purpose consolidated historical interim financial statements.

(2) Approval of the special purpose consolidated historical interim financial statements

These interim consolidated financial statements were approved and authorized for disclosure by the Company's Directors on 17 October 2017.

(3) Summary of significant accounting policies

3.1 *Basis of preparation*

The special purpose consolidated historical interim financial statements of Magnesita Group as at June 30, 2017 and for the six-month period then ended have been prepared exclusively for inclusion in the Prospectus of RHI Magnesita N.V. dated October 17, 2017. These special purpose consolidated historical interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The significant accounting policies have been consistently applied for all periods and/or years presented.

The Company originally issued consolidated interim accounting information included in the Quarterly Information Form (ITR) for the quarter ended June 30, 2017 in accordance with the accounting standard CPC 21, Interim Financial Reporting, of the Brazilian Accounting Pronouncements Committee (CPC) and International Accounting Standard (IAS) 34, Interim Financial Reporting issued by the International Accounting Standards Board (IASB), as well as the presentation of this information in accordance with the standards issued by the Brazilian Securities Commission (CVM), applicable to the preparation of the Quarterly Information (ITR). The accounting policies adopted in these special purpose consolidated historical interim financial statements are consistent with those adopted in the above mentioned Quarterly Information except for the measurement of investment property which is present at the historical cost in the special purpose consolidated historical interim financial statements and at fair value in the Quarterly Information.

Significant accounting policies adopted in the preparation of these special consolidated historical interim financial statements are described below.

The special purpose consolidated historical interim financial statements were prepared using the historical cost as a value basis, and adjusted to reflect the measurement of financial assets and liabilities (including derivative instruments) at fair value through profit or loss. The preparation of special purpose consolidated historical interim financial statements requires the use of certain critical accounting estimates as well as the exercise of judgment by Group management in applying the Group's accounting policies. Those areas which involve greater judgment or more complexity or where the assumptions and estimates are significant for the special purpose consolidated historical interim financial statements are disclosed in Note 4.

3.2 ***Consolidation criteria***

At June 30, 2017, the special purpose consolidated historical interim financial statements includes those of the Company and the subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The fiscal year of direct and indirect subsidiaries coincides with that of the Company and the accounting policies were consistently applied to the consolidated companies.

The investments not fully consolidated include the interests in the joint ventures Krosaki Magnesita Refractories LLC and Magnesita Envoy Asia Ltd. The Company holds respectively 40% and 50% of interest in their equity.

The consolidated financial statements of the Group include:

	Principal activities	Country of incorporation	Equity interest June 30, 2017	Equity interest December 31, 2016
Iliama II Trading (sole proprietorship company) Ltda. Capital of Eur 3,000 and 3,010 units of interest	Holding company	Portugal	–	100%
Magnesita Finance Ltd. (*) Capital of USD 990,410 and 99,041,076 units of interest	Holding company which has equity interest in operational refractories companies in USA, Europe and China	Luxembourg	100%	100%
Magnesita Mineração S.A. Capital of R$35,236 and 944,899 units of interest	Operational company (mining activities)	Brazil	100%	100%
MAG-Tec Ltda. Capital of R$200 and 800,000 units of interest	Holding company	Brazil	100%	100%
RASA – Refractarios Argentinos S.A. I. C. y M. Capital of ARS9,100 and 9,100,000 units of shares	Operational company (refractory industry)	Argentina	100%	100%
Refractários Magnesita Colômbia S.A. Capital of COP11,673,200 and 1,167,320,000 units of shares	Sales office	Colombia	100%	100%
Refractários Magnesita Peru S.A.C. Capital of PEN6,890 thousand and 1,000 units of shares	Sales office	Peru	100%	100%
Refractários Magnesita Uruguay S.A. Capital of UYU450 thousand and 450,000 units of interest	Sales office	Uruguay	100%	100%
Reframec Manutenção e Montagem de Refratários Ltda. Capital of R$1,786 and 1,786,000 units of interest	Operational company (refractories services)	Brazil	100%	69%
Mag Data Paticipações e Investimentos S.A. Capital of R$ 9,680	Holding company	Brazil	100%	100%

3.3 ***Segment reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, identified as the Executive Board and the Board of Directors, also responsible for the Group's strategic decisions.

3.4 ***Foreign currency translation***

(a) *Functional and presentation currency*

The financial statements of each subsidiary and jointly-controlled subsidiary included in the consolidation and those used as a basis to evaluate investments on the equity method are prepared using the functional currency of each entity. The special purpose consolidated historical interim financial statements are presented in Brazilian reais (R$), which is Magnesita's functional and reporting currency.

(b) *Foreign currency transactions and balances*

Foreign currency transactions are translated into the functional currency by the exchange rates prevailing on the dates of transaction or valuation, when items are remeasured. Exchange gains and losses arising from the settlement of these transactions and from the translation at the exchange rate in force at period end, related to monetary assets and liabilities denominated in foreign currency, are recognized in the statement of operations as financial income (expenses), except when deferred in equity.

Foreign exchange gains/losses of investments in subsidiaries abroad whose functional currency is different from the Company's functional currency are recognized in "Other comprehensive income (loss)" or recorded in profit or loss only in proportion to the amount of a sale or write-off due to loss or extinguishment.

3.5 ***Fair value measurement***

The Group measures financial instruments, such as derivatives at fair value, at each balance sheet closing date. Further to that, the fair values of financial instruments measured at amortized cost are disclosed in Note 7. The Group uses valuation techniques appropriate for the circumstances and for which there is sufficient data for fair value measurement, maximizing the use of relevant available information and minimizing the use of unavailable information.

All assets and liabilities that are measured or disclosed at fair value in the special purpose consolidated historical interim financial statements are classified within the fair value hierarchy, as described below:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is either directly or indirectly observable; and.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is not available.

No assets or liabilities were transferred between fair value hierarchy levels in 2017 and 2016.

The Group's Valuation Committee determines the policies and procedures for fair value measurement. The Valuation Committee comprises the mergers and acquisitions internal department, the risk management department, as well as financial officers.

At every disclosure date, the Valuation Committee analyzes the changes in asset and liability values that must be measured and recognized according to the Group's accounting policies. For the purposes of fair value disclosures, the Group determined classes of assets and liabilities based on the nature, characteristics and risks of assets or liabilities and the fair value hierarchy level, as mentioned above.

3.6 ***Cash and cash equivalents***

Cash and cash equivalents include cash in hand, bank deposits and highly liquid short-term investments redeemable within 90 (ninety) days with immaterial risk of change in fair value.

3.7 ***Financial assets and liabilities***

3.7.1 *Initial recognition and measurement of financial assets*

Management determines the classification of the financial assets on initial recognition. The classification depends on the nature and purpose for which the financial assets were acquired.

(a) Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are financial assets held for trading. Derivatives are also categorized as held for trading and are therefore classified in this category. Gains or losses arising from changes in fair value of financial assets measured at fair value through profit or loss are presented in profit or loss, under "Financial income (expenses)", in the period in which they occur.

(b) Loans and receivables

Loans granted and receivables that are non-derivative financial assets with fixed or determinable payments not traded in an active market are classified in this category. The Group's loans and receivables comprise trade accounts receivable, other accounts receivable and cash and cash equivalents, except for short-term investments. Loans and receivables are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest method.

A financial asset (or, whenever the case, a part of a financial asset, or a part of a group of similar financial assets) is derecognized, mainly, when:

(i) The rights to receive cash flows from the asset have expired;

(ii) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

3.7.2 *Initial recognition and measurement of financial liabilities*

The Group determines the classification of its financial liabilities upon their initial recognition.

Financial liabilities are initially recognized at fair value and, in the case of loans and financing, net of transaction cost directly attributable thereto.

The Group's financial liabilities include trade accounts payable, other accounts payable, overdraft facility (checking account with a negative cash balance), loans and financing, financial guarantee contracts and derivative financial instruments.

Subsequent measurement

Measurement of financial liabilities depends on their classification, which can be as follows:

(a) Financial liabilities at fair value through profit or loss

These include financial liabilities held for trading and financial liabilities initially recognized at fair value.

Financial liabilities are classified as held for trading if acquired to be sold within the short term.

Gains and losses on liabilities held for trading are recognized through profit or loss.

(b) Loans and financing

After initial recognition, interest bearing loans and financing are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized through profit or loss when liabilities are derecognized, and through the amortization process by the effective interest rate method.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to be completed for its intended use or sale are capitalized as part of the cost of the respective assets.

All other borrowing costs are expensed in the period they occur. Borrowing costs include interest expense and other costs incurred by an entity in respect of borrowings.

Derecognition (write-off)

A financial liability is derecognized when the liability has been discharged, cancelled or has expired.

When an existing financial liability is replaced by another of the same lender with substantially different terms, or the terms of an existing liability are significantly changed, this replacement or change is treated as write-off of the original liability with recognition of a new liability, the difference in the respective carrying amount being recognized in profit or loss.

3.7.3 *Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount is presented on the balance sheet when there is a legally enforceable right to offset the recognized amounts and the Group intends to settle them on a net basis or to realize the asset and settle the liability simultaneously.

3.7.4 *Impairment of financial assets*

The Magnesita Group assesses at the balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

3.8 ***Derivative instruments***

The Company uses certain derivative financial instruments, such as interest rate and foreign exchange swaps to provide hedging against the risk of interest rate and exchange rate variation respectively.

Derivative financial instruments that are designated in hedge operations are initially recognized at fair value on the date the derivative contract is signed, and subsequently remeasured at fair value. Derivatives are presented as financial assets when the fair value of the instrument is positive, and as financial liabilities when the value is negative.

Any gains or losses from changes in fair value of derivatives are directly recognized in profit or loss, except for the effective cash flow hedge portion, which is recognized under "Other comprehensive income (loss)" in equity, and then reclassified to the statement of operations when the hedged item affects the profit or loss.

For hedge accounting purposes, the following classifications apply:

(a) *Fair value hedge*

When providing hedge against exposure to changes in the fair value of the recognized asset or liability or of unrecognized firm commitment, or of identified part of this asset, liability or firm commitment, which is attributable to a specific risk and may affect profit or loss. The Company does not have a fair value hedge for the period ended June 30, 2017 and December 31, 2016.

(b) *Cash flow hedge*

When providing hedge against variation in cash flows that is attributable to a specific risk related to a recognized asset or liability or an expected highly probable transaction.

(c) *Net investment hedges*

Net investment hedges in foreign operations, including monetary item hedges that are as part of the net investment, are accounted for in a manner similar to the cash flow hedge. The Company does not have net investment hedge for the periods ended June 30, 2017 and December 31, 2016.

In the initial recognition of a hedge relationship, the Company formally classifies and documents the hedge relationship to which the Company wishes to apply hedge accounting, as well as the management objective and risk management strategy to carry out the hedge. The documentation includes the identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk and how the Company will evaluate the effectiveness of the hedging instrument to offset the exposure to changes in the fair value of the hedged item or cash flows related to the hedged risk.

In relation to the cash flow hedge, the statement of the highly probable nature of the transaction contemplated in the hedged item, as well as the expected periods of transfer of gains or losses arising from the equity hedge instruments to the result, are also included in the documentation of the hedge relationship. These hedges are expected to be highly effective at offsetting changes in cash flows and are continuously evaluated to see if they actually have been effective throughout the financial reporting periods for which they were assessed.

Cash flow hedges

Cash flow hedges that meet the criteria for hedge accounting are recorded as follows:

The effective portion of gain or loss of the hedging investment is recognized in "Other comprehensive income (loss)" in equity, while the ineffective hedge portion is recognized in the profit or loss as "Financial income (expense)".

When the Company's documented risk management strategy for a particular hedge relationship excludes from the hedge effectiveness assessment a specific component of the gain or loss, or the respective cash flows from the hedge instrument, that component of the gain or loss excluded is recognized in profit or loss.

The amounts recorded in other comprehensive income (loss) are immediately transferred to the statement of operations when, for example, the hedged financial income or expense is recognized. When the hedged item is the cost of a non-financial asset or liability, the amounts recorded in shareholders' equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, closed or exercised without replacement or rollover (as part of the hedging strategy), or if its hedge rating is revoked, or when the hedge no longer meets the criteria for hedge accounting, the gains or losses previously recognized in the comprehensive income (loss) remain separately in equity until the expected transaction occurs or the firm commitment is met.

The Company uses certain interest swap contracts to hedge against its exposure to interest rate risks, as described in Note 5 and 6.

3.9 *Inventories*

Inventories are valued at the lower of cost and net realisable value. Net realizable value is the estimated sale price in the ordinary course of business, less applicable commercial expenses.

3.10 *Current and deferred income tax and social contribution*

Income taxes are recognized in profit or loss, except to the extent that they are related to items directly recognized in equity. In this case, the taxes are also recognized in equity.

Except for foreign subsidiaries, for which the ruling tax rates in the country in which they are located shall be observed, Corporate Income Tax ("IRPJ") and Social Contribution Tax on Net Profit ("CSLL") are calculated based on net profit, adjusted by additions and exclusions determined as per the Brazilian tax legislation.

The recognition of tax credits is based on studies of expected future taxable income prepared and based on internal assumptions and future economic scenarios which may, therefore, change. The study was reviewed by the Management and approved by the Board of Directors.

Following the merger with one of the Company's shareholders (holding 10.97% of its capital), the goodwill previously recognized as a result of the acquisition recorded in the intangible assets at the shareholder was then reduced to reflect the tax benefit arising from the goodwill, pursuant to the Brazilian Securities Commission ("CVM") Ruling No. 349/01. As a result, a goodwill reserve in connection with the tax benefit was recorded. The net balance of this goodwill represents the tax benefit amount expected upon its amortization and is classified together with other deferred tax credits.

3.11 *Investments*

3.11.1 *Investments in jointly controlled entities*

The Group holds interest in joint controlled entities, for which an agreement was entered into providing for joint control of various activities.

Investments in jointly controlled entities are recognized and measured in the special purpose consolidated historical interim financial statements using the equity method and recognized in profit or loss as operating income or expense. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

3.11.2 *Investment properties*

Investment properties are measured at cost, including transaction costs, less accumulated depreciation and less accumulated impairment (cost model).

Investment properties are written off when sold or when they are no longer permanently used and no future economic benefit from the disposal thereof is expected. The difference between the net sales value and asset book value is recognized in the statement of operations for the period in which the sale takes place.

3.12 ***Property, plant and equipment (PP&E)***

Property, plant and equipment items are recorded at acquisition, or construction cost, less depreciation and, where applicable, reduced to their recoverable amount.

The main components of some PP&E assets, after the replacement thereof, are recorded as individual and separate assets using the specific useful lives of this component, while the replaced component is written off. The maintenance is performed to restore and maintain the original performance standards and are recognized in profit or loss during the period in which they were incurred.

Depletion of ore mines is calculated based on extracted ore volume (i.e. units of production). Depreciation of other assets is calculated on a straight-line basis in order to allocate costs to residual value over their estimated useful lives.

The assets' useful lives and net book value are reviewed every year end and prospectively adjusted, as applicable. The carrying amount of an asset is immediately reduced to its recoverable amount when it exceeds the estimated recoverable amount.

3.13 ***Intangible assets***

(a) *Goodwill*

Goodwill is represented by the excess of the consideration paid and/or payable for the acquisition of a business over the net fair value of assets and liabilities of the acquired entity.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on disposal of an entity include the book value of the goodwill on the entity disposed of.

Goodwill is allocated to Cash Generating Units (CGUs) for the purpose of impairment testing. Goodwill is allocated to CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose, and segregated by operating segment. The assumptions and methodology applied at the impairment test are shown in Note 16.

(b) *Software*

Software licenses acquired are capitalized based on the costs incurred to buy software programs and bring them to use.

Development costs directly attributable to the project and tests of software products, controlled by the Magnesita Group, are recognized as intangible assets when the criteria to recognize intangibles assets are met.

Other development costs that do not meet these criteria are recognized as expenses, when incurred.

Software-related costs recognized as assets are amortized using the straight-line method over the useful lives of assets, at the rates described in Note 14.

3.14 ***Impairment of non-financial assets***

Indefinite useful life assets, such as goodwill, are not subject to amortization and are annually tested for impairment. Assets with finite useful life are tested for impairment if there is an impairment indicator. An impairment loss is recognized at the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (i.e., cash-generating units – CGUs).

3.15 ***Provisions for litigations and contingent assets***

Provisions related to legal, administrative, labor, social security, tax and civil proceedings are recognized when the Group has a present obligation, legal or constructive, arising from past events, the settlement of which is likely to result in an outflow of economic benefits and for which a reliable estimate can be made.

Contingent assets are not recognized, except when there is favorable final and unappeable decision on a lawsuit, of which the likelihood of success is virtually certain.

Significant contingent assets and liabilities are disclosed in Note 20. The Provisions for labor claims consider the outstanding lawsuits and the historical average of losses.

3.16 ***Employee benefits***

(a) *Supplemental retirement plan*

The Group participates in pension plans managed by privately-held supplementary pension plan entity, which provide its employees with pension plans and other post-employment benefits.

The liability with respect to defined-benefit pension plans is determined by independent actuaries on an annual basis. This liability is the present value of the defined benefit obligation at the balance sheet date, less the market value of the plan assets, adjusted for actuarial gains or losses and costs of unrecognized past service. Significant assumptions adopted by the Group are disclosed in Note 21.

For the defined contribution plan, the Group pays contributions to a privately administered pension plan on a mandatory, contractual or voluntary basis. Except for the portion relating to defined benefits, represented by claims for disability and death, where the actuarial computation is made by independent actuaries, the Group has no further payment obligations after the contributions have been paid. Regular contributions comprise the net costs for the periods when they are due and are included in personnel costs.

The recognition and measurement criteria, as well as actuarial assumptions, are described in Note 21.

(b) *Share-based remuneration*

The Group has a share-based plan, to be settled with the Company's shares, which allows for management and other employees appointed by the Board of Directors to acquire its shares. The fair value of employee services, received in exchange for the grant of options, is recognized as expense during the vesting period. When options are exercised, the amounts received, net of any directly attributable transaction costs, are credited in capital (par value).

3.17 ***Revenue recognition***

Revenue is presented net of taxes, returns, rebates and discounts and, after eliminating sales within the Magnesita Group. It is recognized at the fair value of the consideration received or receivable, to the extent it is probable that future economic benefits will flow to the entity, and revenues and costs can be reliably measured. Additionally, specific criteria for each of the Group's activities must be met, as follows:

(a) *Sale of products*

Sales revenue is recognized when all significant risks and benefits inherent to the goods are transferred to purchaser. The Group adopts as policy for revenue recognition the date on which the product is delivered to the purchaser.

(b) *Sales of services*

Service revenue is recognized based on services rendered up to the balance sheet date, provided that all costs associated with the services can be reliably measured.

(c) *Financial income*

Financial income is recognized on the accrual basis, using the effective interest rate method.

3.18 ***Treasury stock***

Own equity instruments that are repurchased (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the income statement upon purchase, sale, issue or cancellation of own equity instruments of the Group. Any difference between carrying amount and consideration is recognized in other capital reserves.

3.19 ***Business combinations***

Business combinations are accounted for under the acquisition method. The acquisition cost is measured by the sum of consideration transferred and transferrable, valued on fair value on the acquisition date, and the value of any non-controlling interest in the acquiree.

Upon acquiring a business, the Group measures the financial assets and liabilities acquired in order to classify and allocate them according to contractual terms, economic circumstances and corresponding conditions at the acquisition date, which include segregation, by the acquirer, of embedded derivatives existing in host contracts in the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured as at the acquisition date through the statement of operations.

The excess of the consideration transferred over the fair value of identifiable assets and liabilities acquired net at the acquisition date is recorded as goodwill, which is allocated to each acquired cash-generating unit.

3.20 ***Provision for environmental restoration and asset retirement obligations***

The Group recognizes a provision for asset decommissioning and environmental restoration costs arising from mining activities, based on the present value of expected costs for restoration and deactivation of assets and areas related to mining activities using estimated cash flows, and recognized as part of the cost of the corresponding asset.

Cash flows are discounted at a pre-tax rate that reflects the specific risks inherent in the asset retirement obligation. The financial effect of the discount is recorded in expense as incurred and recognized in the statement of operations as a financial cost. The estimated future costs of deactivation of assets are reviewed annually and adjusted, as appropriate. Changes in estimated future costs or the discount rate applied are either added or deducted from the cost of the asset.

3.21 ***Standards issued but not yet effective***

IFRS 15 – Revenue from Contracts with Customers – this new standard brings principles that an entity will adopt to determine revenue measurement and when it is recognized. It becomes effective on January 1, 2018 and substitutes IAS 11 – "Construction Contracts" IAS 18 – "Revenue" and related interpretations. The application of the standard may affect the allocation of revenue and cost across years, however the effect is expected to be immaterial for the Group.

IFRS 9 – Financial Instruments – addresses the classification, measurement and recognition of financial assets and liabilities. The full version of IFRS 9 was published in July 2014, effective as of January 1, 2018. It substitutes the guidance in IAS 39 regarding the classification and measurement of financial instruments. IFRS 9 maintains, however it simplifies the combined measurement model and establishes three main measurement categories for financial assets: amortized cost, fair value through other comprehensive income (loss) and fair value through profit or loss. It also introduces a new model of expected credit losses, replacing the current model of incurred losses. IFRS 9 mitigates the requirements of hedge effectiveness and requires an economic relationship between the hedged item and hedging instrument and the hedged ratio should be the same as that effectively used by management for risk management purposes. The Group management is evaluating the total impact of its adoption.

IFRS 16 Leases – which was issued in January 2016, replaces IAS 17 Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16, a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments due over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use its incremental borrowing rate. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained.

The Group management is currently assessing the impact of IFRS 16.This standard is subject to EU endorsement and the IAS effective date is for the annual periods beginning on or after January 1, 2019.

Annual improvements to IFRSs 2014–2016 Cycle – The IASB has published a number of minor amendments to IFRSs through both standalone amendments and through the Annual Improvements to IFRS Standards 2014-2016 cycle. Whilst these have not yet been endorsed by the EU, they are expected to be effective from January 1, 2018 apart from the amendment to IFRS 12 Disclosure of Interests in Other Entities which is effective from January 1, 2017. These amendments are expected to have an insignificant effect on the financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration – IFRIC 22 Interpretation on 'Foreign Currency Transactions and Advance Consideration' which was issued in December 2016 clarifies the requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Effective date: Annual periods beginning on or after January 1, 2018.

There are no other relevant IFRS standards and IFRIC interpretations that are not yet effective.

(4) Critical accounting estimates and judgments

Accounting estimates and judgments are continuously assessed based on historical experience and other factors, including expectations with regard to future events, considered reasonable under the circumstances.

The Magnesita Group makes future estimates based on assumptions. Estimates and assumptions that present a significant risk, likely to cause a significant adjustment to book values of assets and liabilities for the next financial year are as follows:

(a) *Estimate of impairment of non-financial assets*

The Magnesita Group annually tests non-financial assets, such as property, plant and equipment, intangible assets (when there are impairment indicators) and goodwill, for impairment, in accordance with the accounting policy stated in Note 3.14 and assumptions described in Note 16. The recoverable amounts of cash-generating units (CGUs) were determined based on value-in-use calculations, which require the use of estimates.

(b) *Current and deferred income taxes*

The Magnesita Group is subject to income taxes in all countries in which it operates. Significant judgment is required in determining the worldwide provision for income taxes.

The Magnesita Group recognizes deferred tax assets and liabilities based on the differences between the carrying amount presented in the special purpose consolidated historical interim financial statements and the tax base of assets and liabilities at the rates in force. The Magnesita Group regularly reviews deferred tax assets to asses the possibility of recovery, by considering the historical earnings generated and projected future taxable income, in accordance with a technical feasibility study.

(c) *Fair value of derivative and other financial instruments*

The fair value of financial instruments that are not traded in active markets is determined by using valuation techniques. The Magnesita Group uses its professional judgment to choose among various methods and define assumptions that are mainly based on market conditions existing at balance sheet date.

(d) *Pension plan benefits*

The amount of liabilities deriving from pension plans depends on a series of events that are determined based on actuarial calculations, which uses a number of assumptions.

The discount rate is one of the assumptions used in determining the net cost of the defined benefit plans.

The Magnesita Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows, which must be necessary to settle the employees' pension plan liabilities. Other significant assumptions for pension plan obligations are partially based on current market conditions. Further information is disclosed in Note 21.

(e) *Provision for contingencies*

Provisions are recognized for all risks referring to legal proceedings that represent probable loss. Assessment of the likelihood of loss includes analysis of available evidence, including the opinion of internal and external legal advisors of the Magnesita Group.

(f) ***Classification of control over investments***

The classification of the Group's investments is subject to judgment in the determination of control and significant influence.

(g) ***Transactions involving share-based payments***

Estimated fair value of share-based payments requires determination of the most appropriate valuation model for equity instrument granting purposes, which depends on the granting terms and conditions. This also requires determination of the most appropriate data for the valuation model, including expected life of the option, volatility and dividend earnings and corresponding assumptions.

(5) Financial risk management

5.1 *Financial risk factors*

The Magnesita Group's activities expose it to various financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's global risk management aims at minimizing potential adverse impacts on the Magnesita Group's financial performance and maintains the intended liquidity. The Magnesita Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Group's Central Treasury Department under policies approved by the Board of Directors. The Board of Directors establishes written rules and policies for overall risk management, as well as for specific areas, such as currency risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments, and investment of cash surplus.

(a) *Financial risk management policy*

The Group has no speculative transactions. The Group's internal control procedures provide monitoring on a consolidated manner of financial results and impacts on cash flow. The principal parameters used to manage these risks are: exchange rates, interest rates and prices of products. Derivative transactions are conducted with top-tier financial institutions, which are monitored regularly by having their limits and credit risk exposures of their counterparties assessed.

(b) *Credit risk*

Credit risk arises from cash and cash equivalents, marketable securities, derivative financial instruments, deposits with banks and other financial institutions, as well as credit exposures with customers, including outstanding receivables. The Group's sales policies are subordinated to the credit policies established by management and are designed to minimize any problems arising from customer default. This objective is achieved through careful credit rating analysis of customers that considers each customer's capacity to pay, indebtedness ratio and balance sheet, and through diversification of trade accounts receivable (risk dilution).

In respect of short-term investments and other investments, Magnesita's policy is to work with top-tier financial institutions. Only securities of entities classified with the minimum "AA" rate are accepted. Considering the total amount invested, no financial institution holds individually more than 30% of total short-term investments and other investments of the Magnesita Group.

