RHI MAGNESITA

# The global leader in refractories

Annual Report 2017

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# We are RHI Magnesita

## The driving force

RHI Magnesita is the global leader in refractories. We have the largest number of locations around the world and the most innovative, reliable products and solutions.

## Our mission

At RHI Magnesita, innovation takes place in extreme conditions. It is the materials, robotics, sensors, Big Data and machine learning that is transforming industry across the world. It is also the everyday problem-solving of all of our people, making processes quicker, products more cost-effective, and solutions and services more beneficial for our customers.

# Key Operating and Financial Highlights

## COMPELLING INVESTMENT CASE

### Solid strategy and competitive advantages

- Best market position with 15% market share, clear leadership in Americas, Europe and Middle East with broadest value-added solution offering
- Opportunity to develop and leverage technology across regions and portfolio
- Highest level of vertical integration in the industry with unique mineral sources and 50%+ self-sufficiency in all raw materials

### Rapid deleveraging and strong cash conversion

- Strong cash flows from operating business supported by synergies and organic growth opportunities
- Cash usage priority on deleveraging within two years to reach investment grade rating

### Significant synergy potential

- At least €70 million EBITA synergies in SG&A, procurement and production network
- Additional "below the line" opportunities in working capital, capex, financing and tax under intensive evolution

## ADJUSTED PRO-FORMA RESULTS

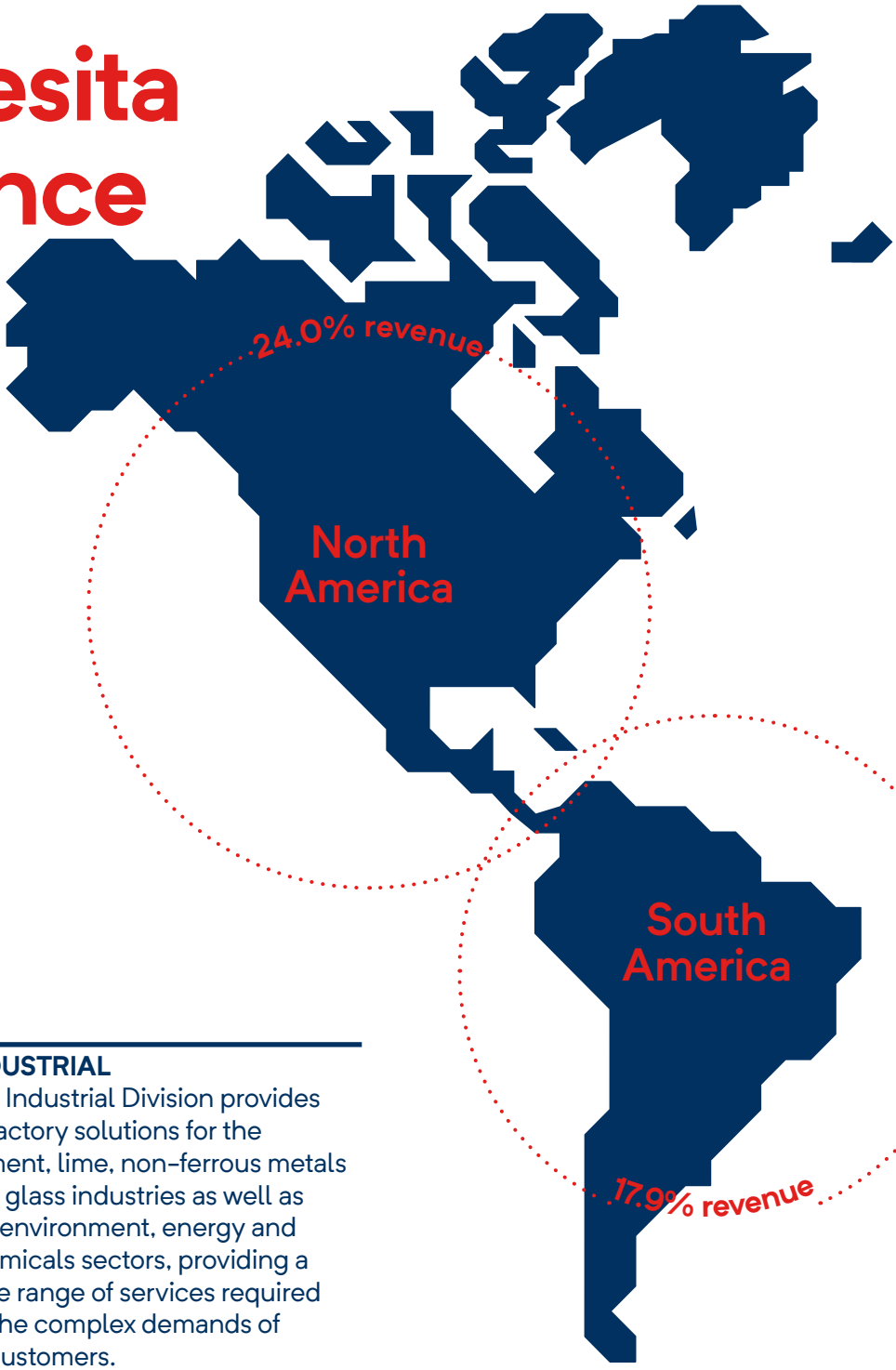
**€2,677m**
Revenue

**€304m**
Adjusted pro-forma EBITA

**1.9x**
Net Debt/Adjusted pro-forma EBITDA

**11.4%**
Adjusted pro-forma EBITA margin