(c) *Liquidity risk*

Magnesita's policy regarding management of financial assets and liabilities requires a thorough review of the Magnesita Group's counterparties, by means of the analysis of financial statements, equity and rating, in order to help the Group maintain the intended liquidity, define a concentration level of their operations, control the exposure level to financial market risks, as well as spread liquidity risk.

The cash flow projection is prepared based on the budget approved by the Board of Directors and later updates. This projection takes into account, in addition to all operational plans, the fundraising plan to support the expected investments and the entire maturity schedule of the Magnesita Group's debts. Throughout the work, the Group takes into account compliance with covenants and internal leverage goals. The Treasury Department monitors, on a daily basis, the projections contained in the Group's direct cash flow to ensure it has enough cash to meet its operational needs, investments, as well as payments of its obligations.

The Treasury invests the cash surplus in interest earning bank accounts, time deposits, short-term deposits and marketable securities, choosing instruments with adequate maturities and enough liquidity to provide sufficient margin as determined by the above-mentioned forecasts.

(d) *Market risks*

(i) Currency risk

The Magnesita Group operates internationally and is subject to foreign exchange risk arising from certain currency exposures, primarily with respect to the U.S. dollar and the euro. Currency risk arises from recognized assets and liabilities and net investments in foreign operations. The financial policy of the Magnesita Group emphasizes that derivative transactions are intended to reduce their costs, volatility in cash flow, currency exposure and avoid mismatch among currencies. As a preventive measure and to reduce the effects of exchange variations, it is management's policy to enter into swap transactions and maintain assets denominated in foreign currencies, as shown below:

	06/30/2017			
	USD	€	Other currencies	Total
Assets and liabilities in foreign currency				
Cash and banks	**260,253**	**98,168**	**33,374**	**391,795**
Accounts receivable, net of provision for credit risks	**226,745**	**102,228**	**9,396**	**338,369**
Trade accounts payable, financial liabilities resulting from the purchase of raw materials	**(250,398)**	**(99,070)**	**(46,011)**	**(395,479)**
Loans and financing	**(1,815,950)**	**(37,198)**	**(12,365)**	**(1,865,513)**
Derivative financial instruments	**393,728**	**(646,103)**	**–**	**(252,375)**
Other monetary assets (liabilities) abroad, net	**(55,185)**	**6,990**	**106**	**(48,089)**
Net exposure	**(1,240,807)**	**(574,985)**	**(15,500)**	**(1,831,292)**

	12/31/2016			
	USD	€	Other currencies	Total
Assets and liabilities in foreign currency				
Cash and banks	221,012	96,012	43,740	360,764
Accounts receivable, net of provision for credit risks	230,178	75,892	3,111	309,181
Trade accounts payable, financial liabilities resulting from the purchase of raw materials	(255,161)	(99,516)	(33,882)	(388,559)
Loans and financing	(1,880,101)	(34,538)	–	(1,914,639)
Derivative financial instruments	138,880	(223,925)	–	(85,045)
Other monetary assets (liabilities) abroad, net	(49,738)	12,973	(24,468)	(61,233)
Net exposure	**(1,594,930)**	**(173,102)**	**(11,499)**	**(1,779,531)**

Management seeks to mitigate currency risk exposure related to loans through transactions carried out in the United States and Europe. It also takes out derivative financial instruments in order to reduce this exposure.

(i) *Currency risk-continued*

In the currency risk sensitivity analysis, management considered as probable the scenario expected for the end of the following year. Scenarios I and II were calculated considering deterioration of 25% and 50% in the rates, respectively, in relation to the probable scenario, considering these assumptions as at June 30, 2017.

This analysis considers the following position:

Description	Probable scenario	Scenario I	Scenario II
Currency risk exposure (US dollar appreciation)	(1,240,807)	(1,240,807)	(1,240,807)
US dollar rate at 06/30/2017	3.3082	3.3082	3.3082
Currency risk exposure (translation into US dollar)	(375,070)	(375,070)	(375,070)
Estimated exchange rate on the probable scenario	3.3082	4.1353	4.9623
Rate difference	–	0.8271	1.6541
Effect on financial expense (in R$)	–	(310,220)	(620,403)
Currency risk exposure (Euro appreciation)	(574,985)	(574,985)	(574,985)
Euro rate at 06/30/2017	3.7750	3.7750	3.7750
Currency risk exposure (translation to Euro)	(152,314)	(152,314)	(152,314)
Estimated exchange rate on the probable scenario	3.7750	4.7188	5.6625
Rate difference	–	0.9438	1.8875
Effect on financial expense (in R$)	**–**	**(143,754)**	**(287,493)**

(ii) Cash flow or fair value risk associated with interest rates

Magnesita Group's interest rate risk arises from short-term investments and loans and financing. The loans taken out at fixed rates expose the Magnesita Group to fair value interest rate risk.

The Magnesita Group's financial policy states that derivative transactions are intended to reduce risks by replacing floating with fixed interest rates or replacing interest rates based on international indices with indices in local currency.

In 2017 and 2016, the Magnesita Group's borrowings at variable rates were denominated in reais and U.S. dollars.

The contracted interest rates on loans and financing and long-term notes recognized in current and non current liabilities are shown below:

	6/30/2017	%	12/31/2016	%
Loans and financing				
Interbank Certificate of Deposit	**554,161**	**22.2**	482,028	19.4
LIBOR	**533,637**	**21.4**	590,782	23.7
	1,087,798	**43.6**	**1,072,810**	**43.1**
Other loans not subject to interest rate risk				
Fixed-rate loans	**1,192,060**	**47.7**	1,206,974	48.4
Long-term bonds with fixed rates	**216,784**	**8.7**	211,280	8.5
	1,408,844	**56.4**	**1,418,254**	**56.9**
	2,496,642	**100.0**	**2,491,064**	**100.0**

Interest rate risks related to investments are set out below:

	06/30/2017	%	12/31/2016	%
Bank certificates of deposits				
Fixed income operations	**277,331**	**96.9**	628,514	94.3
Marketable Securities	**88,439**	**3.1**	38,315	5.7
	365,770	**100.0**	**666,829**	**100.0**

The Group has no derivative financial instruments to manage the risks associated with fluctuations in short-term investments rates.

We set out below exposure to interest risk of Group operations:

	06/30/2017	06/30/2017
	CDI	Libor
Cash equivalents and marketable securities	**365,770**	**–**
Position purchased in libor	**–**	**529,312**
Export credit notes	**(546,295)**	**–**
Bank credit notes	**(7,866)**	**–**
Long-term loans	**–**	**(533,637)**
Total liability exposure	**(554,161)**	**(533,637)**
Net exposure	**(188,391)**	**(4,325)**

	12/31/2016	12/31/2016
	CDI	LIBOR
Cash equivalents and marketable securities	666,829	–
Position purchased in libor	–	521,456
Export credit notes	(70,599)	–
Debentures	(400,919)	–
Bank credit notes	(10,510)	–
Long-term loans	–	(590,782)
Total Liability exposure	(482,028)	(590,782)
Net exposure	**184,801**	**(69,326)**

The table below sets out the incremental loss that would be recognized in the profit or loss for the period ended June 30, 2017. In the sensitivity analysis, the management considered as probable the scenario expected for the closing of the following year. Scenarios I and II were calculated considering deterioration of 25% and 50% in the rates, respectively, on the probable scenario, considering these assumptions for June 30, 2017. This analysis leads to the following position:

	Exposure to CDI			Exposure to Libor		
Description	Probable scenario	Scenario I	Scenario II	Probable scenario	Scenario I	Scenario II
Exposure to CDI risk (increase in rates)	(188,391)	(188,391)	(188,391)	(4,325)	(4,325)	(4,325)
Accumulated CDI rate at 06/30/2017	12.81%	12.81%	12.81%	1.460%	1.460%	1.460%
Interest rate based on the probable scenario	–	16.01%	19.22%	–	1.83%	2.19%
Rate difference		3.20%	6.41%	–	0.37%	0.73%
Effect on financial expense	**–**	**(6,033)**	**(12,066)**	**–**	**(15)**	**(31)**

5.2 ***Capital management***

When managing its capital, the Magnesita Group intends to safeguard its ability to continue as a going concern in order to provide return to shareholders and benefits to other stakeholders, in addition to keeping an optimal capital structure to reduce this cost.

In order to maintain or adjust its capital structure, the Company may revise the policy for payment of dividend, return capital to shareholders, issue new shares, or sell assets to reduce its indebtedness, for example.

The Magnesita Group monitors capital based on the financial leverage ratio. Net debt, on the other hand, corresponds to total loans, financing and long-term debt notes, net of cash and cash equivalents. Total capital is calculated through the sum of equity and net debt, as stated in the balance sheet.

The debt/net equity ratios can be presented as follows:

	06/30/2017	12/31/2016
Total loans, financing and derivative financial instruments	**2,496,541**	2,491,064
Less: cash and cash equivalents and marketable securities	**(757,565)**	(998,657)
Total	**1,738,976**	1,492,407
Total equity	**1,913,606**	1,977,862
Total capital	**3,652,582**	3,470,269
Financial leverage ratio	**48%**	**43%**

5.3 ***Fair value estimate***

Management established that the accounting balances of trade accounts receivable, less the valuation allowance, and trade accounts payable are assumed to approximate their fair values due to their short maturity term.

For swaps operations, the long and short positions are calculated by the Group independently, using the mark to market methodology in accordance with the rates verified on the BM&F, Broadcast and Bloomberg websites. When no trading exists for the term of the Group's portfolio, the interpolation methodology is used to identify rates relating to specific terms. In both cases, the present value of flows is calculated. The difference between amounts payable and receivable is the fair value of transactions.

(a) *Financial instruments measured at fair value in the balance sheet*

The Magnesita Group's assets and liabilities measured at fair value through profit or loss comprise cash equivalents, marketable securities and derivative financial instruments, which fall under level 1 of the fair value hierarchy.

(6) Derivative financial instruments

The Group does not contract derivative operations with speculative purposes and does not settle them prior to respective maturities, on a regular basis.

		06/30/2017	12/31/2016
Description	Notional amount(iii)	Fair Value R$	Fair Value R$
Hedging of foreign exchange rate:			
Future position(i)			
Asset position – USD	196,516	–	–
Liability position – EUR	171,375	–	–
Future position(i)			
Asset position – R$	257,830	–	–
Liability position – USD	77,500	–	–
Forward position			
Asset position – EUR	1,989	22	–
Liability position – GBP	1,737	–	–
Protection of interest rates(ii)			
Asset position LIBOR			
Position – USD	160,000	2,793	6,278

The effect of R$20,320 was recognized in the profit or loss for the period ended June 30, 2017, as financial income (period ended June 30, 2016: R$12,895 as financial income).

(i) This position has daily settlement with credit or debit on checking account referring to gain/loss.

(ii) In the third quarter of 2015, the Company contracted US$160,000 thousand in long-term loans indexed to LIBOR, exposed to interest rate fluctuation risk. In April 2016, the Company contracted an interest rate swap to hedge exposure to the risk of interest rate fluctuations, reducing cash flow volatility: interest payments will be fixed and known in advance during the term of the long-term loans. In relation to the effectiveness of the contracted interest rate swap, the correlation with the hedged object was 100% in the period. Accordingly, the effects of fair value of mark-to-market in the amount of R$ 2,793 are recorded in shareholders' equity as other comprehensive income. On the date of the contracting of the derivative financial instrument, the Company adopted the hedge accounting for this cash flow hedge.

(iii) The amount is presented in the currency in which the derivative instrument was issued.

(7) Financial instruments by category

	Financial assets measured at fair value through P&L	Loans and receivable	Total
Assets			
June 30, 2017			
Cash and cash equivalents and marketable securities			
– Cash and cash equivalents	**–**	**391,795**	**391,795**
– Bank certificate of deposit and fixed-income operations	**277,331**	**–**	**277,331**
Marketable securities	**88,439**	**–**	**88,439**
Trade accounts receivable	**–**	**553,463**	**553,463**
Receivables from sale of fixed assets	**–**	**10,131**	**10,131**
Other receivables (excluding prepayments)	**–**	**49,594**	**49,594**
Deposits in court	**–**	**18,503**	**18,503**
	365,770	**1,023,486**	**1,389,256**

	Financial assets measured at fair value through P&L	Loans and receivable	Total
Assets			
December 31, 2016			
Cash and cash equivalents and marketable securities			
– Cash and cash equivalents	–	331,828	331,828
– Bank certificate of deposit and fixed-income operations	628,514	–	628,514
Marketable securities	38,315	–	38,315
Trade accounts receivable	–	497,815	497,815
Other receivables (excluding prepayments)	–	17,262	17,262
Deposits in court	–	16,917	16,917
	666,829	**863,822**	**1,530,651**

	Financial liabilities not intended for trading
Liabilities	
June 30, 2017	
Loans and financing and bonds	**2,496,541**
Trade accounts payable, liabilities arising from purchase of raw materials, general contractors and freights	**635,650**
Other liabilities	**103,616**
	3,235,807

	Financial liabilities not intended for trading
Liabilities	
December 31, 2016	
Loans and financing and bonds	2,491,064
Trade accounts payable, liabilities arising from purchase of raw materials, general contractors and freights	635,634
Other liabilities	105,381
	3,232,079

7.1 ***Fair value***

Set out below is a comparison, by class, of the carrying amounts and fair values of the Group's financial instruments:

	06/30/2017		
	Book value	Fair value	Level
Cash and banks	**391,795**	**391,795**	Level 1
Bank certificates of deposit and fixed income operations	**277,331**	**277,331**	Level 1
Marketable securities	**88,439**	**88,439**	Level 1
Trade accounts receivable	**553,463**	**553,463**	Level 3
Other account receivable (less pre-payments)	**49,594**	**49,594**	Level 3
Judicial deposits	**18,503**	**18,503**	Level 3
	1,379,125	**1,379,125**	
Loans and financing and bonds	**2,496,541**	**2,520,429**	Level 3
Trade accounts payable, liabilities arising from purchase of raw materials, general contractors and freights	635,650	635,650	Level 3
	3,132,191	**3,156,079**	

	12/31/2016		
	Book value	Fair value	Level
Cash and banks	331,828	331,828	Level 1
Bank certificates of deposit and fixed income operations	628,514	628,514	Level 1
Marketable securities	38,315	38,315	Level 1
Trade accounts receivable	497,815	497,815	Level 3
Other account receivable (less pre-payments)	17,262	17,262	Level 3
Judicial deposits	16,917	16,917	Level 3
	1,530,651	**1,530,651**	
Loans and financing and bonds	2,491,064	2,437,102	Level 3
Trade accounts payable, liabilities arising from purchase of raw materials, general contractors and freights	635,634	635,634	Level 3
	3,126,698	**3,072,736**	

Fair value of financial assets and liabilities is the amount for which a financial instrument could be exchanged in a current transaction between willing parties, other than a forced sale or liquidation.

The fair value of marketable securities and bonus is based on price quotes at the financial statements year end dates. The fair value of non-trading instruments, of bank loans and other debts is estimated through the discounted future cash flows at rates currently available for similar debts and remaining maturities.

Fair value of investment property

As at June 30, 2017 the fair value of the investment property totaled R$37,869 (R$37,869 as at December 31, 2016).

(8) Cash and cash equivalents

	06/30/2017	12/31/2016
Cash and banks	**391,795**	331,828
Bank certificate of deposit and fixed income operations	**277,331**	628,514
	669,126	**960,342**

Part of the amount of cash and cash equivalents totaled R$391,795 in foreign currency (12/31/2016 – R$360,764).

(9) Trade accounts receivable

	06/30/2017	12/31/2016
Trade accounts receivable – in reais	**153,334**	133,480
Trade accounts receivable – in other currencies	**385,492**	358,024
Impairment of trade accounts receivable	**(29,897)**	(42,414)
Trade accounts receivable, net	**508,929**	449,090
Unbilled trade accounts receivable	**44,534**	48,725
Trade accounts receivable	**553,463**	**497,815**
Current	**536,337**	480,592
Non-current	**17,126**	17,223

The accounts receivable do not qualify for financing and are initially measured and recorded at fair value.

The aging of trade notes receivable is as follows:

	06/30/2017	12/31/2016
Trade notes falling due:		
Up to 90 days	**337,263**	290,781
Over 90 days	**125,289**	116,376
Trade notes overdue:		
Up to 90 days	**47,914**	48,894
Up to 90 days	**42,997**	41,764
	553,463	**497,815**

Below are the changes recorded under valuation allowance:

At December 31, 2016	(42,414)
Utilizations	22,579
Provision	(8,114)
Reversal	2,698
Exchange losses	(4,646)
At June 30, 2017	**(29,897)**

(10) Inventories

	06/30/2017	12/31/2016
Finished products	**456,633**	467,570
Work in process	**37,912**	36,256
Raw materials	**289,762**	297,264
Supplies (replacement material and other)	**78,104**	89,502
Write-down of inventories	**(50,855)**	(64,103)
	811,556	**826,489**

Changes in the write-down of inventories are as follows:

At December 31, 2016	(64,103)
Addition	7,123
Reversal	(4,011)
Utilizations	10,629
Exchange losses	(493)
At June 30, 2017	**(50,855)**

(11) Other taxes recoverable

	06/30/2017		12/31/2016	
	Current	Non-current	Current	Non-current
State Value-Added Tax (ICMS)	**13,213**	**58,307**	15,995	55,406
Indirect taxes	**40,243**	**–**	45,694	–
Taxes on consignments	**3,146**	**–**	3,259	–
Other	**102**	**–**	9,156	–
	56,704	**58,307**	**74,104**	**55,406**

Based on studies carried out, the Company intends to convert into cash the ICMS credits classified in non-current assets through its operating activities and transfers to other taxpayers.

(12) Deferred income tax and social contribution

(a) ***Deferred tax assets***

The deferred tax assets, shown by nature, comprise of:

	06/30/2017	12/31/2016
Deferred tax assets on temporary differences		
Provision for contingencies	**21,893**	14,227
Post-employment liabilities	**79,358**	76,890
Provision for bonuses	**5,541**	11,335
Accelerated depreciation	**854**	869
Other	**8,152**	19,404
	115,798	122,725
	347,234	354,396
Losses available for offsetting against future taxable income	**463,032**	**477,121**

The recoverability of deferred income tax and social contribution tax credits depends on future events that make such events deductible, in accordance with tax legislation in force as well as the generation of future taxable profit.

As a result, the estimate of the tax asset recoverability should not be taken as the only indication of Magnesita's future profitability. Taxable profit considers variables, such as: tax incentives, permanent and temporary differences, etc., thus having no direct correlation with the Company's net income.

The projections, combined with the history of the operations, indicate that the Company and its subsidiaries will have taxable profits in amounts sufficient to absorb the referred to tax credits. The projections of future taxable profits consider estimates related to the Company's performance, the market behavior, certain economic aspects, among other variables. Actual amounts may differ from the estimates adopted.

Management estimates that realization of deferred tax assets will occur as follows:

1 year	39,586
2 years	40,788
3 years	27,119
4 years	31,040
5 years and over	324,499
Balance at June 30, 2017	**463,032**

The deferred tax asset on income tax and social contribution tax losses is generated especially from amortization of goodwill on the expectation of future profitability arising from acquisition of subsidiaries. The tax goodwill amortization will be finalized by 2018 (balance of R$86,234 as at June 30, 2017 and R$116,712 as at December 31, 2016), which provides a basis for the management's expectation to realize these credits.

The Group has tax losses generated in the Company and in some of the Group's subsidiaries on which no deferred tax assets was recognized related to these losses, since these cannot be used to offset taxable profits and in some cases these have been generated in a subsidiary with a loss for some time. If the Group could recognize all deferred tax assets as at June 30, 2017, the amount would total R$61,901 (R$53,967 as of December 31, 2016).

Deferred tax liabilities are as follows:

	06/30/2017	12/31/2016
Deferred taxes on tax amortization of goodwill	**470,909**	461,847
Deferred taxes on sale of fixed assets	**113,265**	127,909
Deferred taxes on accelerated tax depreciation	**50,777**	51,453
Other	**53,038**	65,192
	687,989	**706,401**

(b) ***Reconciliation of income tax and social contribution expenses***

	06/30/2017	06/30/2016 (unaudited)
Income (loss) before income tax and social contribution	**(146,951)**	248,059
Combined statutory rate %	**34%**	34%
Tax benefit (expense) at statutory rate	**49,963**	(84,340)
Income tax and social contribution on:		
Share of profit (loss) of investees	**(311)**	(81)
Effect of different rates used by the subsidiaries located in other jurisdictions	**(303)**	149
Tax effect of local adjustments in Germany, regarding the transfer of Bond	**–**	(1,319)
Deferred tax effect not recognized[(i)]	**(7,934)**	(9,394)
Non-deductible tax on impairment losses[(ii)]	**(55,868)**	–
Reversal (provision) of deferred income tax and social contribution[(iii)]	**(26,425)**	–
Other, net	**21,198**	8,039
Income tax and social contribution expenses	**(19,680)**	**(86,946)**
Current	**(24,234)**	(26,951)
Deferred	**4,554**	(59,995)

(i) Refers mainly to deferred income tax not recognized in certain subsidiaries and on permanent differences in the parent company, totaling R$7,934.

(ii) Refers to the deferred tax effect not recognized on the impairment of goodwill allocated to non-current assets held for sale, as disclosed in Note 15.

(iii) Refers to the reversal of deferred income tax on tax losses incurred by operations in Europe.

(c) ***Reconciliation of deferred tax assets and liabilities, net***

	06/30/2017	12/31/2016
Deferred tax asset	**463,032**	477,121
Deferred tax liabilities	**(687,989)**	(706,401)
Deferred tax assets (liabilities)	**(224,957)**	(229,280)
Classification in the balance sheet		
Assets	**23,048**	33,498
Liabilities	**(248,005)**	(262,778)
Net	**(224,957)**	**(229,280)**

(d) ***Changes in deferred tax assets and (liabilities), net***

Balance at December 31, 2016 – Assets (liabilities)	(229,280)
Tax recognized in P&L	4,554
Tax recognized in equity	271
Foreign exchange variation	(502)
Balance at June 30, 2017	**(224,957)**

(13) Property, plant and equipment (PP&E)

	06/30/2017			12/31/2016			
	Cost	Accumulated depreciation	Net amount	Cost	Accumulated depreciation	Net amount	Annual weighted average depreciation rate %
Land	**116,268**	**–**	**116,268**	141,704	–	141,704	
Mineral deposits	**64,234**	**(15,904)**	**48,330**	60,213	(13,536)	46,677	Units of production
Buildings and improvements	**671,385**	**(259,430)**	**411,955**	694,347	(286,131)	408,216	4
Machinery, facilities and equipment, including IT equipment	**1,825,575**	**(1,077,177)**	**748,498**	1,854,839	(1,119,738)	735,101	7
Transportation equipment	**11,702**	**(8,158)**	**3,544**	11,104	(7,899)	3,205	6
Furniture, fixtures and other	**75,649**	**(40,844)**	**34,805**	83,882	(50,973)	32,909	9
Construction in progress[(i)]	**136,601**	**–**	**136,601**	161,034	–	161,034	
Impairment of PP&E	**(79,932)**	**–**	**(79,932)**	(95,810)	–	(95,810)	
Total PP&E	**2,821,582**	**(1,401,513)**	**1,420,069**	**2,911,313**	**(1,478,277)**	**1,433,036**	

(i) As at June 30, 2017, it includes the amount of R$1,000 (R$2,680 at December 31, 2016) of capitalized interest related to long-term projects characterized as qualifying assets. For the capitalization of interest, the Group uses the weighted average rate of loans effective during the period.

The changes in property, plant and equipment were as follows:

At December 31, 2016	**1,433,036**
Additions	70,468
Write-offs	(5,412)
Depreciation	(70,560)
Transfer to intangible assets	(793)
Foreign operations currency translation	36,767
Impairment loss	(16,099)
Reclassification to non-current assets available for sale	(28,324)
Other	986
At June 30, 2017	**1,420,069**

(14) Intangible assets

	06/30/2017			
	Cost	Accumulated amortization	Net amount	Annual amortization rate %
Software and other	**209,804**	**(94,172)**	**115,632**	**12 to 20**
Goodwill on investment acquisition	**2,238,589**	**(277,237)**	**1,961,352**	
Total intangible assets	**2,448,393**	**(371,409)**	**2,076,984**	

	12/31/2016			
	Cost	Accumulated amortization	Net amount	Annual amortization rate %
Software and other	207,823	(83,753)	124,070	12 to 20
Goodwill on investment acquisition	2,257,297	(276,156)	1,981,141	
Total intangible assets	**2,465,120**	**(359,909)**	**2,105,211**	

Changes in goodwill

	CGU Magnesite	CGU Dolomite	CGU Services	Total
At December 31, 2016	**1,321,797**	**637,976**	**21,368**	**1,981,141**
Foreign exchange variation	–	128,429	–	128,429
Impairment of goodwill	–	(148,218)	–	(148,218)
At June 30, 2017	**1,321,797**	**618,187**	**21,368**	**1,961,352**

The goodwill recorded in the parent company remained unaltered in the period from December 31, 2016 and June 30, 2017.

Changes in software and others

At December 31, 2016	**124,070**
Additions	71
Write-offs	(3,584)
Transfers from property, plant and equipment	793
Foreign exchange variation	3,172
Amortization	(8,890)
At June 30, 2017	**115,632**

(15) Non-current assets held for sale

On October 5, 2016, a significant event notice was disclosed to announce to the market that the Magnesita Group and the RHI Group had reached an agreement to combine their operations (“Transaction”) and create a single leading company in refractory solutions. On July 11, 2017, the Administrative Council for Economic Defense (CADE) approved the Transaction without any restrictions, and the Transaction then obtained all the mandatory anti-trust approvals.

However, as mentioned in the significant event notice disclosed on June 28, 2017, the European Commission approved the Transaction under certain conditions, including the sale of the Company’s entire business for manufacture and supply of carbon magnesite bricks and other products to customers (or associates) operating in the plant located in Oberhausen, Germany, as well as of all essential assets and personnel to ensure the feasibility and competitiveness of this business (“Oberhausen Business”), and the Company’s commitment to enter into a supply agreement with the buyer of the Oberhausen Business, granting the buyer the right to acquire a specific maximum annual volume of sinter magnesite from the Company’s raw-material business in Brazil, under specific terms and conditions, over a twelve-year period. Due to these conditions and negotiations in course, management deemed the sale of the Oberhausen Business to be highly probable and reclassified the corresponding assets and liabilities to be held for sale.

On September 8, 2017, an agreement was reached with INTOCAST Aktiengesellschaft Feuerfest-Produkte und Gießhilfsmittel for the sale of the Oberhausen Business for a consideration of Euro 20,275,000.

At June 30, 2017, the carrying amount of non-current assets held for sale exceeded their fair value less costs to sell. Accordingly, the Company recognized an impairment loss totaling R$164,317 under "Other expenses" in the statement of operations, with a corresponding entry of R$148,218 to the goodwill recorded in assets and R$16,099 in property, plant and equipment.

The assets and liabilities related to the operating plant in Oberhausen were presented separately in the Company's balance sheet and are as follows:

	06/30/2017
Finished products	**25,058**
Work in progress	**596**
Raw materials	**24,889**
Warehouse (replacement materials and other)	**2,228**
Total inventories	**52,771**
Land	**16,693**
Buildings and improvements	**2,011**
Machinery, facilities and equipment	**9,168**
Furniture, fittings and other	**248**
Construction in progress	**204**
Total property, plant and equipment	**28,324**
Total assets	**81,095**
Salaries, provisions, and social security contributions	**4,557**
Total salaries, provisions and social contributions	**4,557**
Total liabilities	**4,557**

(16) Impairment of non-financial assets

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash-generating units (CGUs)). For the purpose of impairment testing, the goodwill is allocated to cash-generating units or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The Company's cash generating units are based on the type of operation of the Group companies, described as follows: (i) CGU Magnesite: magnesium-based products, including the activities carried out in South America and China; (ii) CGU Dolomite: dolomite-based products, including the activities carried out in North America, Europe and China; and (iii) CGU Services: which includes the Group companies that render services related to maintenance and assembly of refractory products.

The goodwill allocated to each CGU is presented in Note 14. The key assumptions used for value-in-use calculations of the CGU's recoverable amount at June 30, 2017 are as follows:

	June 30, 2017			
	CGU Magnesite	CGU Dolomite	CGU Services	Total
Growth rate – %	**6.6%**	**2.2% – 5.9%**	**6.2%**	**2.2% – 6.6%**
Discount rate – %	**8.1%**	**6.2% – 6.8%**	**8.1%**	**6.2% – 8.1%**
Recoverable amount of the CGU	**3,164,300**	**2,801,700**	**113,400**	**6,079,400**

The following key assumptions were considered in the impairment tests: i) projected growth for each cash-generating unit, calculated using macroeconomic assumptions specific to the fields of operation; ii) profitability of the operations, determined based on management's experience in each region; and iii) the discount rate used to calculate the present value of the cash flows, in accordance with widely-used financial models. In the calculations, real growth rates from 0% to 2% were used, which are in line with the growth rates of the steel and cement industries of each cash-generating unit, the economy itself, and the growth strategy in new markets. The discount rates applied to cash flow projections range from 6.2% to 8.1% in euros, in accordance with the risk assessed for each cash-generating unit.

With respect to the operations of the Oberhausen plant, which comprise the "Dolomite" cash-generating unit, the Company recognized an impairment loss of R$164,317 on its non-financial assets, after a valuation of this plant at market value. The amount of R$148,218 was allocated to the goodwill and R$16,099 in property, plant and equipment in CGU Dolomite. The value in use of the goodwill was updated to reflect management's best estimates regarding the businesses in Europe, based on market projections. For the "Services" and "Magnesite" cash-generating units, the result of the tests did not indicate the existence of impairment losses on non-financial assets for 2017.

For the other cash-generating units, there was no indication of impairment of non-financial assets.

In addition to the considerations above, a sensitivity analysis was also performed to test the assumptions used.

Sensitivity to changes in assumptions

(i) Assumptions for the growth rate in perpetuity – Management considered a steady inflationary growth in the company's cash flows over an undefined period in the perpetuity of the terminal value. A drop of 20% in the growth rate will have no impact on impairment of the other cash-generating units.

(ii) Variation in the contribution margin – management believes that, due to potential inflation-related increases in the prices of raw materials, exceeding those foreseen in the budget, and possible increases in labor costs associated with production (i.e., increase in the minimum wage), the changes in the variable cost may be of up to 10%, affecting the Company's contribution margin. A drop of 10% in the contribution margin will have no impact on the impairment of other cash-generating units.

(iii) Discount rate – Management believes that the discount rates should not suffer significant changes over the projected years, since no capital restructuring that could change the cost of debt/equity ratio has been considered. However, to reflect the uncertainty regarding the difference in inflation curves (Europe long-term inflation x local inflation curve), a decrease/increase of 5% in the discount rate was considered, in order for this variation, coupled with the sensitivity of the cost of funding, to be reflected in the model. An increase of 5% in the discount rate will have no impact on impairment in the other cash-generating units.

(17) Liabilities arising from purchase of raw material

The Company purchases raw materials from suppliers located in China, in order to obtain better cost conditions and reduce price risks. These purchases are negotiated with terms of payment consistent with the use of these materials. The Company's suppliers, in turn, discount the trade notes with first-tier financial institutions through a trade finance operation called forfaiting, which basically consists of the sale of these receivables, without right of return, at the market interest rate.

Accordingly, at June 30, 2017, the balances related to these purchases corresponded to R$125,131 (R$ 99,523 at December 31, 2016) with average payment period around 360 days.

In connection with these transactions, the Group adjusts the liabilities to their present value by recognizing the financial expense for the year. The Group uses the weighted average cost of capital to determine the present value of these operations.

The Group classified these transactions in the operating cash flow statements, since these purchases of raw materials are matched against changes in inventories.

(18) Loans and financing

	Currency	Annual average interest rate	06/30/2017	12/31/2016
Export credit notes	R$	CDI+1.10%	**–**	70,599
Export credit notes	R$	122.7% CDI	**546,295**	–
Perpetual bonds	US$	8.63%	**827,050**	831,921
(-) Unamortized transaction costs	US$	–	**(23,240)**	(12,825)
Long-term debt securities	US$	7.88%	**216,784**	211,280
Debentures	R$	112% CDI	**–**	402,035
(-) Unamortized transaction costs	R$	–	**–**	(1,116)
PP&E financing				
In local currency – FNE	R$	7.50%	**38,406**	45,839
In local currency – FINEP	R$	4.66%	**48,537**	48,558
Long-term loans	US$	LIBOR + 3.39%	**537,150**	529,190
(-) Unamortized transaction costs	US$	–	**(3,513)**	(4,015)
Other	Various	Various	**309,072**	369,598
			2,496,541	2,491,064
		Current	**394,413**	584,213
		Non-current	**2,102,128**	1,906,851

(a) ***Export credit notes***

In August 2010, the Company raised US$200,000 thousand through an Export Credit Note, subject to interest corresponding to CDI +1.10% (the Brazilian Interbank Deposit Rate), with final maturity in August 2017. There were two financial covenants in the agreement: the net debt over EBITDA ratio must be less than or equal to 3.75 x and that the EBITDA over financial expenses ratio must be equal to or greater than 1.75x. At June 30, 2017 and December 31, 2016, all covenants were complied with.

(b) ***Perpetual bonds***

In 2012, the Group issued US$ 250 million in perpetual bonds denominated in U.S. dollars through its wholly-owned subsidiary Magnesita Finance Ltd. These bonds are not backed by or subordinated to Magnesita Finance Ltd. and are fully and unconditionally guaranteed by the Company and its major subsidiaries. At June 30, 2017 total perpetual bonds amount to R$827,050 in the long-term (R$831,921 as of December 31, 2016).

(c) ***Long-term debt securities***

In 2010, Magnesita issued US$ 400 million in long-term debt securities with a final maturity in 2020. Interest is fixed and corresponds to 7.875% per annum, paid semi-annually. The bonds do not include financial covenants. In August 2015, Magnesita, through its US subsidiary Magnesita Refractories Company, repurchased an aggregate principal amount of US$ 335.7 million of these long-term bonds at their nominal value.

(d) ***Debentures***

On December 20, 2013, the Group issued 40,000 (forty thousand) unsecured debentures non-convertible into shares, with unit value of R$ 10,000 (ten thousand reais), totaling R$ 400,000, bearing interest of 112% of accumulated average daily rates of DI – Interbank deposits. Interest is payable semiannually. The debentures have a two-year grace period for the principal, and final maturity on December 20, 2018, with the first payment to be made on December 20, 2017.

The transaction costs to be amortized correspond to the commission paid at the time of renegotiation of agreements and will be amortized over their terms.

(e) ***Long-term loans***

In the 3rd quarter of 2015, the Group has entered into a U$D160,000 long-term loan bearing interest of Libor + 3.39% p.a., with final maturity in October 2020, with the first repayment in January 2018.

In March 2017, the Company carried out the early redemption of the total simple debentures non-convertible into shares, totaling R$400 million.

(f) ***Maturity***

At June 30, 2017, current and noncurrent undiscounted balances aging is shown below:

	06/30/2017
Up to 180 days	**253,281**
From 180 to 360 days	**270,074**
2 years	**421,897**
From 3 years onwards	**1,076,695**
With maturity[(i)]	**2,021,947**
Without maturity	**827,050**
Total	**2,848,997**

(i) Refers to perpetual bonds, as described in item (a) above.

(19) Other taxes payable

	06/30/2017	12/31/2016
Indirect taxes	**15,889**	25,588
Direct taxes	**15,476**	6,014
	31,365	**31,602**

(20) Provisions and judicial deposits

	06/30/2017	12/31/2016
Tax – provision	**24,149**	17,574
Tax – judicial deposit	**(11,936)**	(10,291)
Labor – provision	**27,634**	25,826
Labor – judicial deposit	**(4,604)**	(4,639)
Civil – provision	**7,510**	6,866
Social security – judicial deposit	**(1,963)**	(1,987)
	40,790	**33,349**
Non current – provision	**59,293**	50,266
Non current – judicial deposit	**(18,503)**	(16,917)
	40,790	33,349

Based on information provided by its legal advisors, management recorded provisions at amounts deemed sufficient to cover probable unfavorable outcomes of the lawsuits in progress, classified between short and long-term in accordance with the expected decision on the disputes, as shown above.

The main contingent liabilities for which a provision has been established are described below:

Description	Matter	06/30/2017 Balance	12/31/2016 Balance
Tax litigation proceeding addressing corporate income tax relating to 2009, which challenges tax assessment notices issued in February 2016 by the Peruvian tax authorities against Refractarios Magnesita Peru S.A.C., totaling PEN 9,802,053.	Tax	**10,261**	9,609
Lawsuit filed in February 2016 by Refractarios Magnesita Colombia S.A. against a decision rendered by the Colombian tax authorities in an administrative proceeding that challenged a tax assessment notice issued in December 2013, totaling COP 6,367,257,000, addressing corporate income tax referring to 2010.	Tax	**6,004**	6,004

For the labor lawsuits, the Company adopts the criterion of setting up provisions taking into consideration the actual chances of a favorable outcome in each case. The main claims in these labor lawsuits are: salary parity, indemnity for occupational disease, work injuries, health exposure pay, hazardous duty pay and overtime.

Additionally, the Company is party to tax proceedings involving risks of loss classified as possible by management, based on the evaluation of its legal advisors in the estimated amount of $706,521, for which no provision was set up. Major lawsuits are shown below:

Tax claims

Description	Status	06/30/2017 Amount
Lawsuit addressing corporate income tax and social contribution on goodwill relating to 2008 and 2009. Administrative proceeding filed in response to a tax assessment notice issued on December 26, 2011, challenging the amortization of goodwill arising from mergers of subsidiaries (Magnesita S.A. and the LWB Group). Management classified an unfavorable outcome as possible, based on the opinion of its legal advisors. On April 7, 2016, the Company was notified of the decision rendered by the Administrative Board of Tax Appeals (CARF), which annulled over 90% of the tax assessment notice. However, such decision may still be amended due to appeals filed by the Company and the General Counsel to the National Treasury (PGFN).	Debts with suspended payment awaiting judgment by CARF	340,812
Lawsuit addressing corporate income tax and social contribution on goodwill referring to 2011 and 2012. Administrative proceeding filed in response to a tax assessment notice issued on December 5, 2016, challenging the amortization of goodwill arising from mergers of subsidiaries (Magnesita S.A. and the LWB Group). Management classified an unfavorable outcome as possible, based on the opinion of its legal advisors. On December 29, 2016, the Company filed a defense against the tax assessment notice.	Suspended debts awaiting judgment by the Federal Revenue Judgment Office in the city of Belo Horizonte (DRJ/BH).	154,155
Lawsuit addressing social security contributions – on April 26, 2013, the Company received a tax assessment notice for allegedly failing to pay social security contributions in the period from January to December 2009.	Suspended debts awaiting judgment by CARF	22,940
Tax collections received on behalf of Partimag (a company merged into the Company), referring to offsetting of taxes carried out by that company and not approved by the Federal Revenue Service. The entire reasoning process presented by the Tax Authorities is being duly challenged, with a view to proving the legality and legitimacy of the offsetting performed.	Debts with suspended payment due to injunctions obtained and deposits in court.	51,702
Tax collections referring to amounts offset against the Financial Compensation for Exploration of Mineral Resources (CFEM) tax base.	Debts with suspended payment, awaiting judgment of an appeal	53,424

The Company is also a party to civil lawsuits involving risks of loss classified by Management as possible, based on the opinion of its legal counsel, estimated at approximately R$42,637, for which no provision has been established. The main lawsuits are as follows:

Civil claims

Description	Status	06/30/2017 Amount
Public Civil Action requiring the Company to pay compensation for pain and suffering and property damages for exceeding the maximum weight for road transportation established by the Brazilian traffic law. Management classified an unfavorable outcome as possible, based on the opinion of its legal advisors. However, the appellate courts have sided with the Company in similar lawsuits, and no similar lawsuits have been judged yet by the Federal Supreme Court (STF), which means that, in the event an unfavorable decision is rendered in the trial court, the Company can continue to defend its interests in the appellate courts.	Lawsuit still in the trial court. 8/26/2016 – Case records with the judge awaiting a decision. On May 23, 2017, a decision was rendered in favor of Magnesita in the trial court, considering the requests submitted by the Federal Public Attorney's Office completely devoid of legal grounds.	28,000
Collection lawsuit filed by Engenor requiring the Company to pay for consulting, advisory and agency services provided in connection with Agreement No. 4500235049 and subsequent amendments, entered into between CSN and the Company. Management classified an unfavorable outcome as possible, based on the opinion of its legal advisors, who understood that the documents that supported the initial petition prove the existence of agreements between the Plaintiff and Magnesita, although there is no evidence that the aforementioned services were actually rendered.	Lawsuit still in the trial court. On November 1, 2017, the Plaintiff's request to pay the initial court costs in installments was denied, and the legal proceedings were suspended for 30 days, in order to give the Plaintiff time to pay the initial court costs, under penalty of dismissal of the lawsuit.	4,969
Lawsuit filed by Sociedade Baiana de Talco Ltda. – SOBATA, requiring compensation for alleged mining of talc and the removal of the sterile pile from its reserve.	Lawsuit still in the trial court. On January 27, 2017, an official letter was issued to the court of destination, asking the Brumado Court to reveal which documents had been delivered to the court expert. On January 23, 2017, SOBATA filed a petition attesting the delivery of the documents requested by the expert. On January 23, 2017, a decision was rendered, granting the Company's request and determining the Office of the Court of Destination to be notified, in order to provide the Company with a complete list of the documents submitted by the plaintiff. On 3/28/2017, Magnesita filed a petition claiming that it will not contest the documentation attached by the Plaintiff requested by the expert.	1,461

Other minor lawsuits relate to a number of assessments concerning various taxes and related obligations.

(21) Post-employment liabilities

The Company sponsors pension plans for its employees, the actuarial liabilities of which, as recorded in the special purpose consolidated historical interim financial statements, can be summarized as follows:

Description	Europe	USA	Brazil	Total
Defined benefit plan	166,476	63,331	110,214	340,021
Bonus for length of service	197	–	–	197
At June 30, 2017	**166,673**	**63,331**	**110,214**	**340,218**
At December 31, 2016	156,753	56,087	109,410	322,250

Detailed financial position by geography

	Europe	
	06/30/2017	12/31/2016
Present value of the actuarial liability	**(166,473)**	(156,753)
Fair value of the assets	**–**	–
Actuarial liability	**(166,473)**	(156,753)
Active participants	277	277
Assisted participants	990	990
Terminated participants, but entitled to the Plan	232	232
Actuarial economic assumptions:		
Discount rate	1.67% p.a.	1.53% p.a.
Return on investments	–	–
Salary increase	2.50% p.a.	2.50% p.a.
Adjustment to benefits	1.50% p.a.	1.50% p.a.
Inflation	–	–

	USA	
	06/30/2017	12/31/2016
Present value of the actuarial liability	**(524,761)**	(487,438)
Fair value of the assets	**461,430**	431,351
Actuarial liability	**(63,331)**	(56,087)
Active participants	195	195
Assisted participants	515	515
Terminated participants, but entitled to the Plan	360	360
Actuarial economic assumptions:		
Discount rate	3.26% p.a.	4.22% p.a.
Return on investments	3.26% p.a.	4.22% p.a.
Salary increase	3.53% p.a.	3.75% p.a.
Adjustment to benefits	1.25% p.a.	–
Inflation	3.28% p.a.	2.25% p.a.

	Brazil	
	06/30/2017	12/31/2016
Present value of actuarial liability	**(263,568)**	(251,289)
Fair value of assets	**153,354**	141,879
Actuarial liabilities	**(110,214)**	(109,410)
Active members	3,624	3,596
Assisted members	194	195
Terminated members, but eligible to the plan	975	980

	Brazil	
	06/30/2017	12/31/2016
Economic actuarial assumptions:		
Economic	10.12% p.a.	10.85% p.a.
Discount rate	10.12% p.a.	10.85% p.a.
Return on investment	4.25% p.a.	4.50% p.a.
Salary increases	4.25% p.a.	4.50% p.a.
Adjustment of benefits	98.00%	98.00%
Capacity factor	4.50% p.a.	4.50% p.a.
Inflation		
Demographic:	AT – 1983	AT- 1983
General mortality	RRB – 1983	RRB – 1983
Disability	5%	5%
Turnover	1st requirement	1st requirement

Changes in the financial position by geography

	Europe	
	Present value of obligations	Liability recognized
At December 31, 2015	(186,730)	(186,730)
Current service cost	1,954	1,954
Cost of interest	4,183	4,183
Benefits paid	11,807	11,807
Actuarial adjustments	13,164	13,164
Foreign exchange variation	(1,131)	(1,131)
At December 31, 2016	**(156,753)**	**(156,753)**
Current service cost	(1,066)	(1,066)
Cost of interest	(1,118)	(1,118)
Benefits paid	4,535	4,535
Actuarial adjustments	2,607	2,607
Foreign exchange variation	(14,878)	(14,878)
At June 30, 2017	**(166,673)**	**(166,673)**

	USA		
	Present value of obligations	Fair value of assets	Liability recognized
At December 31, 2015	**(586,517)**	**510,154**	**(76,363)**
Current service cost	(3,920)	(1,456)	(5,376)
Amortization of cost of service rendered	1,266	–	1,266
Cost of interest	(19,469)	–	(19,469)
Return on plan assets	–	16,830	16,830
Benefits paid	25,680	(25,664)	16
Actuarial adjustments	(41,276)	55,295	14,019
Contributions paid by the sponsors	–	5,655	5,655
Contributions paid by the participants	(77)	77	–
Foreign exchange variation	136,875	(121,675)	15,200
IAS 19 – Limit on Assets	–	(7,865)	(7,865)
At December 31, 2016	**(487,438)**	**431,351**	**(56,087)**

	USA		
	Present value of obligations	Fair value of assets	Liability recognized
Current service cost	(1,753)	(835)	(2,588)
Cost of interest	(8,775)	–	(8,775)
Return on plan assets	–	8,016	8,016
Benefits paid	8,810	(8,810)	–
Actuarial adjustments	(17,056)	4,771	(12,285)
Contributions paid by the sponsors	–	3,150	3,150
Foreign exchange variation	(18,548)	17,534	(1,014)
IAS 19 – Limit on Assets	–	6,252	6,252
At June 30, 2017	**(524,760)**	**461,429**	**(63,331)**

	Brazil		
	Present value of obligations	Fair value of assets	Liability recognized
At December 31, 2015	**(198,921)**	**127,425**	**(71,496)**
Current service cost	(138)	–	(138)
Cost of interest	(23,100)	–	(23,100)
Expected return on plan assets	–	19,866	19,866
Benefits paid	20,808	(20,808)	–
Actuarial adjustements	(50,031)	14,958	(35,073)
Contributions paid by the sponsors	–	427	427
Contributions paid by the participants	(11)	11	–
Workers affected by silicosis	104	–	104
At December 31, 2016	**(251,289)**	**141,879**	**(109,410)**
Current service cost	(111)	–	(111)
Cost of interest	(12,623)	–	(12,623)
Expected return on plan assets	–	7,238	7,238
Benefits paid	10,097	(10,097)	–
Actuarial adjustements	(9,325)	9,366	41
Contributions paid by the sponsors	–	209	209
Extraordinary contributions	–	4,759	4,759
Adjustment – Workers affected by silicosis	(317)	–	(317)
At June 30, 2017	**(263,568)**	**153,354**	**(110,214)**

Characteristics of the plans

Brazil`s plan provides its employees with a Defined Contribution (CD) benefit plan with contributions paid by the sponsor and the participant.

The employees' contributions range from 0.7% to 3.95% of the salaries, while the sponsor's contributions range from 0.25% to 1.95%, depending on the participant's salary and age.

The Company performed an actuarial valuation of the defined benefit plan in the period ended June 30, 2017, by an external actuary, using the projected unit credit method, to determine the present value of the obligations.

The general conditions and characteristics of the defined contribution plans in the United States and the United Kingdom, as well as the assumptions for the calculation of the plan liabilities, remained unaltered and consistent with those presented in Note 23 to the Company's financial statements for the year ended December 31, 2016. In the first half of 2017, the total cost incurred with these Plans was

R$2,881 (R$3,501 in the first half of 2016), calculated in accordance with the rates defined by their respective rules.

The Company also has Defined Benefit Plans in Europe and in the United States, which are calculated using the projected unit credit method by an independent actuary, who maintained the economic actuarial assumptions aligned and consistent with those presented above in the current explanatory note.

Sensitivity analysis

The quantitative sensitivity analyses regarding significant assumptions at June 30, 2017 are presented below. These sensitivity analyses were determined based on a method that extrapolates the impact on the net defined benefit obligation as a result of reasonable changes in the main assumptions at the end of the period.

	Brazil
	Present value of obligations
Decrease of 1% in the discount rate	**23,535**
Decline in the mortality rate by one year	**6,140**
Increase of 1% in the salary growth rate	**767**

	Europe
	Present value of obligations
Increase of 0.25% in the interest rate	**115,086**
Decrease of 0.25% in the interest rate	**(198,420)**

	USA
	Present value of obligations
Increase of 0.25% in the discount rate	**(18,361)**
Decrease of 0.25% in the discount rate	**19,018**

Pension plan assets:

	Brazil			
	06/30/2017		12/31/2016	
	Amount	%	Amount	%
Fixed income	**151,589**	98.9	141,034	99.5
Structured investments	**1,763**	1.1	783	0.5
	153,352	**100.0**	**141,817**	**100.0**

	USA			
	06/30/2017		12/31/2016	
	Amount	%	Amount	%
Fixed income	**146,332**	31.7	138,515	32.1
Variable income	**184,240**	39.9	170,453	39.5
Cash and cash equivalents	**136,839**	29.7	127,958	29.7
Derivatives	**53,324**	11.6	56,211	13.0
Provision for losses	**(59,307)**	-12.9	(61,785)	-14.3
	461,428	**100.0**	**431,352**	**100.0**

The expected return on plan assets corresponds to the discount rate defined based on long-term federal government bonds, which are linked to inflation, in line with the average term weighted by the future payment flow of the benefits currently assessed.

(22) Equity

(a) *Capital*

At June 30, 2017, the Company's share capital was R$1,576,215 (R$1,576,215 at December 31, 2016), represented by 50,894,981 registered common shares (52,631,881 at December 31, 2016), with no par value.

The Company is authorized to increase its share capital by up to R$4,000,000, regardless of any amendment to the bylaws, through a Board of Directors' resolution that will define the conditions of the issue.

At a meeting held on March 14, 2017, the Board of Directors approved the Company's 5th Share Repurchase Program, starting on March 14, 2017 and ending on September 14, 2018. The Company's intention is to maximize shareholder value through an efficient capital structure management. The maximum number of shares that may be acquired by the Company is 2,629,998 common shares, which represent 10% of the total outstanding shares. On the same date, the Board of Directors also approved the dissolution of the 4th Share Repurchase Program, as well as the cancellation of 1,736,900 common shares issued by the Company, held in treasury due to the 4th Share Repurchase Program, without any change in share capital.

The Company's share repurchase transactions are carried out at market price, in the trading sessions of BM&FBOVESPA – Bolsa de Valores, Mercadorias e Futuros S.A., in compliance with the legal and regulatory prohibition periods, especially the restriction on the negotiation of securities provided for in Article 12 of CVM Instruction 476, of January 16, 2009, and Article 48 of CVM Instruction 400, of December 29, 2003.

In connection with the 5th Share Repurchase Program, the Company had acquired 854,500 shares, for R$23,222, up to June 30, 2017.

The table below presents detailed information on these acquisitions of Company shares as of June 30, 2017:

Fifth Share Repurchase Program

Period	Type	Number of shares repurchased	Repurchase price (R$) Minimum	Repurchase price (R$) Weighted average	Repurchase price (R$) Maximum	Market closing price[1](R$)	Market value (R$ thousand)
5th Program[2]	Common shares	854,500	25.05	26.97	30.32	36.80	31,446

(1) Closing price disclosed by BM&F BOVESPA – Bolsa de Valores, Mercadorias e Futuros S.A. for the Company's common shares, traded under the ticker MAGG3, in the last trading session in June 2017.

(2) Includes the total shares repurchased under the 5th Program, from March 14, 2017 to June 30, 2017.

2017

Period	Type	Number of shares repurchased[2]	Repurchase price (R$) Minimum	Repurchase price (R$) Weighted average	Repurchase price (R$) Maximum	Market closing price[1](R$)	Market value[2] (R$ thousand)
1st half of the year 2017	Common shares	1,504,600	23.59	25.61	30.32	36.80	55,369

(1) Closing price disclosed by BM&F BOVESPA – Bolsa de Valores, Mercadorias e Futuros S.A. for the Company's common shares, traded under the ticker MAGG3, in the last trading session in June 2017.

(2) Includes the total shares repurchased in 2017, up to June 30, 2017, as well as the shares repurchased under the 4th Share Repurchase Program, which ended on March 14, 2017.

In the period from January 1, 2017 to March 31, 2017, in the connection with the Fourth Share Repurchase Program, 650,100 shares were acquired for R$15,506, and subsequently canceled at a Board of Directors' Meeting held on March 14, 2017.

At June 30, 2017, the Company held 854,500 common shares in treasury, which accounted for 1.68% of the total shares issued by the Company. The amount of R$31,446 was recognized in the Company's accounting records with respect to these shares.

The following table presents information related to the acquisition of shares issued by the Company as of December 31, 2016:

4th Share buyback program

Period	Type	Number of buyback shares	Share buyback price (R$) Minimum	Weighted average	Maximum	Market closing quote[(1)] (R$)	Market value (R$ thousand)
4th program²	Common shares	2,208,040	13.38	18.74	23.85	23.75	52,441

(1) Closing price disclosed by BM&F BOVESPA – Bolsa de Valores, Mercadorias e Futuros S.A. for the Company's common shares, traded under the ticker MAGG3, in the last trading session in December, 2016.

(2) It comprises all shares repurchased throughout the 4th program, from November 12, 2015 until December 31, 2016.

4th Share buyback program

Period	Type	Number of buyback shares	Share buyback price (R$) Minimum	Weighted average	Maximum	Market closing quote[(1)] (R$)	Market value (R$ thousand)
2016	Common shares	1,948,040	13.38	19.38	23.85	23.75	42,266

(1) BM & FBOVESPA – Bolsa de Valores, Mercadorias e Futuros S.A., related to the Company's common shares, under the ticker MAGG3, based on the last trading session of December 2016.

(b) ***Capital reserves***

Share issue premium reserve: in the amount of R$139,327, refers to 50% premium on the subscription of shares issued in 2011, Part of the reserve was used in the cancellation of treasury shares, with a remaining balance of R$14,161.

Special reserve – Law No. 8200/91: refers to special monetary restatement recorded in 1991, in conformity with Law No. 8200/91, amounting to R$5,973. This reserve may be used to increase capital or absorb accumulated losses.

Goodwill reserve: corresponds to the goodwill on the merger of Mukden Participações Ltda., a company holding interests in Magnesita Refratários S.A., net of the provision constituted under CVM Instruction No. 349/01, When this reserve is utilized for a capital increase, the shares will be distributed to all the shareholders. On December 14, 2015, the General Meeting approved capitalization in to a capital reserve account for tax purpose of part of the special goodwill reserve on merger in the total amount of R$53,324, referring to the tax benefit earned by the Company until the end of fiscal year 2014 due to goodwill amortization, which will be made to the benefit of all shareholders and without issue of new shares, on the terms of article 6, §2, of CVM Rule No. 319/99.

Stock options granted: this reserve refers to the amount of the Company's stock options granted to members of management in the past. Currently, there are no outstanding options.

(c) ***Retained earnings***

Legal reserve: This is set up by allocating 5% of net income for the year, after legal adjustments and deductions, including the deduction of accumulated losses, if any, up to the limit of 20% of the Company's capital, in accordance with article 193 of the Brazilian Corporation Law.

Reserve for investments: This is based on article 27, item d of the Company's articles of incorporation, which provides for a reserve for new investments with the remaining portion of net income, after legal reserve and mandatory minimum dividends. The balance of this reserve, plus the balance of the other revenue reserves, other than the unearned income and contingencies reserves, may not exceed the amount of capital.

(d) ***Other comprehensive income (loss)***

This account is used to record foreign exchange variation on investments in subsidiaries abroad, intercompany loans and goodwill abroad, and results from actuarial valuation of retirement benefits.

The amounts accounted for as foreign exchange variation on investments and goodwill abroad were as follows:

	Consolidated
At December 31, 2016 based on statutory financial statements	(42,460)
Foreign exchange variation on investments and goodwill abroad	148,294
Actuarial valuation of retirement benefits	(7,765)
Hedge accounting	(1,350)
At June 30, 2017	**96,719**

(23) Segment reporting

As from October 2012, management and the Board of Directors analyze the Company's business by dividing it into the following lines: Refractories, Minerals and Services. The revenue generated by the reportable operating segments mainly arises from the manufacture and sale of refractory products. The amounts presented to the Board of Directors are consistent with the balances recorded in the consolidated financial statements.

The segment information reviewed by management in relation to the periods ended June 30, 2017 and 2016 is presented below:

	06/30/2017			
	Refractories	Minerals	Services	Total
Net revenue from sales and services	**1,545,766**	**106,881**	**102,425**	**1,755,072**
Cost of sales and services	**(1,005,325)**	**(75,792)**	**(89,725)**	**(1,170,842)**
Gross profit	**540,441**	**31,089**	**12,700**	**584,230**

	06/30/2016 (unaudited)			
	Refractories	Minerals	Services	Total
Net revenue from sales and services	1,591,778	99,612	108,144	1,799,534
Cost of sales and services	(1,028,495)	(63,940)	(94,192)	(1,186,627)
Gross profit	**563,283**	**35,672**	**13,952**	**612,907**

In the periods ended June 30, 2017 and 2016, the net revenue from sales and services by legal entity is each region was as follows:

	06/30/2017					
	South America	Europe	North America	Asia	Eliminations	Total
Net revenue from sales and services	**962,593**	**438,828**	**562,580**	**79,816**	**(288,745)**	**1,755,072**

	06/30/2016 (unaudited)					
	South America	Europe	North America	Asia	Eliminations	Total
Net revenue from sales and services	898,870	506,047	598,037	75,191	(278,611)	1,799,534

There is no concentration of sales in specific customers.

(24) Expenses by nature

	06/30/2017				
	Cost of sales	Selling expenses	General and Administrative expenses	Other expenses (income)	Total
Depreciation and amortization	**57,841**	**2,631**	**13,661**	**5,316**	**79,449**
Employee benefits	**264,679**	**87,212**	**66,327**	**–**	**418,218**
Raw materials and consumables	**618,496**	**1,658**	**990**	**–**	**621,144**
Transportation and commissions	**3,917**	**81,934**	**121**	**–**	**85,972**
Maintenance	**48,004**	**2,294**	**590**	**–**	**50,888**
Outsourced services	**87,460**	**37,738**	**26,915**	**–**	**152,113**
Impairment of assets	**–**	**–**	**–**	**164,317**	**164,317**
Other expenses (revenues)	**90,445**	**25,592**	**21,973**	**47,345**	**185,355**
	1,170,842	**239,059**	**130,577**	**216,978**	**1,757,456**

	06/30/2016 (unaudited)				
	Cost of sales	Selling expenses	General and Administrative expenses	Other expenses (income)	Total
Depreciation and amortization	63,461	2,274	13,029	–	78,764
Employee benefits	269,156	87,970	73,253	–	430,379
Raw materials and consumables	586,658	745	888	–	588,291
Transportation and commissions	2,290	115,347	305	–	117,942
Maintenance	49,540	1,672	718	–	51,930
Outsourced services	90,678	11,696	28,338	–	130,712
Other expenses (revenues)	124,844	32,917	25,185	10,586	193,532
	1,186,627	**252,621**	**141,716**	**10,586**	**1,591,550**

(25) Employee benefit expenses

	06/30/2017	06/30/2016 (unaudited)
Salaries and wages	**286,207**	301,805
Social charges	**93,495**	91,819
Stock options	**–**	711
Profit sharing	**28,833**	25,643
Retirement plan	**9,683**	10,401
	418,218	**430,379**

(26) Finance income (expenses)

Finance income and expenses were as follows:

	06/30/2017	06/30/2016 (unaudited)
Finance income		
– Monetary and foreign exchange variations	**44,016**	245,380
– Income from financial investments	**21,533**	15,988
– Other revenues	**4,421**	3,352
	69,970	264,720
Finance expenses		
– Monetary and foreign exchange variations	**(75,632)**	(91,017)
– Interest on borrowings	**(102,277)**	(109,131)
– Other expenses	**(37,542)**	(24,259)
	(215,451)	(224,407)
	(145,481)	**40,313**

(27) Earnings (loss) per share

(a) ***Basic***

	06/30/2017	06/30/2016 (unaudited)
Basic		
Basic numerator		
Earnings (loss) attributable to controlling stockholders	**(166,440)**	157,738
Basic denominator		
Weighted average number of outstanding shares (in thousands)	**50,810**	52,333
Basic earnings (loss) per share (in R$)	**(3.28)**	**3.01**

(b) ***Diluted***

Diluted earnings per share are calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potentially dilutive common shares. At June 30, 2017, there were no dilution factors. At June 30, 2016, the Company had only one category of potentially dilutive common shares: stock options.

When dilution factors exist, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market price of the Company's shares), based on the monetary value of the subscription rights attached to the stock options outstanding.

The number of shares calculated as above is compared with the number of shares issued, assuming the exercise of the stock options.

	06/30/2017	06/30/2016 (unaudited)
Diluted		
Diluted numerator		
Earnings (loss) attributable to controlling stockholders	**(166,440)**	157,738
Diluted denominator		
Weighted average number of shares for diluted earnings (in thousands)	**50,810**	55,471
Diluted earnings (loss) per share (in R$)	**(3.28)**	**2.84**

(28) Net revenue from sales and services

	06/30/2017	06/30/2016 (unaudited)
Gross revenue from sales and services		
In reais	**757,848**	721,653
In other currencies	**1,153,444**	1,292,640
	1,911,292	**2,014,293**
Deductions from sales	**(156,220)**	(214,759)
Net revenue from sales and services	**1,755,072**	**1,799,534**

(29) Commitments assumed

29.1 *Supply agreements*

The Company has a commitment arising from agreements for the supply of the electric energy required for its manufacturing activities, which is effective until 2021. At June 30, 2017, the Company was in compliance with this commitment.

The amounts are presented through electric energy consumption estimates in accordance with the effective period of the agreements, the prices of which are based on the estimated volumes arising from the Company's continuing operations.

The total minimum supply payments, measured at nominal value according to the agreement, are as follows:

	06/30/2017
Less than 1 year	27,413
More than one year and no later than four years	66,291
More than four years	9,567
	103,271

29.2 *Operating lease obligations*

The Company has commitments arising from operating lease agreements related to properties where it carries out its product storage and shipping activities, as well as to machinery and equipment. These agreements have terms ranging from one to six years, and do not contain a purchase option at the expiry of the agreement, but provide for periodic renewal, in accordance with the market conditions under which they are signed. At June 30, 2017, the commitments assumed with future considerations of these operating leases fell due as follows:

	06/30/2017
Less than 1 year	10,469
More than one year and no later than five years	3,661
	14,130

(30) Insurance coverage

The Company and its subsidiaries maintain insurance policies to cover operating risks, comprising industrial facilities, machinery and inventories. These policies provide coverage against loss of profits, risks of fire, flooding and other events.

The Company also maintains D&O liability insurance, group life insurance for employees, transportation insurance, general public liability insurance, and employee travel insurance.

The amounts insured for operational risks and civil liability are as follows:

	06/30/2017
Insurance coverage for assets	**5,931,719**
Loss of profits	**1,523,516**
Civil liability	**325,910**

(31) Related parties

31.1 *Remuneration of the key management personnel*

The remuneration of the Group's key personnel comprises the remuneration of the active members of the Board of Directors and the Executive Board.

In the first half of 2017, the remuneration of key personnel (members of the Board of Directors and Executive Board) totaled R$5,092 (first half of 2016 – R$5,551) with respect to fees, and R$3,281 (first half of 2016 – R$5,500) related to profit sharing.

31.2 *Related companies*

Related companies include the Joint venture Krosaki Magnesita Refractories LLC and Magnesita Envoy Asia Ltd., that are not consolidated since the Company holds respectively 40% and 50% of interest in their equity. The transactions between the Company and its joint ventures are solely trade operations.

As of June 30, 2017, the Group purchase goods from Krosaki amounting to R$5,511 (R$7,829 as of June 30, 2016).

(32) Subsequent events

On May 13, 2008, the Company signed a purchase and sale agreement with buyer José Ribeiro de Mendonça, under which the buyer undertook to acquire an area of 2,244 hectares, located on the Cocal-Jacaré Bela Vista and Tijuco Farms, in the city of Uberaba, State of Minas Gerais. The total amount of this transaction was R$11,593, and a portion of it was settled in previous years.

At June 30, 2017, the net amount recognized for this receivable was R$3,881 (corresponding to an amount receivable of R$5,797 less a litigation loss of R$1,916).

On July 7, 2017, the Company received the amount of R$8,250, in cash, referring to the remainder of the property's price, which was recognized in current assets.

Magnesita Historical Financial Information

The Directors
RHI-MAG N.V.
Wienerbergstrasse 9, 1100 Vienna, Austria

17 October 2017

Dear Sirs

Magnesita Refratarios S.A. ("Magnesita")

We report on the consolidated historical financial information of Magnesita Refratarios S.A. which comprises the consolidated statement of financial position as at December 31, 2016, 2015 and 2014 and the consolidated statement of profit or loss, other comprehensive income or loss, changes in equity and cash flows for the years then ended and notes to the consolidated historical financial information ("Magnesita Historical Financial Information"). The Magnesita Historical Financial Information has been prepared for inclusion in the prospectus dated 17 October 2017 of the RHI-MAG N.V. (the "Company") on the basis of the accounting policies set out in note 3 of "Magnesita Historical Financial Information". This report is required by Listing Rule 6.1.3R(1)(d) and is given for the purpose of complying with that rule and for no other purpose.

Save for any responsibility under applicable law to investors purchasing ordinary shares of the Company in reliance on this report, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to Commission Regulation (EC) 809/2004, consenting to its inclusion in the prospectus.

Responsibilities

The Directors of the Company are responsible for preparing the Magnesita Historical Financial Information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the Magnesita Historical Financial Information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the Magnesita Historical Financial Information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the Magnesita Historical Financial Information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Magnesita Historical Financial Information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the Magnesita Historical Financial Information gives, for the purposes of the prospectus dated 17 October 2017, a true and fair view of the consolidated statement of financial position of Magnesita Refratários S.A. as at the dates stated and of its consolidated statement of profit or loss, other comprehensive income or loss, cash flows and changes in equity for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Yours faithfully

Ernst & Young Auditores Independentes S. S.

Consolidated Statement of Profit or (Loss)

for the years ended 31 December

(In thousands of reais)	Notes	2016	2015	2014
Net revenue from sales and services	28	3,393,079	3,380,772	2,872,042
Cost of sales	24	(2,233,162)	(2,341,286)	(1,989,489)
Gross profit		**1,159,917**	**1,039,486**	**882,553**
Operating income (expenses)				
Selling expenses	24	(487,945)	(456,446)	(408,504)
General and administrative expenses	24	(288,554)	(274,023)	(228,968)
Stock options	23/24	(1,568)	(3,300)	(6,140)
Share of profit (loss) on an associate and joint venture		(639)	434	1,125
Other operating income (expenses), net	24	83,294	(546,982)	(102,868)
Operating income (expenses) before financial income (expenses)		**464,505**	**(240,831)**	**137,198**
Financial (expenses) income				
Financial income	26	245,796	309,529	183,412
Financial expenses	26	(332,105)	(807,421)	(448,046)
		(86,309)	(497,892)	(264,634)
Income (loss) before income and social contribution taxes		**378,196**	**(738,723)**	**(127,436)**
Income and social contribution taxes	12.b	75,751	(309,060)	37,077
Net income (loss) for the year		**453,947**	**(1,047,783)**	**(90,359)**
Attributable to:				
Controlling shareholders		449,502	(1,048,619)	(89,152)
Non-controlling shareholders		4,445	836	(1,207)
		453,947	**(1,047,783)**	**(90,359)**
Earnings/(loss) per share attributable to Company's shareholders for the year (R$ per share)				
Basic earnings/(loss) per share	27.a	8.58	(18.96)	(1.56)
Diluted earnings/(loss) per share	27.b	8.15	(18.96)	(1.56)

Consolidated Statement of Other Comprehensive Income or (Loss)

for the years ended 31 December

(In thousands of reais)	2016	2015	2014
Net income (loss) for the year	453,947	(1,047,783)	(90,359)
Other comprehensive income to be reclassified to profit or loss (P&L) for subsequent periods			
Foreign exchange gains (losses)on investments in subsidiaries abroad	(245,541)	98,696	1,636
Hedge accounting (net of tax)	4,081	–	–
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Actuarial gain (loss) on post-employment benefit obligations (net of tax)	(1,604)	17,516	(14,524)
	(243,064)	**116,212**	**(12,888)**
Total comprehensive income (loss) for the year	**210,883**	**(931,571)**	**(103,247)**
Attributable to:			
Controlling shareholders	215,557	(938,547)	(100,270)
Non-controlling shareholders	(4,674)	6,976	(2,977)
	210,883	**(931,571)**	**(103,247)**

Consolidated Statement of Financial Position

as at 31 December

(In thousands of reais)	Notes	2016	2015	2014
Assets				
Current assets				
Cash and cash equivalent	8	960,342	796,187	887,374
Marketable securities		25,253	–	15,199
Trade accounts receivable	9	480,592	626,210	515,554
Inventories	10	826,489	920,435	948,377
Income and social contribution taxes recoverable		35,456	55,959	34,876
Other taxes recoverable	11	74,104	49,898	96,242
Receivables from sale of property		1,953	994	2,687
Other		33,517	44,528	45,352
		2,437,706	**2,494,211**	**2,545,661**
Non-current assets				
Long-term receivables				
Marketable securities		13,062	8,238	10,901
Trade accounts receivable	9	17,223	–	–
Deferred income and social contribution taxes	12.c	33,498	23,461	51,320
Other taxes recoverable	11	55,406	60,252	49,296
Judicial deposits	19	16,917	15,293	16,126
Receivables from sale of property		6,071	6,422	6,410
Investments		9,342	11,037	7,220
Investment property		13,004	13,004	13,004
Property, plant and equipment (PP&E)	13	1,433,036	1,616,778	1,310,611
Intangible assets	14	2,105,211	2,256,940	2,568,292
		3,702,770	**4,011,425**	**4,033,180**
Total assets		**6,140,476**	**6,505,636**	**6,578,841**
Liabilities and equity				
Current liabilities				
Trade accounts payable		536,111	529,309	419,216
Liabilities arising from the purchase of raw materials	16	99,523	137,405	166,519
Loans and financing	17	584,213	444,736	305,220
Salaries, provisions and social charges		146,872	135,092	103,571
Income and social contribution taxes payable		22,307	13,771	12,650
Other taxes payable	18	31,602	42,453	44,851
Dividends	21.e	87,652	1,133	642
Accounts payable for investment acquisition		7,008	19,872	23,140
Other liabilities		69,333	93,006	70,850
		1,584,621	**1,416,777**	**1,146,659**

(In thousands of reais)	Notes	2016	2015	2014
Non-current liabilities				
Loans and financing	17	1,906,851	2,418,668	2,203,939
Provisions	19	50,266	45,691	39,326
Post-employment liabilities	20	322,250	334,589	300,169
Deferred income and social contribution taxes	12.c	262,778	362,404	8,339
Other liabilities		35,848	40,727	16,836
		2,577,993	3,202,079	2,568,609
Equity				
Capital	21.a	1,576,215	1,632,849	2,528,146
Capital reserves	21.b	157,731	171,967	260,803
Treasury shares	21.a	(25,588)	(3,643)	(47,154)
Retained earnings	21.c	293,153	–	23,856
Accumulated losses		–	(129,363)	–
Other comprehensive income (loss)	21.d	(42,460)	191,485	81,413
Controlling shareholders		1,959,051	1,863,295	2,847,064
Non-controlling shareholders		18,811	23,485	16,509
		1,977,862	**1,886,780**	**2,863,573**
Total liabilities and equity		**6,140,476**	**6,505,636**	**6,578,841**

Consolidated Statement of Changes in Equity

for the years ended 31 December 2014, 2015 and 2016

			Capital reserves				Retained earnings							
(In thousands of reais)	Capital	Treasury shares	Share issue premium reserve	Share issue expenses	Special law no 8.200/91	Goodwill reserve	For investments	Legal reserve	Retained earnings (accumulated losses)	Stock Options granted	Other comprehensive income (loss)	Total	Non-controlling interest	Total equity
Balance at December 31, 2013	**2,528,146**	**(19,869)**	**139,327**	**(17,226)**	**5,973**	**88,874**	**104,718**	**8,290**	**–**	**37,715**	**92,531**	**2,968,479**	**19,486**	**2,987,965**
Actuarial gain (loss) on post-employment benefit obligations	–	–	–	–	–	–	–	–	–	–	(14,524)	(14,524)	–	(14,524)
Exchange variation on foreign investments	–	–	–	–	–	–	–	–	–	–	3,406	3,406	(1,770)	1,636
Treasury shares purchase	–	(27,285)	–	–	–	–	–	–	–	–	–	(27,285)	–	(27,285)
Stock options granted	–	–	–	–	–	–	–	–	–	6,140	–	6,140	–	6,140
Loss for the year	–	–	–	–	–	–	–	–	(89,152)	–	–	(89,152)	(1,207)	(90,359)
Allocation of loss for the year:														
Reserve for investments	–	–	–	–	–	–	(89,152)	–	89,152	–	–	–	–	–
Balance at December 31, 2014	**2,528,146**	**(47,154)**	**139,327**	**(17,226)**	**5,973**	**88,874**	**15,566**	**8,290**	**–**	**43,855**	**81,413**	**2,847,064**	**16,509**	**2,863,573**
Actuarial gain (loss) on post-employment benefit obligations	–	–	–	–	–	–	–	–	–	–	17,516	17,516	–	17,516
Exchange gains (losses) on foreign investments	–	–	–	–	–	–	–	–	–	–	92,556	92,556	6,140	98,696
Treasury shares purchase	–	(48,625)	–	–	–	–	–	–	–	–	–	(48,625)	–	(48,625)
Cancellation of treasury shares	–	92,136	(109,362)	17,226	–	–	–	–	–	–	–	–	–	–
Stock options granted	–	–	–	–	–	–	–	–	–	3,300	–	3,300	–	3,300
Unclaimed dividends	–	–	–	–	–	–	103	–	–	–	–	103	–	103
Loss for the year	–	–	–	–	–	–	–	–	(1,048,619)	–	–	(1,048,619)	836	(1,047,783)
Allocation of loss for the year:														
Capital reduction	(895,297)	–	–	–	–	–	–	–	895,297	–	–	–	–	–
Reserve for investments	–	–	–	–	–	–	(15,669)	–	15,669	–	–	–	–	–
Legal reserve	–	–	–	–	–	–	–	(8,290)	8,290	–	–	–	–	–
Balance at December 31, 2015	**1,632,849**	**(3,643)**	**29,965**	**–**	**5,973**	**88,874**	**–**	**–**	**(129,363)**	**47,155**	**191,485**	**1,863,295**	**23,485**	**1,886,780**

(In thousands of reais)	Capital	Treasury shares	Capital reserves: Share issue premium reserve	Capital reserves: Share issue expenses	Capital reserves: Special law no 8.200/91	Goodwill reserve	Retained earnings: For investments	Retained earnings: Legal reserve	Retained earnings (accumulated losses)	Stock Options granted	Other comprehensive income (loss)	Total	Non-controlling interest	Total equity
Capital decrease	(60,000)	–	–	–	–	–	–	–	60,000	–	–	–	–	–
Capital increase with options granted	3,366	–	–	–	–	–	–	–	–	–	–	3,366	–	3,366
Actuarial gain (loss) on post-employment benefit obligations	–	–	–	–	–	–	–	–	–	–	(1,604)	(1,604)	–	(1,604)
Exchange gains (losses) on foreign investments	–	–	–	–	–	–	–	–	–	–	(236,422)	(236,422)	(9,119)	(245,541)
Hedge accounting	–	–	–	–	–	–	–	–	–	–	4,081	4,081	–	4,081
Treasury shares purchase	–	(39,135)	–	–	–	–	–	–	–	–	–	(39,135)	–	(39,135)
Cancellation of treasury shares	–	17,190	(15,804)	–	–	–	–	–	–	–	–	1,386	–	1,386
Stock options granted	–	–	–	–	–	–	–	–	–	1,568	–	1,568	–	1,568
Unclaimed Dividends	–	–	–	–	–	–	133	–	–	–	–	133	–	133
Net income for the year	–	–	–	–	–	–	–	–	449,502	–	–	449,502	4,445	453,947
Allocation of net income for the year:														
Mandatory minimum dividends	–	–	–	–	–	–	–	–	(87,119)	–	–	(87,119)	–	(87,119)
Investment reserve	–	–	–	–	–	–	274,679	–	(274,679)	–	–	–	–	–
Legal reserve	–	–	–	–	–	–	–	18,341	(18,341)	–	–	–	–	–
Balance at December 31, 2016	**1,576,215**	**(25,588)**	**14,161**	**–**	**5,973**	**88,874**	**274,812**	**18,341**	**–**	**48,723**	**(42,460)**	**1,959,051**	**18,811**	**1,977,862**

Consolidated Statement of Cash Flows

for the years ended 31 December

(In thousands of reais)	Notes	2016	2015	2014
Cash flow from operating activities				
Net income (loss) for the year		453,947	(1,047,783)	(90,359)
Adjustments				
Monetary and foreign exchange gains, net		(90,275)	313,565	124,955
Interest charges		219,337	233,381	174,438
Depreciation and depletion	13	151,491	169,609	139,925
Amortization of intangible assets	14	16,274	8,834	6,729
Share of profit (loss) on an associate and joint venture		639	(434)	(1,125)
Deferred income and social contribution taxes	12	(129,923)	276,306	(70,336)
Derivative instruments – fair value swap	6	(42,753)	(49,054)	(34,759)
Stock option	23	1,568	3,300	6,140
Provision (reversal of provision) for obsolete inventories	10	(1,625)	31,350	3,156
Impairment losses (impairment reversal) of non-current non-financial assets	15	(18,908)	407,618	41,101
Income from sale of investments		(136,797)	–	–
Allowance for doubtful accounts	9	6,376	9,208	15,513
		429,351	**355,900**	**315,378**
(Increase) decrease in assets				
Trade accounts receivable		27,126	1,073	110,299
Inventories		(32,130)	120,846	(192,931)
Taxes recoverable		(14,959)	30,480	20,862
Other		(42,257)	20,814	(56,393)
		(62,220)	**173,213**	**(118,163)**
Increase (decrease) in liabilities				
Trade accounts payable		76,309	85,074	1,938
Financial liabilities arising from the purchase of raw materials	16	(26,325)	(125,595)	166,519
Taxes payable		31,729	(6,365)	11,442
Dividends		–	491	(13,136)
Other		15,032	19,790	22,782
		96,745	**(26,605)**	**189,545**
Income and social contribution taxes paid		(27,711)	(39,988)	(33,720)
Net cash from operating activities		**436,165**	**462,520**	**353,040**
Cash flow from investing activities				
Marketable securities		(1,141)	17,862	(14,504)
PP&E, investments and intangible assets disposals	13	187,729	8,604	18,256
PP&E and intangible asset purchases		(207,846)	(240,370)	(183,436)
Paid-in capital in subsidiary		(12,429)	–	–
Credits due to sale of PP&E		–	1,681	3,046
Interest on capitalized loans		(2,680)	(1,432)	(15,988)
Net cash generated by (invested in) investing activities		**(36,367)**	**(213,655)**	**(192,626)**

(In thousands of reais)	Notes	2016	2015	2014
Cash flow from financing activities				
Loans and financing		362,606	854,334	72,320
Loans and financing repayments		(340,938)	(1,184,477)	(90,664)
Payment of interest on loans and financing		(177,211)	(253,684)	(229,374)
Derivative instruments		42,753	49,054	34,759
Treasury shares purchase		(37,658)	(48,625)	(27,285)
Net cash flow used in financing activities		**(150,448)**	**(583,398)**	**(240,244)**
Increase (decrease) in cash and cash equivalents		249,350	(334,533)	(79,830)
Cash and cash equivalents at beginning of year		796,187	887,374	949,097
Effect of exchange rate changes on cash		(85,195)	243,346	18,107
Cash and cash equivalents at end of year		960,342	796,187	887,374
Increase (decrease) in cash and cash equivalents		249,350	(334,533)	(79,830)

Notes to the Magnesita Historical Financial Information

for the years ended 31 December 2016, 2015 and 2014

(1) Operations

Magnesita Refratários S.A. ("Company" or "Magnesita"), controlled through investment vehicles of GP Investments, Ltd. and Rhône Group is a public company listed in the "Novo Mercado" of BM&F BOVESPA and whose business purpose, in conjunction with its subsidiaries("Magnesita Group" or "Group"), is to manufacture refractory products, which are essential for processes performed under high temperatures. Group products are basically made of magnesite or dolomite and are available in a wide range of forms, such as: bricks, masses, mortars and concrete. Taking advantage of its synergy with customers, the Group renders electromechanical maintenance and refractory assembly services. In addition, the Group operates with processing and sale of industrial minerals such as talc, caustic magnesia and magnesite sinter.

In addition to its plant located in Contagem, MG, Brazil (the Company's headquarters), the Company has other direct and indirect subsidiaries and jointly-controlled entities, holdings, manufacturing plants, trading companies, mining or non-operating subsidiaries, which are included in this consolidated historical financial information.

(2) Approval of consolidated historical financial information

This consolidated historical financial information was approved and authorized for disclosure by the RHI-MAG N.V.'s Directors on 17 October 2017.

(3) Summary of significant accounting policies

3.1 *Basis of preparation*

The consolidated historical financial information of Magnesita Group for the years ended 31 December 2014, 2015 and 2016 ("consolidated historical financial information") has been prepared for inclusion in the Prospectus of RHI MAG N.V. dated 17 October 2017 in accordance with the requirements of Commission Regulation (EC) 809/2004 and the UK Listing Rules and in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU). The significant accounting policies have been consistently applied for all years presented.

Significant accounting policies adopted in the preparation of these consolidated historical financial information are described below.

The consolidated historical financial information was prepared using the historical cost as a value basis, and adjusted to reflect the measurement of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of consolidated historical financial information requires the use of certain critical accounting estimates as well as the exercise of judgment by Group management in applying the Group's accounting policies. Those areas which involve greater judgment calls or more complexity or where the assumptions and estimates are significant for the consolidated historical financial information are disclosed in Note 4.

3.2 *Consolidation criteria*

At December 31, 2016, 2015 and 2014, the consolidated historical financial information includes those of the Company and the subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The fiscal year of direct and indirect subsidiaries coincides with that of the Company and the accounting policies were consistently applied to the consolidated companies.

The investments not fully consolidated include the interests in the Joint ventures Krosaki Magnesita Refractories LLC and Magnesita Envoy Asia Ltd. The Company holds respectively 40% and 50% of interest in their equity.

The consolidated financial statements of the Group include:

			Equity interest		
	Principal activities	Country of incorporation	2016	2015	2014
Iliama II Trading (sole proprietorship company) Ltda. Capital of 3 thousand EUROS and 3,010 units of interest	Holding company	Portugal	100%	100%	100%
Magnesita Finance Ltd.(*) Capital of 489,077 thousand EUROS and 2,204 units of interest	Holding company which has equity interest in operational refractories companies in USA, Europe and China	Luxembourg	100%	100%	100%
Magnesita Mineração S.A. Capital of R$ 35,236 thousand and 944,899 units of interest	Operational company (mining activities)	Brazil	100%	100%	100%
MAG-Tec Ltda. Capital of R$ 200 thousand and 800,000 units of interest	Holding company	Brazil	100%	100%	100%
RASA – Refractarios Argentinos S.A. I. C. y M. Capital of ARS1,000 thousand and 1,000,000 shares	Operational company (refractory industry)	Argentina	100%	100%	100%
Refractários Magnesita Colômbia S.A Capital of COP11,673,200 thousand and 1,167,320,000 shares	Sales office	Colombia	100%	100%	100%
Refractários Magnesita Peru S.A.C. Capital of PEN6, 890 thousand and 1,000 shares	Sales office	Peru	100%	100%	100%

	Principal activities	Country of incorporation	Equity interest 2016	2015	2014
Refractários Magnesita Uruguay S.A. Capital of UYU450 thousand and 450,000 units of interest	Sales office	Uruguay	100%	100%	100%
Reframec Manutenção e Montagem de Refratários Ltda. Capital of R$ 1,786 and 1,786,000 units of interest	Operational company (refractories services)	Brazil	69%	63%	57%
Mag Data Paticipações e Investimentos S.A. Capital of R$ 9,680	Holding company	Brazil	100%	77%	–

3.3 ***Segment reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, identified as the Executive Board and the Board of Directors, also responsible for the Group's strategic decisions.

3.4 ***Foreign currency translation***

(a) *Functional and presentation currency*

The financial statements of each subsidiary and jointly controlled subsidiary included in the consolidation and those used as a basis to evaluate investments on the equity method are prepared using the functional currency of each entity. The consolidated historical financial information are presented in Brazilian reais (R$), which is Magnesita's functional and reporting currency.

(b) *Foreign currency transactions and balances*

Foreign currency transactions are translated into the functional currency by the exchange rates prevailing on the dates of transaction or valuation, when items are measured. Exchange gains and losses arising from the settlement of these transactions and from the translation at the exchange rate in force at year end, related to monetary assets and liabilities denominated in foreign currency, are recognized in the income statements as financial income (expenses), except when deferred in equity.

Foreign exchange gains/losses of investments in subsidiaries abroad whose functional currency is different from the Company's functional currency are recognized in "Other comprehensive income" or recorded in P&L for the year only in proportion to the amount of a sale or write-off due to loss or extinguishment.

3.5 ***Fair value measurement***

The Group measures financial instruments, such as derivatives at fair value, at each balance sheet closing date. Further to that, the fair values of financial instruments measured at amortized cost are disclosed in Note 7.

The Group uses valuation techniques appropriate for the circumstances and for which there is sufficient data for fair value measurement, maximizing the use of relevant available information and minimizing the use of unavailable information.

All assets and liabilities that are measured or disclosed at fair value in the consolidated historical financial information are classified within the fair value hierarchy, as described below:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is either directly or indirectly observable; and.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is not available.

No assets or liabilities were transferred between fair value hierarchy levels in 2016, 2015 and 2014.

The Group's Valuation Committee determines the policies and procedures for fair value measurement. The Valuation Committee comprises the mergers and acquisitions internal department, the risk management department, as well as financial officers.

Every disclosure date, the Valuation Committee analyzes the changes in asset and liability values that must be measured and revaluated according to the Group's accounting policies.

For the purposes of fair value disclosures, the Group determined classes of assets and liabilities based on the nature, characteristics and risks of assets or liabilities and the fair value hierarchy level, as mentioned above.

3.6 *Cash and cash equivalents*

Cash and cash equivalents include cash in hand, bank deposits and highly liquid short-term investments redeemable within 90 (ninety) days with immaterial risk of change in fair value.

3.7 *Financial assets and liabilities*

3.7.1 *Initial recognition and measurement of financial assets*

Management determines the classification of the financial assets on initial recognition. The classification depends on the nature and purpose for which the financial assets were acquired.

(a) Financial assets measured at fair value through profit or loss
Financial assets measured at fair value through profit or loss are financial assets held for trading. Derivatives are also categorized as held for trading and are therefore classified in this category. Gains or losses arising from changes in fair value of financial assets measured at fair value through profit or loss are presented in P&L, under "Financial income (expenses)", in the period in which they occur.

(b) Loans and receivables
Loans granted and receivables that are non-derivative financial assets with fixed or determinable payments not traded in an active market are classified in this category. The Group's loans and receivables comprise trade accounts receivable, other accounts receivable and cash and cash equivalents, except for short-term investments. Loans and receivables are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest method.

A financial asset (or, whenever the case, a part of a financial asset, or a part of a group of similar financial assets) is derecognized, mainly, when:

(i) The rights to receive cash flows from the asset have expired;

(ii) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

3.7.2 *Initial recognition and measurement of financial liabilities*

The Group determines the classification of its financial liabilities upon their initial recognition.

Financial liabilities are initially recognized at fair value and in the case of loans and financing, net of transaction cost directly attributable thereto.

The Group's financial liabilities include trade accounts payable, other accounts payable, overdraft facility (checking account with a negative cash balance), loans and financing, financial guarantee contracts and derivative financial instruments.

Subsequent measurement

Measurement of financial liabilities depends on their classification, which can be as follows:

(a) **Financial liabilities at fair value through profit or loss**

These include financial liabilities held for trading and financial liabilities initially recognized at FVTPL.

Financial liabilities are classified as held for trading if acquired to be sold within short term.

Gains and losses on liabilities held for trading are recognized through profit or loss.

(b) **Loans and financing**

After initial recognition, interest bearing loans and financing are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized through profit or loss when liabilities are derecognized, and through the amortization process by the effective interest rate method.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period to be completed for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs include interest expense and other costs incurred by an entity in respect of borrowings.

Derecognition (write-off)

A financial liability is derecognized when the liability has been discharged, cancelled or expired.

When an existing financial liability is replaced by another of the same lender with substantially different terms, or the terms of an existing liability are significantly changed, this replacement or change is treated as write-off of the original liability with recognition of a new liability, the difference in the respective carrying amount being recognized in P&L.

3.7.3 *Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount is presented on the balance sheet when there is a legally enforceable right to offset the recognized amounts and the Group intends to settle them on a net basis or to realize the asset and settle the liability simultaneously.

3.7.4 *Impairment of financial assets*

The Magnesita Group assesses at balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

3.8 ***Derivative instruments***

The Company uses certain derivative financial instruments, such as interest rate and foreign exchange swaps to provide hedging against the risk of interest rate and exchange rate variation respectively.

Derivative financial instruments that are designated in hedge operations are initially recognized at fair value on the date the derivative contract is signed, and subsequently remeasured at fair value. Derivatives are presented as financial assets when the fair value of the instrument is positive, and as financial liabilities when the value is negative.

Any gains or losses from changes in fair value of derivatives over the year are directly posted to P&L, except for the effective cash flow hedge portion, which is recognized directly in equity, under "Other comprehensive income (loss)", and then reclassified to income statements when the hedge item affects the P&L.

For hedge accounting purposes, the following classifications apply:

(a) *Fair value hedge*

When providing hedge against exposure to changes in the fair value of the recognized asset or liability or of unrecognized firm commitment, or of identified part of this asset, liability or firm commitment, which is attributable to a specific risk and may affect P&L. The Company does not have a fair value hedge for the period ended December 31, 2016, 2015 and 2014.

(b) *Cash flow hedge*

When providing hedge against variation in cash flows that is attributable to a specific risk related to a recognized asset or liability or an expected highly probable transaction.

(c) *Net investment hedges*

Net investment hedges in foreign operations, including monetary item hedges that are accounted for as part of the net investment, are accounted for in a manner similar to the cash flow hedge. The Company does not have net investment hedge for the periods ended December 31, 2016, 2015 and 2014.

In the initial recognition of a hedge relationship, the Company formally classifies and documents the hedge relationship to which the Company wishes to apply hedge accounting, as well as the management objective and risk management strategy to carry out the hedge. The documentation includes the identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk and how the Company will evaluate the effectiveness of the hedging instrument to offset the exposure to changes in the fair value of the hedged item or cash flows related to the hedged risk.

In relation to the cash flow hedge, the statement of the highly probable nature of the transaction contemplated in the hedged item, as well as the expected periods of transfer of gains or losses arising from the equity hedge instruments to the result, are also included in the documentation of the hedge relationship. These hedges are expected to be highly effective at offsetting changes cash flows and are continuously evaluated to see if they actually have been effective throughout the financial reporting periods for which they were assessed.

Cash flow hedges
Cash flow hedges that meet the criteria for accounting are recorded as follows:

The effective portion of gain or loss of the hedging investment is recognized directly in equity, in "Other comprehensive income", while the ineffective hedge portion is recognized in the P&L as "Financial income (expense)".

When the Company's documented risk management strategy for a particular hedge relationship excludes from the hedge effectiveness assessment a specific component of the gain or loss, or the respective cash flows from the hedge instrument, that component of the gain or loss excluded is recognized in the P&L.

The amounts recorded in other comprehensive income are immediately transferred to the income statement when, for example, the hedged financial income or expense is recognized. When the hedged item is the cost of a non-financial asset or liability, the amounts recorded in shareholders' equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, closed or exercised without replacement or rollover (as part of the hedging strategy), or if its hedge rating is revoked, or when the hedge no longer meets the criteria for hedge accounting, the gains or losses previously recognized in the comprehensive income remain separately in equity until the expected transaction occurs or the firm commitment is met.

The Company uses certain interest swap contracts to hedge against its exposure to interest rate risks, as described in Note 5 and 6.

3.9 ***Inventories***

Inventories are valued at the lower of cost and net realisable value.Net realizable value is the estimated sale price in the ordinary course of business, less applicable commercial expenses.

3.10 ***Current and deferred income and social contribution taxes***

Income taxes are recognized in P&L, except to the extent that they are related to items directly recognized in equity. In this case, the taxes are also recognized in equity.

Except for foreign subsidiaries, for which the ruling tax rates in the country in which they are located shall be observed, Corporate Income Tax ("IRPJ") and Social Contribution Tax on Net Profit ("CSLL") are calculated based on net profit, adjusted by additions and exclusions determined as per the Brazilian tax legislation.

The recognition of tax credits is based on studies of expected future taxable income prepared and based on internal assumptions and future economic scenarios which may, therefore, change. The study was reviewed by the Supervisory Board and approved by the Board of Directors.

Following the merger with one of the Company's shareholders (holding 10.97% of its capital), the goodwill previously recognized as result of the acquisition thereof recorded in the intangible assets at the shareholder financial position was then reduced to reflect the tax benefit arising from the goodwill, pursuant to Brazil Securities and Exchange Commission ("CVM") Ruling

No. 349/01. As result, a goodwill reserve in connection with the tax benefit was recorded. The net balance of this goodwill represents the tax benefit amount expected upon its amortization and is classified together with other deferred tax credits.

3.11 ***Investments***

3.11.1 *Investments in jointly controlled entities*

The Group holds interest in joint controlled entities, for which an agreement was entered into providing for joint control of various Group activities.

Investments in jointly controlled entities are recognized and measured in the consolidated historical financial information using the equity method and recognized in P&L as operating income or expense. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

3.11.2 *Investment properties*

Investment properties are measured at cost, including transaction costs, less accumulated depreciation and less accumulated impairment (cost model).

Investment properties are written off when sold or when they are no longer permanently used and no future economic benefit from the disposal thereof is expected. The difference between the net sales value and asset book value is recognized in the statement of profit or loss for the period in which the sale takes place.

3.12 ***Property, plant and equipment (PP&E)***

Property, plant and equipment items are recorded at acquisition or construction cost, less depreciation and, where applicable reduced to their recoverable amount.

The main components of some PP&E assets, after the replacement thereof, are recorded as individual and separate assets using the specific useful lives of this component, while the replaced component is written off. The maintenance costs are performed to restore and maintain the original performance standards and are recognized in P&L during the period in which they incur.

Depreciation of other assets is calculated on a straight-line basis in order to allocate costs to residual value over their estimated useful lives. Depletion of ore mines is calculated based on extracted ore volume (i.e. units of production).The assets' useful lives and net book value are reviewed every year end and prospectively adjusted, as applicable. The carrying amount of an asset is immediately reduced to its recoverable amount when it exceeds its estimated recoverable amount.

3.13 ***Intangible assets***

(a) *Goodwill*

Goodwill is represented by the excess of the consideration paid and/or payable for the acquisition of a business and the net fair value of assets and liabilities of the acquired entity.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on disposal of an entity include the book value of the goodwill on the entity disposed of.

Goodwill is allocated to Cash Generating Units (CGUs) for the purpose of impairment test. Goodwill is allocated to CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose, and segregated by operating segment. The assumptions and methodology applied at the impairment test are shown in Note 15.

(b) *Software*

Software licenses acquired are capitalized based on the costs incurred to buy software programs and bring them to use.

Development costs directly attributable to the project and tests of that software products, controlled by the Magnesita Group, are recognized as intangible assets when the criteria to recognize intangibles assets are met.

Other development costs that do not meet these criteria are recognized as expenses, when incurred.

Software-related costs recognized as assets are amortized using the straight-line method over the useful lives of assets, at the rates described in Note 14.

3.14 *Impairment of non-financial assets*

Indefinite useful life assets, such as goodwill, are not subject to amortization and are annually tested for impairment. Assets with definite useful life are tested for impairment every balance sheet date and whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If there is an indicator, assets are tested for impairment. An impairment loss is recognized at the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (i.e., cash-generating units – CGUs).

3.15 *Provision for litigations and contingent assets*

Provision related to legal, administrative, labor, social security, tax and civil proceedings are recognized when the Group has a present obligation, legal or constructive, arising from past events, the settlement of which is likely to result in an outflow of economic benefits and for which a reliable estimate can be made.

Contingent assets are not recognized, except when obtained favorable final and unappeable decision on a lawsuit, of which the likelihood of success is certain.

Significant contingent assets and liabilities are disclosed in Note 19. Provision for labor claims – consider the outstanding lawsuits and the historical average of losses.

3.16 *Employee benefits*

(a) *Supplemental retirement plan*

The Group participates in pension plans managed by privately held supplementary pension plan entity, which provide its employees with pension plans and other post-employment benefits.

The liability with respect to defined-benefit pension plans are determined by independent actuaries on an annual basis. This liability is the present value of the defined benefit obligation at the balance sheet date, less the market value of the plan assets, adjusted for actuarial gains or losses and costs of unrecognized past service. Significant assumptions adopted by the Group are undisclosed in Note 20.

For the defined contribution plan, the Group pays contributions to a privately administered pension plan on a mandatory, contractual or voluntary basis. Except for the portion relating to defined benefits, represented by claims for disability and death, where the actuarial computation is made by independent actuaries, the Group has no further payment obligations after the contributions have been paid. Regular contributions comprise the net costs for the periods when they are due and are included in personnel costs.

The recognition and measurement criteria, as well as actuarial assumptions, are described in Note 20.

(b) *Share-based remuneration*

The Group has a share-based plan, to be settled with the Company's shares, which allows for management and other employees appointed by the Board of Directors to acquire its shares. The fair value of employee services, received in exchange for the grant of options, is recognized as expense during the vesting period. When options are exercised, the amounts received, net of any directly attributable transaction costs, are credited in capital (par value).

3.17 ***Revenue recognition***

Revenue is presented net of taxes, returns, rebates and discounts and, after eliminating sales within the Magnesita Group. It is recognized at the fair value of the consideration received or receivable, to the extent it is probable that future economic benefits will flow to the entity, and revenues and costs can be reliably measured. Additionally, specific criteria for each of the Group's activities must be met, as follows:

(a) *Sale of products*

Sales revenue is recognized when all significant risks and benefits inherent to the goods are transferred to purchaser. The Group adopts as policy for revenue recognition the date on which the product is delivered to the purchaser.

(b) *Sales of services*

Service revenue is recognized based on services rendered up to the balance sheet date, provided that all costs associated with the services can be reliably measured.

(c) *Financial income*

Financial income is recognized based on the time elapsed, using the effective interest rate method.

3.18 ***Treasury stock***

Own equity instruments that are repurchased (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the income statement upon purchase, sale, issue or cancellation of own equity instruments of the Group. Any difference between carrying amount and consideration is recognized in other capital reserves.

3.19 ***Business combination***

Business combinations are accounted for under the acquisition method. The acquisition cost is measured by the sum of consideration transferred and transferrable, valued on fair value on the acquisition date, and the value of any non-controlling interest in the acquire.

Upon acquiring a business, the Group measures the financial assets and liabilities acquired in order to classify and allocate them according to contractual terms, economic circumstances and corresponding conditions at the acquisition date, which include segregation, by the acquire, of embedded derivatives existing in host contracts in the acquire.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquire is re-measured as at the acquisition date through statement of operations.

The excess of the consideration transferred over the fair value of identifiable assets and liabilities acquired net at the acquisition date is recorded as goodwill, which is allocated to each acquired cash-generating unit.

3.20 ***Provision for environmental repair and asset repair obligations***

The Group recognizes a provision for asset decommissioning and environmental repair costs arising from mining activities, based on the present value of expected costs for repair and deactivation of assets and areas related to mining activities using estimated cash flows, and recognized as part of the cost of the corresponding asset.

Cash flows are discounted at a pre-tax rate that reflects the specific risks inherent in the asset retirement obligation. The financial effect of the discount is recorded in expense as incurred and recognized in the statement of income as a financial cost. The estimated future costs of deactivation of assets are reviewed annually and adjusted, as appropriate. Changes in estimated future costs or the discount rate applied are either added or deducted from the cost of the asset.

3.21 ***Standards issued but not yet effective***

IFRS 15 – Revenue from Contracts with Customers – this new standard brings principles that an entity will adopt to determine revenue measurement when it is recognized. It becomes effective on January 1, 2018 and substitutes IAS 11 – "Construction Contracts" IAS 18 – "Revenue" and related interpretations. The application of the standard may affect the allocation of revenue and cost across years, however the effect is expected to be immaterial for the Group.

IFRS 9 – Financial Instruments – addresses the classification, measurement and recognition of financial assets and liabilities. The full version of IFRS 9 was published in July 2014, effective as of January 1, 2018. It substitutes the guidance in IAS 39 regarding the classification and measurement of financial instruments. IFRS 9 maintains, however it simplifies the combined measurement model and establishes three main measurement categories for financial assets: amortized cost, fair value through other comprehensive income (loss) and fair value through profit or loss. It also introduces a new model of expected credit losses, replacing the current model of incurred losses. IFRS 9 mitigates the requirements of hedge effectiveness and requires an economic relationship between the hedged item and hedging instrument and the hedged rate should be the same as that effectively used by management for risk management purposes. The Group management is evaluating the total impact of its adoption.

IFRS 16 Leases – which was issued in January 2016, replaces IAS 17 Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16, a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained.

Annual improvements to IFRSs 2014–2016 Cycle – The IASB has published a number of minor amendments to IFRSs through both standalone amendments and through the Annual Improvements to IFRS Standards 2014-2016 cycle. Whilst these have not yet been endorsed by the EU, they are expected to be effective from 1 January 2018 apart from the amendment to IFRS 12 *Disclosure of Interests in Other Entities* which is effective from 1 January 2017. These amendments are expected to have an insignificant effect on the financial information.

IFRIC 22 Foreign Currency Transactions and Advance Consideration – IFRIC 22 Interpretation on 'Foreign Currency Transactions and Advance Consideration' which was issued in December 2016 clarifies the requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Effective date: Annual periods beginning on or after 1 January 2018.

The Group is currently assessing the impact of IFRS 16, however, this standard is subject to EU endorsement and the IAS effective date is for the annual periods beginning on or after 1 January 2019.

There are no other relevant IFRS standards and IFRIC interpretations that are not yet effective.

(4) Critical accounting estimates and judgments

Accounting estimates and judgments are continuously assessed based on historical experience and other factors, including expectations with regard to future events, considered reasonable under the circumstances.

The Magnesita Group makes future estimates based on assumptions. Estimates and assumptions that present a significant risk, likely to cause a significant adjustment to book values of assets and liabilities for the next financial year are as follows:

(a) ***Estimate of impairment of non-financial assets***

The Magnesita Group annually tests non-financial assets, such as property, plant and equipment, intangible assets (when there are impairment indicators) and goodwill, for impairment, in accordance with the accounting policy stated in Note 3.14 and assumptions described in Note 15. The recoverable amounts of cash-generating units (CGUs) were determined based on value-in-use calculations, which require the use of estimates.

(b) ***Current and deferred income taxes***

The Magnesita Group is subject to income taxes in all countries in which it operates. Significant judgment is required in determining the worldwide provision for income taxes.

The Magnesita Group recognizes deferred tax assets and liabilities based on the differences between the carrying amount presented in the consolidated historical financial information and the tax base of assets and liabilities by the rates in force. The Magnesita Group regularly reviews deferred tax assets aiming at the recovery possibility, by considering the historical earnings generated and projected future taxable income, in accordance with a technical feasibility study.

(c) ***Fair value of derivative and other financial instruments***

The fair value of financial instruments that are not traded in active markets is determined by using valuation techniques. The Magnesita Group uses its professional judgment to choose various methods and define assumptions that are mainly based on market conditions existing at balance sheet date.

(d) ***Pension plan benefits***

The amount of liabilities deriving from pension plans depends on a series of events that are determined based on actuarial calculations, which uses a number of assumptions.

The discount rate is one of the assumptions used in determining the net cost of the defined benefit plans.

The Magnesita Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows, which must be necessary to settle the employees' pension plan liabilities. Other significant assumptions for pension plan obligations are partially based on current market conditions. Further information is disclosed in Note 20.

(e) ***Provision for contingencies***

Provisions are recognized for all risks referring to legal proceedings that represent probable loss. Assessment of the likelihood of loss includes analysis of available evidence, including the opinion of internal and external legal advisors of the Magnesita Group.

(f) ***Classification of control over investments***

The classification of the Group's investments is subject to judgment in the determination of control and significant influence.

(g) ***Transactions involving share-based payments***

Estimated fair value of share-based payments requires determination of the most appropriate valuation model for equity instrument granting purposes, which depends on the granting terms and conditions. This also requires determination of the most appropriate data for the valuation model, including expected life of the option, volatility and dividend earnings and corresponding assumptions.

(5) Financial risk management

5.1 ***Financial risk factors***

The Magnesita Group's activities expose it to various financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's global risk management aims at minimizing potential adverse impacts on the Magnesita Group's financial performance and maintain the intended liquidity. The Magnesita Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Group's Central Treasury Department under policies approved by the Board of Directors. The Board of Directors establishes written rules and policies for overall risk management, as well as for specific areas, such as currency risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments, and investment of cash surplus.

(a) *Financial risk management policy*

The Group has no speculative transactions. The Group's internal control procedures provide monitoring on a consolidated manner of financial results and impacts on cash flow. The principal parameters used to manage these risks are: exchange rates, interest rates and prices of products. Derivative transactions are conducted with top-tier financial institutions, which are monitored regularly by having their limits and credit risk exposures of its counterparties assessed.

(b) *Credit risk*

Credit risk arises from cash and cash equivalents, marketable securities, derivative financial instruments, deposits with banks and other financial institutions, as well as credit exposures with customers, including outstanding receivables.

The Group's sales policies are subordinated to the credit policies established by management and are designed to minimize any problems arising from customer default. This objective is achieved through careful credit rating analysis of customers that considers each customer's capacity to pay, indebtedness ratio and balance sheet, through diversification of trade accounts receivable (risk dilution).

In respect to short-term investments and other investments, Magnesita's policy is to work with top-tier financial institutions. Only notes and papers from entities classified with the minimum "AA" rate are accepted. Considering the total amount invested, no financial institution holds individually more than 30% of total short-term investments and other investments of the Magnesita Group.

(c) *Liquidity risk*

Magnesita's policy regarding management of financial assets and liabilities requires a thorough review of the Magnesita Group's counterparties, by means of the analysis of consolidated historical financial information, equity and rating, in order to help the Group maintain the intended liquidity, define a concentration level of their operations, control the exposure level to financial market risks, as well as spread liquidity risk.

The cash flow projection is prepared based on the budget approved by the Board of Directors and later updates. This projection takes into account, in addition to all operational plans, the fundraising plan to support the expected investments and the entire maturity schedule of the Magnesita Group's debts. Throughout the work, it is observed the compliance with covenants and internal leverage level goals. The Treasury Department monitors, on a daily basis, the projections contained in the Group's direct cash flow to ensure it has enough cash to meet its operational needs, investments, as well as payments of its obligations.

The Treasury invests the cash surplus in interest-yielding bank accounts, time deposits, short-term deposits and marketable securities, choosing instruments with adequate maturities of enough liquidity to provide sufficient margin as determined by the above-mentioned forecasts.

(d) *Market risks*

(i) Currency risk

The Magnesita Group operates internationally and is subject to foreign exchange risk arising from certain currency exposures, primarily with respect to the U.S. dollar and the euro. Currency risk arises from recognized assets and liabilities and net investments in foreign transactions. The financial policy of the Magnesita Group emphasizes that derivative transactions are intended to reduce their costs, volatility in cash flow, currency exposure and avoid mismatch among currencies.

As a preventive measure and to reduce the effects of exchange variations, it is management's policy to enter into swap transactions and maintain assets denominated in foreign currencies, as shown below:

	In R$ thousand – R$ 12/31/2016				In R$ thousand – R$ 12/31/2015				In R$ thousand – R$ 12/31/2014			
	USD	€	Other currencies	Total	USD	€	Other currencies	Total	USD	€	Other currencies	Total
Assets and liabilities in foreign currency												
Cash and banks	221,012	96,012	43,740	360,764	275,996	72,631	51,103	399,730	596,495	154,536	38,354	789,385
Accounts receivable, net of provision for credit risks	230,178	75,892	3,111	309,181	253,385	136,737	66,945	457,067	208,031	73,942	64,084	346,057
Trade accounts payable, financial liabilities resulting from the purchase of raw materials	(255,161)	(99,516)	(33,882)	(388,559)	(228,258)	(153,563)	(59,644)	(441,465)	(173,412)	(70,504)	(18,715)	(262,631)
Loans and financing	(1,880,101)	(34,538)	–	(1,914,639)	(2,167,128)	(9,745)	(61,438)	(2,238,311)	(1,649,767)	(10,816)	(56, 571)	(1,717,154)
Derivative financial instruments	138,880	(223,925)	–	(85,045)	708,939	(701,316)	–	7,623	399,658	(395,733)	–	3,925
Other monetary assets (liabilities) abroad, net	(49,738)	12,973	(24,468)	(61,233)	(39,525)	(22,427)	(6,305)	(68,257)	(7,080)	(5,223)	(26,858)	(39,161)
Net exposure	**(1,594,930)**	**(173,102)**	**(11,499)**	**(1,779,531)**	**(1,196,591)**	**(677,683)**	**(9,339)**	**(1,883,613)**	**(626,075)**	**(253,798)**	**294**	**(879,579)**

Management seeks to mitigate currency risk exposure related to loans through transactions carried out in the United States and Europe. It also takes out derivative financial instruments in order to reduce this exposure.

In the currency risk sensitivity analysis, management considered as probable the scenario expected for the end of the following year. Scenarios I and II were calculated considering deterioration of 25% and 50% in the rates, respectively, in relation to the probable scenario, considering these hypotheses as at December 31, 2016.

This analysis considers the following position:

Description	Probable Scenario	Scenario I	Scenario II
Currency risk exposure (US dollar appreciation)	(1,594,930)	(1,594,930)	(1,594,930)
US dollar rate at 12/31/2016	3.2591	3.2591	3.2591
Currency risk exposure (translation into US dollar)	(489,377)	(489,377)	(489,377)
Estimated exchange rate on the probable scenario	3.2591	4.0739	4.8887
Rate difference	–	0.8148	1.6296
Effect on financial expense (in R$)	**–**	**(398,744)**	**(797,489)**
Currency risk exposure (Euro appreciation)	(173,102)	(173,102)	(173,102)
Euro rate at 12/31/2016	3.4384	3.4384	3.4384
Currency risk exposure (translation to Euro)	(50,344)	(50,344)	(50,344)
Estimated exchange rate on the probable scenario	3.4384	4.2980	5.1576
Rate difference	–	0.8596	1.7192
Effect on financial expense (in R$)	**–**	**(43,276)**	**(86,551)**

(ii) Cash flow risk or fair value associated with interest rate
Magnesita Group's interest rate risk arises from short-term investments, loans and financing. The loans taken out at fixed rates expose the Magnesita Group to fair value interest rate risk.

The Magnesita Group's financial policy states that derivative transactions are intended to reduce risks by replacing floating with fixed interest rates or replacing interest rates based on international indices with indices in local currency.

In 2016, 2015 and 2014, the Magnesita Group's borrowings at variable rates were denominated in reais and U.S. dollars.

The contracted interest rates on loans and financing and long-term notes recognized in current and noncurrent liabilities are shown below:

	12/31/2016	%	12/31/2015	%	12/31/2014	%
Loans and financing						
Interbank Certified Deposit	482,028	19.4	553,920	19.3	633,422	25.2
LIBOR	590,782	23.7	692,152	24.2	–	–
	1,072,810	**43.1**	**1,246,072**	**43.5**	**633,422**	**25.2**
Interbank Certified Deposit						
Fixed-rate loans	1,206,974	48.4	1,358,288	47.4	907,843	36.2
Long-term bonds with fixed rates	211,280	8.5	259,044	9.1	967,894	37.8
	1,418,254	**56.9**	**1,617,332**	**56.5**	**1,875,737**	**74.8**
	2,491,064	**100.0**	**2,863,404**	**100.0**	**2,509,159**	**100.0**

Interest rate risks related to investments are set out below:

	12/31/2016	%	12/31/2015	%	12/31/2014	%
Bank certified deposits						
CDB fixed income operations	628,514	94.3	396,457	98.0	89,697	77.5
Marketable Securities	38,315	5.7	8,238	2.0	26,100	22.5
	666,829	**100.0**	**404,695**	**100.0**	**115,797**	**100.0**

The Group has no derivative financial instruments to manage the risks associated with fluctuations in short-term investments rates.

We set out below exposure to interest risk of Group operations:

	12/31/2016	12/31/2016
	CDI	LIBOR
Cash equivalents and marketable securities	666,829	–
Position purchased in libor	–	521,456
Export credit notes	(70,599)	–
Debentures	(400,919)	–
Bank credit notes	(10,510)	–
Long-term loans	–	(590,782)
Total Liability exposure	(482,028)	(590,782)
Net exposure	**184,801**	**(69,326)**

	12/31/2015	12/31/2015
	CDI	LIBOR
Cash equivalents and marketable securities	404,695	–
Position purchased in libor	–	–
Export credit notes	(141,287)	–
Debentures	(399,583)	–
Bank credit notes	(13,050)	–
Long-term loans	–	(632,754)
Total Liability exposure	(553,920)	(632,754)
Net exposure	**(149,225)**	**(632,754)**

	12/31/2014	12/31/2014
	CDI	LIBOR
Cash equivalents and marketable securities	115,797	–
Position purchased in libor	–	–
Export credit notes	(209,854)	–
Debentures	(398,913)	–
Bank credit notes	(16,467)	–
Advances on export bills	(8,188)	–
Total Liability exposure	(633,422)	–
Net exposure	**(517,625)**	**–**

The table below sets out the incremental loss that would be recognized in the P&L for the year ended December 31, 2016. In the sensitivity analysis, the management considered as probable the scenario expected for the closing of the following year. Scenarios I and II were calculated considering deterioration of 25% and 50% in the rates, respectively, on the probable scenario, considering these hypothesis for December 31, 2016. This analysis leads to the following position:

Description	Exposure to CDI			Exposure to Libor		
	Probable scenario	Scenario I	Scenario II	Probable scenario	Scenario I	Scenario II
Exposure to CDI risk (increase in rate)	184,801	184,801	184,801	(69,326)	(69,326)	(69,326)
Accumulated CDI rate at 12/31/2016	14.00%	14.00%	14.00%	1.058%	1.058%	1.058%
Interest rate based on the probable scenario	–	17.50%	21.00%	–	1.32%	1.59%
Rate difference		3.50%	7.00%		0.26%	0.53%
Effect on financial expense	**–**	**6,468**	**12,936**	**–**	**(183)**	**(366)**

5.2 ***Capital management***

When managing its capital, the Magnesita Group intends to safeguard its ability to continue as a going concern in order to provide return to shareholders and benefits to other stakeholders, in addition to keeping an optimal capital structure to reduce this cost.

In order to maintain or adjust its capital structure, the Company may revise the policy for payment of dividend, return capital to shareholders, issue new shares, or sell assets to reduce its indebtedness, for example.

The Magnesita Group monitors capital based on the financial leverage ratio. Net debt, on the other hand, corresponds to total loans, financing and long-term debt notes, net of cash and cash equivalents. Total capital is calculated through the sum of equity and net debt, as stated in the balance sheet.

The debt/net equity ratios can be presented as follows:

	12/31/2016	12/31/2015	12/31/2014
Total loans, financing and derivative financial instruments	2,491,064	2,863,404	2,509,159
Less: cash and cash equivalents and marketable securities	(998,657)	(804,425)	(913,474)
Total	**1,492,407**	**2,058,979**	**1,595,685**
Total equity	1,977,862	1,886,780	2,863,573
Total capital	3,470,269	3,945,759	4,459,258
Financial leverage ratio	**43%**	**52%**	**36%**

5.3 ***Fair value estimate***

Management established that the accounting balances of trade accounts receivable, deducted of valuation allowance, and trade accounts payable are assumed to approximate their fair values due to their short maturity term.

For swaps operations, the long and short positions are calculated by the Group independently, using the mark to market methodology in accordance with the rates used and verified on the BM&F, Broadcast and Bloomberg websites. When no trading exists for the term of the Group's portfolio, the interpolation methodology is used to identify rates relating to specific terms. In both cases, the present value of flows is calculated. The difference between amounts payable and receivable is the fair value of transactions.

(a) *Financial instruments measured at fair value in the balance sheet*

The Magnesita Group's assets and liabilities measured at fair value through P&L comprise cash equivalents, marketable securities and derivative financial instruments, which fall under level 2 of the fair value hierarchy.

(6) Derivative financial instruments

The Group does not contract derivative operations with speculative purposes and does not settle them prior to respective maturities, on a regular basis.

Description	Notional amount	12/31/2016 Fair value R$	12/31/2015 Fair value R$	12/31/2014 Fair value R$
Hedging of foreign exchange rate:				
SWAP				
Long position – USD	150,000	–	–	3,925
Short position – EUR	118,110	–	–	–
Future position(i)				
Long position – USD	181,556	–	–	–
Short position – EUR	165,000	–	–	–
Future position(i)				
Long position – USD	68,863	–	–	–
Short position – EUR	65,125	–	–	–
Future position(i)				
Active position – R$	85,551	–	–	–
Passive position – USD	26,250	–	–	–
Protection of interest rates(ii)				
Active position LIBOR				
Position – USD	160,000	6,278	–	–

The effect of R$ 42,753 was recognized in the P&L for 2016, as financial income (2015 – R$ 49,054, 2014 – R$ 34,759 as financial income).

(i) This position has daily settlement with credit or debit on checking account referring to gain/loss.

(ii) In the third quarter of 2015, the Company contracted USD 160,000 in long-term loans indexed to LIBOR, exposed to interest rate fluctuation risk. In April 2016, the Company contracted an interest rate swap to hedge exposure to the risk of interest rate fluctuations, reducing cash flow volatility: interest payments will be fixed and known in advance during the term of the long-term loans. In relation to the effectiveness of the contracted interest rate swap, the correlation with the hedged object was 100% in the period. Accordingly, the effects of fair value of mark-to-market in the amount of R$ 6,278 are recorded in shareholders' equity as other comprehensive income. On the date of the contracting of the derivative financial instrument, the Company adopted the hedge accounting for this cash flow hedge.

(7) Financial instruments by category

	Financial assets measured at fair value through P&L	Loans and receivable	Total
Assets			
December 31, 2016			
Cash and cash equivalents and marketable securities			
Cash and banks	331,828	–	331,828
Bank certified deposits and fixed income operations	628,514	–	628,514
Marketable securities	38,315	–	38,315
Trade account receivable	–	497,815	497,815
Other accounts receivable (not including prepayments)	–	17,262	17,262
Judicial deposits	–	16,917	16,917
	998,657	**531,994**	**1,530,651**
December 31, 2015			
Cash and cash equivalents and marketable securities			
Cash and banks	399,730	–	399,730
Bank certified deposits and fixed income operations	396,457	–	396,457
Marketable securities	8,238	–	8,238
Trade account receivable	–	626,210	626,210
Other accounts receivable (not including prepayments)	–	33,933	33,933
Judicial deposits	–	15,293	15,293
	804,425	**675,436**	**1,479,861**
December 31, 2014			
Cash and cash equivalents and marketable securities			
Cash and banks	797,677	–	797,677
Bank certified deposits and fixed income operations	89,697	–	89,697
Marketable securities	26,100	–	26,100
Trade accounts receivable	–	515,554	515,554
Other accounts receivable (not including prepayments)	–	9,097	9,097
Judicial deposits	–	16,126	16,126
Derivative financial instruments	3,925	–	3,925
	917,399	**540,777**	**1,458,176**

	Financial liabilities not intended for trading
Liabilities	
December 31, 2016	
Loans and financing and bonds	2,491,064
Trade accounts payable, liabilities arising from purchase of raw materials, general contractors and freights	635,634
	3,126,698
Liabilities	
December 31, 2015	
Loans and financing and bonds	2,863,404
Trade accounts payable, liabilities arising from purchase of raw materials, general contractors and freights	666,714
	3,530,118
Liabilities	
December 31, 2014	
Loans and financing and bonds	2,509,159
Trade accounts payable, liabilities arising from purchase of raw materials, general contractors and freights	585,735
	3,094,894

7.1 ***Fair value***

Set out below is a comparison, by class, of the carrying amounts and fair values of the Group's financial instruments:

	12/31/2016	
	Book value	Fair value
Cash and banks	331,828	331,828
Bank certified deposits and fixed income operations	628,514	628,514
Marketable securities	38,315	38,315
Trade accounts receivable	497,815	497,815
Other account receivable (less pre-payments)	17,262	17,262
Judicial deposits	16,917	16,917
	1,530,651	**1,530,651**
Loans and financing and bonds	2,491,064	2,437,102
Trade accounts payable, liabilities arising from purchase of raw materials, general contractors and freights	635,634	635,634
	3,126,698	**3,072,736**

	12/31/2015	
	Book value	Fair value
Cash and banks	399,730	399,730
Bank certified deposit and fixed income operations	396,457	396,457
Marketable securities	8,238	8,238
Trade account receivable	626,210	626,210
Other account receivable (less pre-payments)	33,933	33,933
Judicial deposits	15,293	15,293
	1,479,861	**1,479,861**
Loans and financing and bonds	2,863,404	2,380,893
Trade accounts payable, liabilities arising from purchase of raw materials, general contractors and freights	666,714	666,714
	3,530,118	**3,047,607**

	12/31/2014	
	Book value	Fair value
Cash and banks	797,677	797,677
Bank certified deposit and repurchase agreements	89,697	89,697
Marketable securities	26,100	26,100
Trade accounts receivable	515,554	515,554
Other accounts receivable (less prepayments)	9,097	9,097
Judicial deposits	16,126	16,126
Derivative financial instruments	3,925	3,925
	1,458,176	**1,458,176**
Loans and financing and bonds	2,509,159	2,582,778
Trade accounts payable, liabilities arising from purchase of raw materials and freight	585,735	585,735
	3,094,894	**3,168,513**

Fair value of financial assets and liabilities is included in the amount for which a financial instrument could be exchanged in a current transaction between willing parties, other than a forced sale or liquidation.

The fair value of marketable securities and bonus is based on price quotes at the consolidated historical financial information year-end dates. The fair value of non-trading instruments, of bank loans and other debts is estimated through the discounted future cash flows at rates currently available for similar and remaining debts or maturities.

Fair value of investment property

As at December 31, 2016 the fair value of the investment property totaled R$ 37,869 (2015: R$ 37,869 and 2014: R$ 60,833).

(8) Cash and cash equivalents

	12/31/2016	12/31/2015	12/31/2014
Cash and banks	331,828	399,730	797,677
Bank certified deposits and fixed income operations	628,514	396,457	89,697
	960,342	**796,187**	**887,374**

Part of the amount of cash and cash equivalents totaled R$ 360,764 in foreign currency (2015 R$ 399,730 and 2014 – R$ 789,385).

(9) Trade accounts receivable

	12/31/2016	12/31/2015	12/31/2014
Trade accounts receivable – in reais	133,480	153,355	159,774
Trade accounts receivable – in other currencies	358,024	471,797	346,543
Impairment of trade accounts receivable	(42,414)	(45,385)	(23,851)
Trade accounts receivable, net	449,090	579,767	482,466
Unbilled trade accounts receivable	48,725	46,443	33,088
Trade accounts receivable	**497,815**	**626,210**	**515,554**
Current	480,592	626,210	515,554
Non-current	17,223	–	–

The accounts receivable do not qualify for financing and are initially measured and recorded at fair value.

The aging list of trade notes receivable is as under:

	12/31/2016	12/31/2015	12/31/2014
Trade notes falling due:			
Up to 90 days	290,781	410,436	339,065
Over 90 days	116,376	79,280	65,801
Trade notes overdue:			
Up to 30 days	48,894	73,086	62,107
Over 30 days	41,764	63,408	48,581
	497,815	**626,210**	**515,554**

Below are the changes recorded under valuation allowance:

At December 31, 2013	**(7,805)**
Provision	(22,103)
Reversal	6,590
Exchange losses	(533)
At December 31, 2014	**(23,851)**
Provision	(20,729)
Reversal	11,521
Exchange losses	(12,326)
At December 31, 2015	**(45,385)**
Provision	(19,408)
Reversal	13,032
Exchange losses	9,347
At December 31, 2016	**(42,414)**

(10) Inventories

	12/31/2016	12/31/2015	12/31/2014
Finished products	467,570	498,461	472,525
Work in process	36,256	35,493	38,787
Raw materials	297,264	349,656	379,670
Supplies (replacement material and other)	89,502	116,449	86,504
Provision for inventory losses	(64,103)	(79,624)	(29,109)
	826,489	**920,435**	**948,377**

Changes in provision for inventory losses are as follows:

Balance at 12/31/2013	**(23,981)**
Provision	(5,760)
Reversal	2,604
Foreign exchange variation	(1,972)
Balance at 12/31/2014	**(29,109)**
Provision	(38,341)
Reversal	6,991
Foreign exchange variation	(19,165)
Balance at 12/31/2015	**(79,624)**
Provision	(30,719)
Reversal	32,344
Foreign exchange variation	13,896
Balance at 12/31/2016	**(64,103)**

(11) Other taxes recoverable

	12/31/2016		12/31/2015		12/31/2014	
	Current	Non-current	Current	Non-current	Current	Non-current
Indirect taxes	61,689	55,406	47,541	60,252	93,383	49,296
Taxes on shipment of goods on consignment	3,259	–	2,254	–	2,757	–
Other	9,156	–	103	–	102	–
	74,104	**55,406**	**49,898**	**60,252**	**96,242**	**49,296**

(12) Deferred income and social contribution taxes

(a) ***Deferred tax assets***

The deferred tax assets, shown by nature, comprise of:

	12/31/2016	12/31/2015	12/31/2014
Deferred tax assets on temporary differences			
Provision for contingencies	14,227	18,157	21,617
Post-employment liabilities	76,890	73,790	70,210
Provision for bonuses	11,335	8,721	5,967
Accelerated depreciation	869	1,112	438
Other	6,826	11,093	38,447
	110,147	**112,873**	**136,679**
Losses available for offsetting against future taxable income	**354,396**	**154,387**	**385,591**
Deferred tax asset due to incorporation of shareholders	12,578	22,765	32,952
Total deferred tax assets	**477,121**	**290,025**	**555,222**

The recoverability of deferred income and social contribution tax credits depends on future events that will make provisions that gave rise to such events deductible, in accordance with tax legislation in force as well as the generation of future taxable profit.

As a result, the estimate of the tax asset recoverability should not be taken as the only indication of Magnesita's future P&L. Taxable profit considers variables, such as: tax incentives, permanent and temporary differences, etc., thus having no direct correlation with the Company's net income.

In 2015, the Group recorded an impairment on the deferred tax assets of tax losses of R$ 290,814 (R$ 265,744 in Brazil and R$ 25,070 in Germany), since it did not have the expectation that this balance recoverability was not probable. However, after the improvements at Group's results of 2016, influenced by the sale of Talco's non-core assets and in view of the annual review of the recoverability of these assets based on the projections for the use of tax losses, this impairment was reversed in the amount of R$ 188,991 (R$ 180,274 in Brazil, R$ 3,002 in Germany and R$ 5,715 in China), which justifies the variation of tax credits on tax losses between the year 2015 and 2016.

The projections, combined with the history of its operations, indicate that the Company and its subsidiaries will have taxable profits in amounts sufficient to absorb the referred to tax credits. The projections of future taxable profits consider estimates related to Company's performance, the market behavior, certain economic aspects, among other variables. Actual amounts may differ from the estimates adopted.

Management estimates that realization of deferred tax assets will occur as follows:

1 year	14,637
2 years	26,288
3 years	30,151
4 years	43,299
5 years and over	362,746
Balance at December 31, 2016	**477,121**

Deferred tax asset on income and social contribution tax losses is generated especially from amortization of goodwill on future profitability arising from acquisition of subsidiaries. The tax goodwill amortization will be finalized by 2018 (balance of R$ 116,712 as for December 31, 2016, R$ 177,670 and R$ 238,628 as for December 31, 2015 and 2014, respectively), which provides a basis for the management's expectation to realize these credits.

The Group has tax losses generated in the Company and in some Group's subsidiaries on which no deferred tax assets was recognized related to these losses, since these cannot be used to offset taxable profits and in some cases these have been generated in subsidiary at a loss for some time. If the Group could recognize all deferred tax assets at December 31, 2016, the amount would total R$ 53,967 (2015 – R$ 319,340 and 2014 – R$ 28,526).

Noncurrent liabilities break down as under:

	12/31/2016	12/31/2015	12/31/2014
Deferred taxes on tax amortization of goodwill	461,847	446,927	435,564
Deferred taxes on sale of fixed assets	127,909	127,909	–
Deferred taxes on accelerated tax depreciation	51,453	43,549	70,130
Other	65,192	10,583	6,547
	706,401	**628,968**	**512,241**

(b) ***Reconciliation of income tax and social contribution expenses***

	12/31/2016	12/31/2015	12/31/2014
Income (loss) before income and social contribution taxes	378,196	(738,723)	(127,436)
Combined statutory rate %	34%	34%	34%
Tax benefit (expense) at statutory rate	(128,587)	251,166	43,328
Income and social contribution taxes on			
Share of profit (loss) on an associate and joint venture	(217)	148	383
Effect of different rates used by the Subsidiaries located in other jurisdictions	(1,011)	(4,452)	(4,430)
Tax effect of local adjustments in Germany, regarding the transfer of Bond	(369)	(15,632)	–
Reversal (provision) of deferred income and social contribution taxes(i)	188,991	(290,814)	–
Tax credit on income tax paid on foreign operation(ii)	29,657	–	–
Deferred income tax not recognized in the period (iii)	(19,583)	(246,361)	–
Other, net	6,870	(3,115)	(2,204)
Income and social contribution tax expenses	**75,751**	**(309,060)**	**37,077**
Current	(54,172)	(32,754)	(33,259)
Deferred	129,923	(276,306)	70,336

(i) Refers to the reversal/impairment of deferred income tax assets in the Company and in Europe after the group evaluating the recoverability of these assets based on projections for the use of tax losses and tax credits on temporary provisions.

(ii) Refers to the income tax paid by foreign subsidiaries that may be deducted from the income and social contribution levied in Brazil.

(iii) This mainly refers to deferred income tax not recognized in certain subsidiaries and on permanent differences in the Company.

(c) ***Reconciliation of deferred tax assets and liabilities, net***

	12/31/2016	12/31/2015	12/31/2014
Deferred tax asset	477,121	290,025	555,222
Deferred tax liabilities	(706,401)	(628,968)	(512,241)
Deferred tax assets (liabilities)	(229,280)	(338,943)	42,981
Reflected in the balance sheet			
Assets	33,498	23,461	51,320
Liabilities	(262,778)	(362,404)	(8,339)
Net	**(229,280)**	**(338,943)**	**42,981**

(d) ***Changes of deferred tax assets and (liabilities), net***

Balance at December 31, 2013 – Assets (liabilities)	(45,791)
Tax income recognized in P&L	70,336
Tax income recognized in equity	7,482
Foreign exchange variation	10,954
Balance at December 31, 2014 – Assets (liabilities)	42,981
Tax income/(expense) recognized in P&L	(276,306)
Tax income recognized in equity	9,023
Income tax on sale on the sale of permanent assets	(145,955)
Foreign exchange variation	31,314
Balance at December 31, 2015 – Assets (liabilities)	(338,943)
Tax income recognized in P&L	129,923
Tax (expense) recognized in equity	(28,638)
Foreign exchange variation	8,378
Balance at December 31, 2016 – Assets (liabilities)	**(229,280)**

(13) Property, plant and equipment (PP&E)

	12/31/2016			12/31/2015			
	Cost	Accumulated depreciation	Net amount	Cost	Accumulated depreciation	Net amount	Annual weighted average depreciation rate %
Land	141,704	–	141,704	141,287	–	141,287	
Mineral deposits	60,213	(13,536)	46,677	54,138	(15,643)	38,495	Units of production
Buildings and improvements	694,347	(286,131)	408,216	807,368	(329,767)	477,601	4
Machinery, facilities and equipment, including IT equipment	1,854,839	(1,119,738)	735,101	2,058,497	(1,199,483)	859,014	7
Transportation equipment	11,104	(7,899)	3,205	12,413	(8,962)	3,451	6
Furniture, fixtures and other	83,882	(50,973)	32,909	103,703	(50,612)	53,091	9
Construction in progress	161,034	–	161,034	233,557	–	233,557	
Impairment of PP&E	(95,810)	–	(95,810)	(189,718)	–	(189,718)	
Total PP&E	**2,911,313**	**(1,478,277)**	**1,433,036**	**3,221,245**	**(1,604,467)**	**1,616,778**	

	12/31/2014			
	Cost	Accumulated depreciation	Net amount	Annual weighted average depreciation rate %
Land	84,566	–	84,566	
Mineral deposits	64,258	(15,122)	49,136	Units of production
Buildings and improvements	610,605	(257,763)	352,842	4
Machinery, facilities and equipment, including IT equipment	1,690,798	(1,070,178)	620,620	7
Transportation equipment	16,767	(15,638)	1,129	6
Furniture, fixtures and other	73,517	(39,904)	33,613	9
Construction in progress[(i)]	223,474	–	223,474	
Impairment of PP&E	(54,769)	–	(54,769)	
Total PP&E	**2,709,216**	**(1,398,605)**	**1,310,611**	

(i) As of December 31, 2016, it includes the amount of R$ 2,680 (2015 – R$ 1,432 and 2014 – R$ 15,988) of capitalized interest related to long-term projects characterized as qualifying assets. For the capitalization of interest, the Group uses the weighted average rate of loans effective during the period.

Changes in property, plant and equipment were as follows:

At December 31, 2013	**1,248,865**
Additions	178,416
Capitalized interest	15,988
Write-offs	(18,256)
Depreciation	(139,925)
Transfer to intangible assets	(14,513)
Foreign operations currency translation	40,036
At December 31, 2014	**1,310,611**
Additions	231,993
Write-offs	(6,887)
Depreciation	(169,609)
Transfer to intangible assets	(15,973)
Impairment(i)	(116,188)
Foreign operations currency translation	365,052
Other	17,779
At December 31, 2015	**1,616,778**
Additions	207,238
Write-offs	(58,183)
Depreciation	(151,491)
Transfer to intangible assets	(57,288)
Reversal of impairment(ii)	18,908
Foreign operations currency translation	(142,846)
Other	(80)
At December 31, 2016	**1,433,036**

(i) R$ 61,986 refers to loss recognized on the investment in Grafita Project and R$ 54,202 refers to impairment of PP&E in China operations.

(ii) Refers to the reversal of impairment based on the Chizhou plant resulting from the change in the fair value (net of selling expenses) of the assets, based on an external expert`s report.

(14) Intangible assets

	12/31/2016			12/31/2015			
	Cost	Accumulated amortization	Net amount	Cost	Accumulated amortization	Net amount	Annual amortization rate %
Software and other	207,823	(83,753)	124,070	180,698	(105,727)	74,971	12 to 20
Goodwill on investment acquisition							
Magnesita S.A.	1,316,509	(272,855)	1,043,654	1,316,509	(272,855)	1,043,654	
LWB	1,104,367	(2,602)	1,101,765	1,371,141	(2,602)	1,368,539	
Magnesita Mineração S.A.	40,536	(699)	39,837	40,536	(699)	39,837	
Reframec Montagens e Manutenção de Refratários Ltda.	21,368	–	21,368	21,368	–	21,368	
Impairment of goodwill	(225,483)	–	(225,483)	(291,429)	–	(291,429)	
Total intangible assets	**2,465,120**	**(359,909)**	**2,105,211**	**2,638,823**	**(381,883)**	**2,256,940**	

	12/31/2014			
	Cost	Accumulated amortization	Net amount	Annual amortization rate %
Software and other	146,787	(86,686)	60,101	12 to 20
Goodwill on investment acquisition				
Magnesita S.A.	1,316,509	(272,855)	1,043,654	
LWB	1,405,934	(2,602)	1,403,332	
Magnesita Mineração S.A.	40,536	(699)	39,837	
Reframec Montagens e Manutenção de Refratários Ltda.	21,368	–	21,368	
Total intangible assets	**2,931,134**	**(362,842)**	**2,568,292**	

Changes in intangible assets were as follows:

At December 31, 2013	**2,541,166**
Additions	5,020
Write-offs	(31,024)
Transfers from PP&E	14,513
Exchange rate fluctuation	45,346
Amortization	(6,729)
As at December 31, 2014	**2,568,292**
Additions	8,377
Write-offs	(1,717)
Transfers from PP&E	15,973
Exchange rate fluctuation	(33,722)
Amortization	(8,834)
Impairment of goodwill	(291,429)
As at December 31, 2015	**2,256,940**
Additions	15,177
Write-offs	(157)
Transfers from PP&E	57,288
Exchange rate fluctuation	(207,763)
Amortization	(16,274)
As at December 31, 2016	**2,105,211**

(15) Impairment of non-financial assets

In performing the impairment tests, the following key assumptions are considered: i) growth projected for each cash-generating unit, calculated by macroeconomic and sector-specific assumptions; ii) the profitability of the operations, carried out through the experience of the administration in each region; and iii) discount rate used to calculate the present value of cash flows, according to widely used financial models.

Year ended December 31, 2016

For the year ended December 31, 2016, the recoverable amount of a cash-generating unit was determined based on a calculation of the value-in-use considering cash-flow projections, before income and social contribution taxes, based on 2017 financial budgets approved by Management and projections based on management's best estimate. With the closure of Chizhou (China) industrial activities in 2015, the recoverable amount of this unit was determined based on the expected sales value, excluding its selling expenses. Goodwill on the acquisition of investments is described in Note 14.

The calculation used real growth rates between 0% and 5%, which are in line with the growth of the steel and cement sectors of each cash-generating unit and with the growth of the economy and growth strategy in new markets. Discount rates applied to cash flow projections vary between 6.8% and 12.1%, depending on the risk assessed for each cash-generating unit. Under these assumptions, the results of the tests did not indicate the existence of impairment losses of non-financial assets for 2016.

Sensitivity to changes in assumptions

(i) Growth rate assumptions in perpetuity – Management considered the constant inflationary growth of the firm's cash flows for an indefinite period in the perpetuity of the terminal value (TV). A 20% decrease in the growth rate will not have an impact on the impairment in the cash-generating unit.

(ii) Change in contribution margin – Management believes that as a result of possible increases in the price of raw materials higher than budgeted due to inflation and possible increases in labor costs linked to production (i.e.: minimum wage increase) the variable cost variation is estimated to be up to 10%, affecting the contribution margin of the company. A 10% increase in the contribution margin will have no impact on the impairment in the cash-generating unit and a 10% reduction in the contribution margin will result in a limited impact.

(iii) Discount Rate – Management believes that discount rates should not undergo significant changes over the projected years since a capital restructuring that would change the proportion of the cost of debt/equity was not considered. However, to reflect the uncertainty of the long-term inflation curve, a 5% increase/decrease in the discount rate were considered so that this variation together with the sensitivity of cost of debt collection is reflected in the model. A 5% increase in the growth rate will not have an impact on the impairment in the cash-generating unit.

Year ended December 31, 2015

For the year ended December 31, 2015, the recoverable amount of a cash-generating unit was determined based on a calculation of the value-in-use considering cash-flow projections, before income and social contribution taxes, based on 2016 financial budgets approved by Management and projections based on management's best estimate. With the closure of Chizhou (China) industrial activities in 2015, the recoverable amount of this unit was determined based on the expected sales value, excluding its selling expenses.

The Company, in relation to the operations in China, after market evaluation and considering the projections for the coming periods, closed the industrial activities of the Chizhou plant. Therefore, considering this scenario, the Company recognized a reduction of R$ 345,032 in the value of its non-financial assets. Of this amount, R$ 291,429 was recognized in the consolidated financial statements, allocated to goodwill (R$ 272,222 in Europe and R$ 19,207 in China) and a further R$ 53,603 was recognized in the property, plant and equipment line of China. Value in use of goodwill has been updated to reflect Management's best estimates for business in Europe, based on market projections.

	Consolidated – 12/31/2015		
	Net accounting value	Net recoverable value	Net impairment adjustment
Goodwill – Europe	586,873	314,651	272,222
Goodwill – China	19,207	–	19,207
PP&E – China	152,499	98,896	53,603
Total	**758,579**	**413,547**	**345,032**

The discount rate adopted in the future cash flow projection of Europe represents an estimate of the market rate that would be used to meet the risk of assets under evaluation. The nominal rate used in local currency was of 7.7% p.a. in case of Europe. The Company considered market sources to define the inflation and exchange rates used in the projections of future flows.

Year ended December 31, 2014

For the year ended December 31, 2014, the recoverable amount of a cash-generating unit was determined based on a calculation of the value-in-use considering cash-flow projections, before income and social contribution taxes, based on 2015 financial budgets approved by Management and projections based on management's best estimate.

In conducting the impairment tests, the following key assumptions are considered: i) growth projected for each region, calculated by macroeconomic assumptions specific for the industries; ii) profitability of operations, based on management's experience in each region; and iii) discount rate used to calculate present value of cash flows, according to widely used financial models. The calculation used average growth rates between 2.0% and 12.0%, in line with the growth of the steel and cement industries in the individual regions, the economic growth in each region and the growth strategy in new markets. The discount rates applied to the cash flow projections varied from 7.6% to 10.8%, according to the assessed risk for each region.

At the year ended at December 31, 2014, the Company impaired the whole goodwill related to Metal Data S/A and Magnesita Finance Ltd. amounting to R$31,024 since not supported by any cash flow projections.

(16) Liabilities arising from purchase of raw materials

The Company purchases raw materials from suppliers located in China, in order to obtain better cost conditions and reduce price risks. These purchases are negotiated with terms of payment consistent with the use of these materials. The Company's suppliers, in turn, deduct the securities from first-tier financial institutions through a trade finance operation called forfaiting, which basically consists of the sale of these receivables, without right of return, the market interest rate. Accordingly, at December 31, 2016, the balances related to these purchases corresponded to R$ 99,523 (R$ 137.405 and R$ 166,519 in 2015 and 2014, respectively), with average payment period around 360 days (360 days in 2015 and 2014).

In connection with these transactions, the Group adjusts the liabilities to their present value by recognizing the financial expense for the year. The Group uses the weighted average cost of capital to determine the present value of these operations.

The Group classified these transactions in the operating cash flow statements, since these purchases of raw materials are matched against changes in inventories.

(17) Loans and financing

	Currency	Annual average interest rate	12/31/2016	12/31/2015	12/31/2014
Export credit notes	R$	CDI+1.10%	70,599	141,287	209,854
Perpetual bonds	US$	8.63%	831,921	976,431	664,209
(-) Unamortized transaction costs	–	–	(12,825)	(14,199)	(9,567)
Long-term debt securities	US$	7.88%	211,280	259,044	968,815
(-) Unamortized transaction costs	–	–	–	–	(921)
BNDES Revitaliza-Export	R$	8.00%	–	–	101,660
Debentures	R$	112% of CDI	402,035	401,871	401,162
(-) Unamortized transaction costs	–	–	(1,116)	(2,288)	(2,249)
Other BNDES loans	R$	CDI+1.34%	10,510	13,050	16,467
PP&E financing					
In local currency – FNE	R$	7.50%	45,839	60,722	75,564
In local currency – FINEP	R$	4.00%	48,558	10,451	–
Advances on export bills	US$	3.80%	297,051	205,476	8,188
Long-term loans	US$	LIBOR + 3.39%	529,190	638,560	–
(-) Unamortized transaction costs	–	–	(4,015)	(5,806)	–
Advances on export bills	US$	Various	52,562	99,121	–
Other	US$	7.25%	2,450	8,501	8,555
Other	€	5.31%	7,025	9,745	10,816
Other	¥	–	–	61,438	56,571
Other	R$	–	–	–	35
			2,491,064	**2,863,404**	**2,509,159**
Current			584,213	444,736	305,220
Non-current			1,906,851	2,418,668	2,203,939

(a) ***Export credit notes***

In August 2010, the Company raised US$200,000 through an Export Credit Note, subject to interest corresponding to CDI +1.10% (the Brazilian Interbank Deposit Rate), with final maturity in August 2017. There were two financial covenants in the agreement: the net debt over EBITDA ratio must be less than or equal to 3.75x and that the EBITDA over financial expenses ratio must be equal to or greater than 1.75x.

(b) ***Perpetual bonds***

In 2012, the Group issued US$ 250 million in perpetual bonds denominated in U.S. dollars through its wholly-owned subsidiary Magnesita Finance Ltd. These bonds are not backed by or subordinated to Magnesita Finance Ltd. and are fully and unconditionally guaranteed by the Company and its major subsidiaries. At December 31, 2016 total perpetual bonds amount to R$ 831,921 in the long-term (R$ 976,431and R$ 664,209 as of December 31, 2015 and 2014, respectively).

(c) ***Long-term debt securities***

In 2010, Magnesita issued USD 400 million in long-term debt securities with a final maturity in 2020. Interest is fixed and corresponds to 7.875% per annum, paid semi-annually. The bonds do not include financial covenants. In August 2015, Magnesita, through its US subsidiary Magnesita Refractories Company, repurchased an aggregate principal amount of USD 335.7 million of these long-term bonds at their nominal value. As of December 31, 2016, the total outstanding amount was USD 64.3 million.

(d) ***Debentures***

On December 20, 2013, the Group issued 40,000 (forty thousand) unsecured debentures non-convertible into shares, with unit value of R$ 10,000 (ten thousand reais), totaling R$ 400,000, bearing interest of 112% of accumulated average daily rates of DI – Interbank deposits. Interest is payable semiannually. The debentures have a two-year grace period for the principal, and final maturity on December 20, 2018, with the first payment to be made on December 20, 2017.

The transaction costs to be amortized correspond to the commission paid at the time of renegotiation of agreements and will be amortized over their terms.

(e) ***Advances on export bills***

The company has entered into short-term export finance facilities with several banks to finance its working capital needs.

(f) ***Long-term loans***

In the 3rd quarter of 2015, the Group has entered into a U$D 160,000 long-term loan bearing interest of Libor + 3.39% p.a., with final maturity in October 2020, with the first repayment in January 2018.

(g) ***Maturities***

At December 31, 2016 current and noncurrent undiscounted balances payable aging is shown below:

	12/31/2016
Up to 180 days	202,999
From 180 to 360 days	487,302
1 year	596,181
2 years	315,621
From 3 years onwards	441,053
Total by maturity	2,043,156
No maturity	804,330
Total	**2,847,486**

(18) Other taxes payable

	12/31/2016	12/31/2015	12/31/2014
Indirect taxes	25,588	27,929	20,780
Direct taxes	6,014	14,524	24,071
	31,602	**42,453**	**44,851**

(19) Provisions

	12/31/2016	12/31/2015	12/31/2014
Tax – provision	17,574	16,809	12,933
Tax – judicial deposit	(10,291)	(8,705)	(8,345)
Labor – provision	25,826	25,997	24,653
Labor – judicial deposit	(4,639)	(4,653)	(5,803)
Civil – provision	6,866	1,045	127
Social security – provision	–	1,840	1,613
Social security – judicial deposit	(1,987)	(1,935)	(1,978)
	33,349	**30,398**	**23,200**
Noncurrent – provision	50,266	45,691	39,326
Noncurrent – judicial deposit	(16,917)	(15,293)	(16,126)
	33,349	**30,398**	**23,200**

Management, based on information provided by its legal advisors, recorded provisions at amounts considered sufficient to cover probable unfavorable outcomes for the lawsuits in progress, classified between short and long-term as presented above, in accordance with the expectation of their conclusion.

The main contingent liabilities with a probable unfavorable outcome, with provisions, are described below:

Description	Position	12/31/2016 Balance	12/31/2015 Balance	12/31/2014 Balance
Tax litigation procedure for corporate income tax related to 2009, which discusses the tax assessment notices issued by the Peruvian tax authorities in February 2016, in the face of Refractarios Magnesita Peru S.A.C., in the total amount of PEN 9,802,053	Pending judgment	9.609	–	–
Judicial action filed in February 2016 by Refractarios Magnesita Colombia SA against decision rendered by the Colombian tax authorities in the administrative proceeding in which the tax assessment notice issued in December 2013 was discussed, in the amount of COP 6,367,257,000 related to corporate income tax To the 2010 financial year.	Pending judgment	6.004	–	–
Brazilian social security contribution tax (INSS) notice amounting to R$ 26,677, of June 30, 2008, issued without observing the five-year statute of limitations period, of which the likelihood of loss is no longer probable.	Pending judgment	–	1,840	1,613
This refers to a statement of the legality of the determination by the Brumado unit of the matching IPI credit as reimbursement of the amount of the Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Contribution Tax on Gross Revenue for Social Security Financing (COFINS) levied on the acquisition of raw materials in the domestic market, of which the likelihood of loss is no longer probable.	Appeal	–	9,423	9,069
Financial Compensation for the Exploration of Mineral Resources compensation base, of which the likelihood of loss is no longer probable.	Injunction	–	2,498	2,238

For the labor lawsuits, the Company adopts the criterion of setting up provisions taking into consideration the actual chances of a favorable outcome in each case. The main claims in these labor lawsuits are: salary parity, indemnity for occupational disease, work injuries, health exposure pay, hazardous duty pay and overtime.

Additionally, the Company is party to tax proceedings involving risks of loss classified as possible by management, based on the evaluation of its legal advisors in the estimated amount of R$ 642,046, for which no provision was set up. Major lawsuits are shown below:

Description	Position	12/31/2016 Balance	12/31/2015 Balance	12/31/2014 Balance
Corporate income tax and social contribution on net income arising from goodwill related to fiscal years 2008 and 2009, This is an administrative proceeding arising from a tax assessment drawn up on December 26, 2011, challenging the amortization of goodwill arising from mergers of Subsidiaries (Magnesita SA and LWB Group). Management classified the loss as possible, based on the opinion of legal counsel. On April 7, 2016, the Company was notified of the decision issued by CARF that canceled more than 90% of the tax assessment notice, and such decision is still subject to change due to appeals filed by the Company and PGFN.	Pending judgment	309,763	–	–
Corporate income and social contribution tax proceeding arising from goodwill from acquisition of Rpar Holding and LWB Group.	Pending judgment	146,357	112,515	112,515
Social security suit – the Company was served a notice on April 26, 2013 for the alleged non-payment of the social security taxes for the period between January and December 2009.	Pending judgment	16,875	13,877	13,877

Other minor lawsuits relate to a number of assessments concerning various taxes and accessory obligations.

(20) Post-employment liabilities

The Company sponsors pension plans for their employees, the actuarial liabilities of which, as recorded in the consolidated historical financial information, can be summarized as follows:

Description	Europe	USA	Brazil	Total
Defined benefit plan	156,378	56,087	109,410	321,875
Bonus for length of service	375	–	–	375
At December 31, 2016	**156,753**	**56,087**	**109,410**	**322,250**
Defined benefit plan	185,842	76,363	71,496	333,701
Bonus for length of service	888	–	–	888
At December 31, 2015	**186,730**	**76,363**	**71,496**	**334,589**
Defined benefit plan	142,267	63,175	88,640	294,082
Bonus for length of service	6,087	–	–	6,087
At December 31, 2014	**148,354**	**63,175**	**88,640**	**300,169**

Detailed financial position by geography

	Europe		
	12/31/2016	12/31/2015	12/31/2014
Present value of actuarial liability	(156,753)	(186,730)	(141,754)
Fair value of assets	–	–	–
Actuarial liabilities	**(156,753)**	**(186,730)**	**(141,754)**
Active members	277	283	281
Assisted members	990	1,096	1,076
Terminated members, but eligible to the plan	232	228	236
Economic actuarial assumptions:			
Discount rate	1.53% p.a.	2.10% p.a.	2.10% p.a.
Salary increases	2.50% p.a.	2.70% p.a.	2.50% p.a.
Adjustment of benefits	1.50% p.a.	1.50% p.a.	1.75% p.a.
Inflation	–	0.90% p.a.	–

	USA		
	12/31/2016	12/31/2015	12/31/2014
Present value of actuarial liability	(487,438)	(586,517)	(386,769)
Fair value of assets	431,351	510,154	316,994
Actuarial liabilities	**(56,087)**	**(76,363)**	**(69,775)**
Active members	195	196	218
Assisted members	515	494	544
Terminated members, but eligible to the plan	360	445	442
Economic actuarial assumptions:			
Discount rate	4.22% p.a.	4.51% p.a.	4.14% p.a.
Return on investment	4.22% p.a.	4.51% p.a.	4.14% p.a.
Salary increases	3.75% p.a.	3.75% p.a.	3.75% p.a.
Inflation	2.25% p.a.	2.25% p.a.	2.25% p.a.

	Brazil		
	12/31/2016	12/31/2015	12/31/2014
Present value of actuarial liability	(251,289)	(198,921)	(224,226)
Fair value of assets	141,879	127,425	135,586
Actuarial liabilities	**(109,410)**	**(71,496)**	**(88,640)**
Active members	3,596	4,073	7,096
Assisted members	195	197	190
Terminated members, but eligible to the plan	980	999	1,016
Economic actuarial assumptions:			
Economic	10.85% p.a.	12.79% p.a.	10.99% p.a.
Discount rate	10.85% p.a.	12.79% p.a.	10.99% p.a.
Return on investment	4.50% p.a.	5.00% p.a.	7.10% p.a.
Salary increases	4.50% p.a.	5.00% p.a.	5.00% p.a.
Adjustment of benefits	98.00%	97.62%	97.62%
Capacity factor	4.50% p.a.	5% p.a.	5% p.a.
Inflation			
Demographic:	AT- 1983	AT- 1983	AT- 1983
General mortality	RRB – 1983	RRB – 1983	RRB – 1983
Disability	5%	10%	0%
Turnover	1st requirement	1st requirement	1st requirement

Changes in the financial position by geography

	Europe	
	Present value of liabilities	Liability recognized
At December 31, 2013	**(127,286)**	**(127,286)**
Current service cost	(671)	(671)
Interest cost	(4,139)	(4,139)
Benefits paid	8,975	8,975
Actuarial gains/losses	(19,360)	(19,360)
Foreign exchange effect	727	727
At December 31, 2014	**(141,754)**	**(141,754)**
Current service cost	(2,719)	(2,719)
Interest cost	(3,522)	(3,522)
Benefits paid	7,936	7,936
Actuarial gains/losses	(14,527)	(14,527)
Foreign exchange effect	(32,144)	(32,144)
At December 31, 2015	**(186,730)**	**(186,730)**
Current service cost	1,954	1,954
Interest cost	4,183	4,183
Benefits paid	11,807	11,807
Actuarial gains/losses	13,164	13,164
Foreign exchange effect	(1,131)	(1,131)
At December 31, 2016	**(156,753)**	**(156,753)**

	USA		
	Present value of liabilities	Fair value of assets	Liability recognized
At December 31, 2013	**(330,052)**	**305,388**	**(24,664)**
Current service cost	(3,038)	–	(3,038)
Amortization of past service cost	797	–	797
Interest cost	(17,140)	–	(17,140)
Earnings from plan assets	–	16,675	16,675
Benefits paid	12,032	(12,008)	24
Actuarial gains/losses	(59,731)	59,384	(347)
Contributions paid by the sponsors	–	3,009	3,009
Contributions paid by participants	(83)	83	–
Foreign exchange effect	10,446	(10,149)	297
IAS 19 – assets limit	–	(45,388)	(45,388)
At December 31, 2014	**(386,769)**	**316,994**	**(69,775)**
Current service cost	(4,706)	(1,459)	(6,165)
Amortization of past service cost	–	–	–
Interest cost	(20,025)	–	(20,025)
Earnings from plan assets	–	17,466	17,466
Benefits paid	15,050	(15,021)	29
Actuarial gains/losses	35,090	(29,423)	5,667
Contributions paid by the sponsors	6,030	6,030	
Contributions paid by participants	(99)	99	–
Foreign exchange effect	(225,058)	206,857	(18,201)
IAS 19 – assets limit	–	8,611	8,611
At December 31, 2015	**(586,517)**	**510,154**	**(76,363)**

	USA		
	Present value of liabilities	Fair value of assets	Liability recognized
Current service cost	(3,920)	(1,456)	(5,376)
Amortization of past service cost	1,266	–	1,266
Interest cost	(19,469)	–	(19,469)
Earnings from plan assets	–	16,830	16,830
Benefits paid	25,680	(25,664)	16
Actuarial gains/losses	(41,276)	55,295	14,019
Contributions paid by the sponsors	–	5,655	5,655
Contributions paid by participants	(77)	77	–
Foreign exchange effect	136,875	(121,675)	15,200
IAS 19 – assets limit	–	(7,865)	(7,865)
At December 31, 2016	**(487,438)**	**431,351**	**(56,087)**

	Brazil		
	Present value of liabilities	Fair value of assets	Liability recognized
At December 31, 2013	**(198,534)**	**134,317**	**(64,217)**
Current service cost	(840)	–	(840)
Interest cost	(22,296)	–	(22,296)
Expected earnings (loss) from plan assets	–	3,872	3,872
Benefits paid	16,134	(16,134)	–
Actuarial gains/losses	(16,435)	15,022	(1,413)
Contributions paid by the sponsors	–	4,239	4,239
Changes and reductions	5,730	(5,730)	–
Silicotics adjustment	(7,985)	–	(7,985)
At December 31, 2014	**(224,226)**	**135,586**	**(88,640)**
Current service cost	(996)	–	(996)
Interest cost	(22,853)	–	(22,853)
Expected earnings (loss) from plan assets	–	(1,442)	(1,442)
Benefits paid	21,173	(21,173)	–
Actuarial gains/losses	27,537	14,076	41,613
Contributions paid by the sponsors	–	378	378
Silicotics adjustment	444	–	444
At December 31, 2015	**(198,921)**	**127,425**	**(71,496)**
Current service cost	(138)	–	(138)
Interest cost	(23,100)	–	(23,100)
Expected earnings (loss) from plan assets	–	19,866	19,866
Benefits paid	20,808	(20,808)	–
Actuarial gains/losses	(50,031)	14,958	(35,073)
Contributions paid by the sponsors	–	427	427
Contributions paid by the participants	(11)	11	–
Silicotics adjustment	104	–	104
At December 31, 2016	**(251,289)**	**141,879**	**(109,410)**

Characteristics of the plans

Brazil's plan provides its employees with a Defined Contribution (DC) benefit plan with contributions by the sponsor and the participant. The employees' contributions range from 0.7% to 3.95% of their salaries and the sponsor's contributions range from 0.25% to 1.30%, in accordance with the salary and the age of the participant. An independent actuary carried out the actuarial valuation of the defined benefit plan for 2016, 2015 and 2014, using the projected unit credit method, to determine the present value of the obligations.

The general characteristics and conditions of the defined contribution plans in the United States, as well as the assumptions used for the purpose of calculating the plan obligations, remain unchanged and consistent with those presented in the Company's financial statements for the year ended December 31, 2014. The total cost of these Plans amounted to R$ 6,073 (R$ 6,466 and R$ 5,190 at December 31, 2015 and 2014, respectively), calculated at the rates defined in the respective rules.

The Company also has Defined Benefit Plans in Europe and the United States, which are determined based on the projected unit credit method and whose valuation was prepared by an independent actuary, who maintained the actuarial economic hypothesis in line and consistent with those presented above in the current explanatory note.

Sensitivity analysis

The quantitative sensitivity analyses in relation to the significant hypothesis at December 31, 2016 are set out below. These sensitivity analyses were made using a method that extrapolates the net impact on the liability for defined benefits as a result of reasonable changes in the main assumptions at period end.

	Brazil
	Present value of liabilities
Decrease by 1% in discount rate	21,459
Mortality table down-rated by 1 year	5,852
Increase by 1% in salary growth rate	244

	Europe
	Present value of liabilities
Increase by 0.25% in interest rate	150,716
Decrease by 0.25% in interest rate	(160,195)

	USA
	Present value of liabilities
Increase by 0,25% in discount rate	(20,108)
Decrease by 0,25% in discount rate	20,828

Pension plan assets:

	Brazil					
	12/31/2016		12/31/2015		12/31/2014	
	Amount	%	Amount	%	Amount	%
Fixed income	141,034	99.5	122,456	96.1	126,231	93.1
Floating income	–	–	3,925	3.1	8,230	6.1
Structured investments	783	0.5	1,045	0.8	1,125	0.8
	141,817	**100.0**	**127,426**	**100.0**	**135,586**	**100.0**

	USA					
	12/31/2016		12/31/2015		12/31/2014	
	Amount	%	Amount	%	Amount	%
Fixed income	138,515	32.1	195,433	38.3	109,771	34.7
Floating income	170,453	39.5	183,033	35.9	102,704	32.4
Cash and cash equivalents	127,958	29.7	146,517	28.7	81,856	25.8
Derivatives	56,211	13.0	59,840	11.7	22,463	7.1
Provision for losses	(61,785)	-14.3	(74,669)	-14.6	–	–
	431,352	**100.0**	**510,154**	**100.0**	**316,794**	**100.0**

The expected return on plan assets corresponds to the discount rate defined based on long-term government notes pegged to inflation, aligned with average term weighted by the future flow of payments of benefits now estimated.

(21) Equity

(a) *Capital*

At December 31, 2016, the Company's capital amounted to R$ 1,576,215 (2015 – R$ 1,632,849, 2014 – R$ 2,528,146), represented by 52,631,881 registered common shares with no par value (2015 – 267,161,334 (53,432,265 considering the share reverse split), 2014 – 283,270,134 (56,654,027 considering the share reverse split)). The Special Meeting held on December 14, 2015 approved reverse split and split of shares, with effect as from January 15, 2016, considering the term granted to Company shareholders to adjust position. However, the Meeting approved on the same date (December 14, 2015) the change in the number of shares in the Company's charter in order to reflect the share reverse split (53,432,265 common shares).

The Company is authorized to increase capital by up to R$ 4,000,000, irrespective of any corporate restructuring, as resolved by the Board of Directors, which will set the conditions for issue.

On August 8, 2016, at the Extraordinary General Meeting, the Company's capital reduction was approved, in the amount of R$ 60,000, without cancellation of shares, to absorb accumulated losses.

At a meeting of the Board of Directors held on July 27, 2016, the Company's capital increase was approved, within the limit of the authorized capital, in the amount of three million, three hundred and sixty-five thousand (R$ 3,365), through Issuance of 320,856 (three hundred and twenty thousand, eight hundred and fifty-six) new registered common shares, with no par value, as a result of the exercise by the Company's manager of stock option granted under the Stock Option Plan of Shares of the Company.

Treasury shares

In accordance with resolutions from the Board of Directors the Company was authorized to acquire treasury shares considering applicable restrictions on trading securities provided for in Article 12 of the Brazilian Securities Commission (CVM) Instruction No. 476 of January 16, 2009 and Article 48 of CVM Instruction 400 of December 29, 2003.

These resolutions carried out throughout 2014 and 2016 with 3 programs approved, being the 2nd, 3rd and 4th Share Buyback Programs, with a limit of shares that may be acquired up to 1,703,272, 3,258,389, 2,862,995 common shares, respectively, representing 10.00% of total outstanding shares at the date of the of when the programs were authorized.

The Company's 2nd Share Buy-back Program was approved on August 16, 2013 and ended on August 15, 2014. During this period the Company acquired 7,407,700 (1,481,540 considering the reverse split) shares amounting to R$ 38,050 (R$ 27,285 in 2014).

The 3rd Share Buy-back Program was approved on March 20, 2015 and ended on November 12, 2015. The Company acquired 16,108,800 (3,221,760 considering the reverse split) shares amounting to R$ 44,967 during the year.

In the meeting held on November 12, 2015, the Board of Directors approved the end of the 3rd Program for the Buyback of Company Shares, as well as the cancellation of all the shares held in treasury due to the 3rd Share Buyback Program (16,108,800 shares), without changing capital, in the total amount of R$44,967 against "Capital reserve" account.

Moreover, on November 12, 2015 the 4th Share Buy-back Program was approved. As a result of this program until December 31, 2016 2,208,040 shares were acquired for the amount of R$ 41,374, of which 260,000 shares (considering the reverse split) for the amount of R$ 3,643 up to December 31, 2015, and 1,948,040 shares for the amount of R$ 37,761 in 2016.

At the meeting of the board of directors held on March 9, 2016, it was approved the cancellation of all treasury shares as a result of the Company's 4th Share Buyback Program, including shares acquired up to December 31, 2015 (1,121,240 shares).

(b) ***Capital reserves***

Share issue premium reserve: In the amount of R$ 139,327, referring to 50% premium on the subscription of shares issued in 2011, Part of the reserve was used in the cancellation of treasury shares, with a remaining balance of R$ 14,161.

Special reserve – Law No. 8200/91: refers to special monetary restatement set up in 1991, in conformity with Law No. 8200/91, amounting to R$ 5,973. This reserve may be used to increase capital or absorb accumulated losses.

Goodwill reserve: corresponds to the goodwill on the merger of Mukden Participações Ltda., a company holding interests in Magnesita Refratários S.A., net of the provision constituted under CVM Instruction No. 349/01, When this reserve is utilized for a capital increase, the shares will be distributed to all the shareholders. On December 14, 2015, the General Meeting approved capitalization in to a capital reserve account for tax purposes of part of the special goodwill reserve on merger in the total amount of R$ 53,324, referring to the tax benefit earned by the Company until the end of fiscal year 2014 due to goodwill amortization, which will be made to the benefit of all shareholders and without issue of new shares, on the terms of article 6, §2, of CVM Rule No. 319/99.

Stock options granted: Represents the value of the Company's stock options granted to management. In 2016, this provision was set up against an expense recognized in P&L for the year, in the amount of R$ 1,568 (R$ 3,300 and R$ 6,140 in 2015 and 2014, respectively).

(c) ***Retained earnings***

Legal reserve: This is set up by allocating 5% of net income for the year, after legal adjustments and deductions, including the deduction of accumulated losses, if any, to the limit of 20% of the Company's capital, in accordance with article 193 of the Brazilian Corporation Law.

Reserve for investments: It is set up based on article 27, item d of the Company's articles of incorporation, which provides for a provision for new investments with the remaining portion of net income, after legal reserve and mandatory minimum dividends. The balance of this reserve, added to the balance of the other income reserves, deducting unearned income reserve and provision for contingencies, may not exceed the amount of capital.

(d) ***Other comprehensive income***

It records the contra entry of exchange variation of investments in subsidiaries abroad and goodwill and results from actuarial valuation.

The recorded amounts of exchange variation of investments and goodwill abroad were:

Balance at December 31, 2013	**92,531**
Exchange variation on foreign investments	3,349
Exchange variation on goodwill abroad	57
Actuarial valuation of post-employment benefits	(14,524)
Balance at December 31, 2014	**81,413**
Exchange variation on foreign investments	(22,927)
Exchange variation on goodwill abroad	115,483
Actuarial valuation of post-employment benefits	17,516
Balance at December 31, 2015	**191,485**
Exchange variation on foreign investments	(144,794)
Exchange variation on goodwill abroad	(91,628)
Actuarial valuation of post-employment benefits	(1,604)
Hedge accounting	4,081
Balance at December 31, 2016	**(42,460)**

(e) ***Dividends***

Shareholders are guaranteed a mandatory minimum dividend corresponding to at least 25% of net income for the year adjusted in accordance with the Brazilian Corporation Law and the Company's Bylaws, in compliance with the other provisions therein prescribed. The Company's Management is proposing to the General Meeting of Shareholders to allocate the amount described below to the payment of mandatory minimum dividends referring to the fiscal year ended on December 31, 2016:

	Company
Accumulated losses at 12/31/2015 based on statutory financial statements	(142,684)
Absorption of losses with reduction of social capital	60,000
Net income for the year ended 12/31/2016	449,502
Legal reserve calculation base	366,818
Legal reserve (5%)	(18,341)
Dividend calculation basis	348,477
Mandatory minimum dividends (25%) for the year	**87,119**

There were no mandatory minimum dividend as of December 31, 2015 and 2014, due to the net loss in the year.

(22) Segment information

Management and the board of directors perform their business analysis, and have segregated them, since October 2012, into the following business lines: Refractory Products, Minerals and Services.

The revenue generated by the reported operating segments is mostly a result of the manufacturing and sale of refractory products.

The amounts provided for the Board of Directors are consistent with the balances recorded in the consolidated historical financial information.

Information by business segment, reviewed by Group management, for the years ended December 31, 2016, 2015 and 2014, is as follows:

	12/31/2016			
	Refractory products	Minerals	Services	Total
Net sales revenue	2,971,286	196,591	225,202	3,393,079
Cost of sales	(1,887,625)	(143,550)	(201,987)	(2,233,162)
Gross profit	**1,083,661**	**53,041**	**23,215**	**1,159,917**
	12/31/2015			
Net sales revenue	2,945,601	224,357	210,814	3,380,772
Cost of sales	(2,027,679)	(139,323)	(174,284)	(2,341,286)
Gross profit	**917,922**	**85,034**	**36,530**	**1,039,486**
	12/31/2014			
Net sales revenue	2,547,283	159,374	165,385	2,872,042
Cost of sales	(1,748,654)	(107,987)	(132,848)	(1,989,489)
Gross profit	**798,629**	**51,387**	**32,537**	**882,553**

Net sales revenue by geographic region for the years ended December 31, 2016, 2015 and 2014 are as follows:

	12/31/2016					
	South America	Europe	North America	Asia	Eliminations	Total
Net revenue from sales and services	1,859,042	897,286	1,072,066	120,768	(556,083)	3,393,079

	12/31/2015					
	South America	Europe	North America	Asia	Eliminations	Total
Net revenue from sales and services	1,788,348	867,778	1,049,107	203,429	(527,890)	3,380,772

	12/31/2014					
	South America	Europe	North America	Asia	Eliminations	Total
Net revenue from sales and services	1,596,760	778,703	770,999	143,788	(418,208)	2,872,042

There is no concentration of sales to specific customers.

(23) Stock option plan

In conformity with its articles of incorporation and bylaws, the Company has a stock option plan approved in General Shareholders Meeting, in March, 24, 2008, which intends to integrate executives in the process of development of the Company in the medium and long term. This plan is managed by the Board of Directors or, at its discretion, by a committee that will approve the stock option programs.

Currently, the Stock Option Plan Committee is installed and fulfilling the functions and powers that are foreseen in the Stock Option Plan and that has been delegated by the Board of Directors. Therefore, the Stock Option Committee is responsible for granting options, establishing the terms and conditions applicable to each grant in stock option programs ("Programs"), in which the beneficiaries are defined, the total number of shares subject to the grant, the division of the options into lots, the price and the exercise period, any restrictions on the shares acquired and provisions on applicable penalties. The options will represent a maximum of 6% of the total capital shares.

In February 2015, the Company's Board of Directors authorized the cancellation of the outstanding options, with the amount of cancellation limited to their fair value, as established in the current accounting standards and in March 2015, the Company's Stock Option Plan Committee approved the creation of the 10th Program. During the year 2016, an expense related to the stock option plan in the amount of R$ 1,568 was recognized, of which R$ 857 refers to the expense related to the anticipation of the acquisition period of the stock-based payment plan (R$3,300 and R$6,140 in 2015 and 2014, respectively).

Changes in outstanding options under the stock option plan are shown below:

	2016	2015	2014
Outstanding at 1 January	**321**	**1,820**	**2,150**
Granted during the year	–	321	390
Forfeited during the year	–	(135)	(502)
Exercised during the year	(321)	–	(76)
Expired during the year	–	–	(142)
Cancelled by the Company	–	(1,685)	–
Outstanding at 31 December	**–**	**321**	**1,820**
Exercisable at 31 December	–	–	585
Outstanding at 1 January	**–**	**321**	**1,820**

The model and assumptions adopted to measure fair value in 2014 and 2015 were:

	Original plan modified	New plan
Model used	Black-Scholes-Merton	Binomial
Annual volatility	Historical volatility based on periods with the same length of the option calculated up to the grant date	35.02%
Interest rate	8.15% p.a.	12.60% p.a.
Spot value	Value of the Company's share	Value of the Company's share at grant date at grant date
Strike price	R$ 10.00 restated by the IGP-M	R$2.01 restated by the IPCA
Term	Average term of options	03/18/2025
Dividend	1.2% on market value of shares	Not applicable

(24) Expenses by nature

	12/31/2016				
	Cost of sales	Selling expenses	Administrative expenses(*)	Other expenses (revenues)	Total
Depreciation and amortization	116,282	4,701	26,363	20,419	167,765
Employee benefits	524,459	168,153	155,782	–	848,394
Raw materials and consumables	1,034,702	2,079	1,870	–	1,038,651
Transportation and commissions	6,516	228,014	181	–	234,711
Maintenance	97,385	5,105	1,161	–	103,651
Outsourced services	193,749	22,509	58,922	–	275,180
Capital gain on the sale of assets(i)	–	–	–	(129,393)	(129,393)
Other expenses (revenues)	260,069	57,384	45,843	25,680	388,976
	2,233,162	**487,945**	**290,122**	**(83,294)**	**2,927,935**

(*) Includes R$ 1,568 regarding share based payments expenses recorder as stock options at statement of profit or loss.

(i) On July 22, 2016, the Company entered into an agreement to sell its non-core talc assets to IMI Fabi Talc Company ("IMI Fabi"), a producer and one of the global leaders in the talc industry for US$ 55,000, On December 15, 2016, after the fulfillment of the conditions precedent provided in the agreement, the sale operation was concluded, for which the Company received the amount of R$ 185,976 (US$ 55,000), resulting in a capital gain of R$ 129,393.

	12/31/2015				
	Cost of sales	Selling expenses	Administrative expenses(*)	Other expenses (revenues)	Total
Depreciation and amortization	153,876	3,683	20,884	–	178,443
Employee benefits	537,314	163,054	139,328	–	839,696
Raw materials and consumables	1,210,310	1,035	1,824	–	1,213,169
Transportation and commissions	10,929	208,501	146	–	219,576
Maintenance	102,813	3,095	–	–	105,908
Outsourced services	123,638	19,818	68,397	–	211,853
Labor indemnifications	–	–	–	19,749	19,749
Impairment of assets(ii)	–	–	–	345,032	345,032
Provision for loss on projects in progress(iii)	–	–	–	61,986	61,986
Provision for loss on operations in China(iv)	–	–	–	48,900	48,900
Provision for obsolete inventories	–	–	–	60,646	60,646
Other expenses (revenues)	202,406	57,260	46,744	10,669	317,079
	2,341,286	**456,446**	**277,323**	**546,982**	**3,622,037**

(*) Includes R$ 3,300 regarding share based payments expenses recorder as stock options at statement of profit or loss.

(ii) This refers to provision for impairment of assets in Europe – R$ 272,222 and China – R$ 72,810, related to goodwill and PP&E items.

(iii) This refers to loss recognized on the investment in Grafita Project.

(iv) This refers to estimated losses due to the decommissioning of the Chizhou plant in China (inventories, receivables and restructuring costs).

12/31/2014					
	Cost of sales	Selling expenses	Administrative expenses(*)	Other expenses (revenues)	Total
Depreciation and amortization	130,498	2,464	13,693	–	146,655
Employee benefits	439,978	139,408	125,884	–	705,270
Raw materials and consumables	1,079,979	1,108	2,449	–	1,083,536
Transportation and commissions	9,208	192,759	253	–	202,220
Maintenance	81,139	2,176	1,538	–	84,853
Outsourced services	133,359	26,164	50,309	–	209,831
Labor indemnifications	–	–	–	19,819	19,819
Non-recurring losses on assets(v)	–	–	–	34,630	34,630
Losses on investment divestiture(vi)	–	–	–	41,101	41,101
Other expenses (revenues)	115,328	44,424	40,983	7,318	208,053
	1,989,489	**408,504**	**235,108**	**102,868**	**2,735,969**

(*) Includes R$ 6,140 regarding share based payments expenses recorder as stock options at statement of profit or loss.

(v) Refers to non-recurring losses on assets, including the write-off of judicial deposits, write-off of PPE and reversal of long-standing receivables.

(vi) Refers to the derecognition of the investment and goodwill on Metal Data S/A and derecognition of goodwill on Magnesita Finance Ltd, see note 15.

(25) Expense with employee benefits

	2016	2015	2014
Salaries and wages	580,064	602,623	519,547
Social charges	180,338	183,296	139,919
Stock options	1,568	3,300	6,140
Profit sharing	65,861	28,151	26,574
Pension Plan	20,563	22,326	13,090
	848,394	**839,696**	**705,270**

(26) Financial income (expenses)

Financial income (expenses) are as follows:

	2016	2015	2014
Financial income			
– Monetary and foreign exchange gains	207,924	244,015	131,147
– Short-term investments yield	32,416	21,708	20,711
– Other income	5,456	43,806	31,554
	245,796	**309,529**	**183,412**
Financial expenses			
– Monetary and foreign exchange loss	(74,896)	(508,526)	(221,343)
– Interest on loans	(207,486)	(236,588)	(213,709)
– Other expenses	(49,723)	(62,307)	(12,994)
	(332,105)	**(807,421)**	**(448,046)**
	(86,309)	**(497,892)**	**(264,634)**

(27) Earnings (loss) per share

(a) ***Basic***

	2016	2015	2014
Basic			
Basic numerator			
Net income (loss) attributable to controlling interests	449,502	(1,048,619)	(89,152)
Basic denominator			
Weighted average number of outstanding shares	52,365	55,293	57,068
Basic earnings (loss) per share (in R$)	**8.58**	**(18.96)**	**(1.56)**

(b) ***Diluted***

Diluted earnings per share are calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potential dilutive common shares. The Company has only one category of potentially dilutable common shares: stock options.

Accordingly, a calculation to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) is conducted, based on the monetary value of the subscription rights attached to outstanding stock options.

The number of shares calculated as above is compared with the number of issued shares, assuming the exercise of the stock options.

	2016	2015	2014
Diluted			
Numerator – diluted			
Net income (loss) attributable to controlling interests	449,502	(1,048,619)	(89,152)
Denominator – diluted			
Weighted average number of outstanding shares(i)	55,137	55,293	57,068
Diluted earnings per share (in R$)	**8.15**	**(18.96)**	**(1.56)**

(i) Share options were not diluted in 2015 and 2014 given the loss recorded for the years.

(28) Net sales revenue

	2016	2015	2014
Gross revenue from sales			
In reais	1,481,161	1,373,959	1,360,996
In other currencies	2,334,126	2,375,721	1,869,516
	3,815,287	3,749,680	3,230,512
Sales deductions	(422,208)	(368,908)	(358,470)
Net sales revenue	**3,393,079**	**3,380,772**	**2,872,042**

(29) Commitments assumed

29.1 ***Supply-Chain agreements***

The Company has a commitment resulting from energy supply contracts for its industrial activities, effective until 2021. At December 31, 2016, the Company was compliant with this contract.

The amounts are based on energy consumption estimates over the contract term, whose prices are based on estimated volumes resulting from the Company's continuing operations.

Total minimum payments related to input supply, measured at nominal value, according to the contract are as under:

	2016	2015	2014
Within 1 year	19,990	24,240	24,240
From 1 to 4 years	59,971	50,524	58,067
Above 4 years	21,656	35,093	52,127
	101,617	**109,857**	**134,434**

29.2 ***Operating leases***

The Group has commitments arising from lease of the properties in which it carries out product storage and shipment activities, as well as from lease of machinery and equipment. Lease agreement terms vary from one to six years and do not have purchase option at the end of the lease term, but allow timely renewal under market conditions prevailing at the time they are executed. At December 31, 2016, 2015 and 2014, the commitment assumed with future consideration for these operating leases had the following payment terms:

	2016	2015	2014
Within 1 year	10,469	10,468	12,674
From 1 year to 5 years	8,838	19,307	29,919
	19,307	**29,775**	**42,593**

(30) Insurance coverage

The Group maintains insurance policies to cover operating risks, comprising industrial facilities, machinery and inventories. This coverage insures loss of profits, risk of fires, floods and other events, and can be presented as follows:

	12/31/2016	12/31/2015	12/31/2014
Assets amounts insured	5,931,719	3,877,644	3,387,644
Loss of profits	1,523,516	973,033	973,033
Civil liability	325,910	325,887	325,887

The Group also maintains management civil liability insurance, credit insurance, group life insurance for employees, transportation insurance, employee accident insurance, and employee travel insurance.

(31) Notes on related party transactions

31.1 ***Key management personnel compensation***

Remuneration of key management personnel of the Group comprises the remuneration of the active Management Board of the Group.

In 2016, key management personnel compensation (Board of Directors' and Executive Board members) accounted for R$ 10,153 (R$ 12,174 and R$ 7,092 in 2015 and 2014, respectively) referring to management fees, R$ 9,136 (R$ 10,438 and R$ 7,126 in 2015 and 2014, respectively) referring to profit sharing, and R$ 1,568 (R$ 3,300 and R$ 6,140 in 2015 and 2014, respectively) referring to stock options.

31.2 ***Related companies***

Related companies include the Joint venture Krosaki Magnesita Refractories LLC and Magnesita Envoy Asia Ltd., that are not consolidated since the Company holds respectively 40% and 50% of interest in their equity. The transactions between the Company and its joint ventures are fully trade operations.

As of December 31, 2016, the Group purchased goods from Krosaki amounting to R$ 11,884 (R$ 13,283 in 2015 and R$ 11,138 in 2014).

(32) Subsequent events

In March 2017, the Company redeemed in advance all of the debentures, not convertible into shares, unsecured, single series, from the 1st Debenture Issue of December 18, 2013, of R$ 400 million. The debentures matured on December 18, 2018. The Company also concluded the acquisition of a NCE – Export Credit Note – with Banco do Brasil, in the amount of R$ 534 million, maturing in 2022.

On May 13, 2008, the Company signed a purchase and sale agreement with buyer José Ribeiro de Mendonça, under which the buyer undertook to acquire an area of 2,244 hectares, located on the Cocal-Jacaré Bela Vista and Tijuco Farms, in the city of Uberaba, State of Minas Gerais. The total amount of this transaction was R$ 11,593, and a portion of it was settled in previous years.

At December 31, 2016, the amount recognized for this receivable was R$ 5,797.

On July 7, 2017, the Company received the amount of R$ 8,250, in cash, referring to the remainder of the property's price, which was recognized in current assets.

On July 28, 2017, the European Commission approved the combination between the Magnesita Group and the RHI Group under certain conditions, including the sale of the Company's entire business for manufacture and supply of carbon magnesite bricks and other products to customers (or associates) operating in the plant located in Oberhausen, Germany, as well as of all essential assets and personnel to ensure the feasibility and competitiveness of this business ("Oberhausen Business"), and the Company's commitment to enter into a supply agreement with the buyer of the Oberhausen Business, granting the buyer the right to acquire a specific maximum annual volume of sinter magnesite from the Company's raw-material business in Brazil, under specific terms and conditions, over a twelve-year period.

On September 8, 2017, an agreement has been reached with INTOCAST Aktiengesellschaft Feuerfest-Produkte und Gießhilfsmittel for the sale of the Oberhausen Business for a consideration of Euro 20,275,000.

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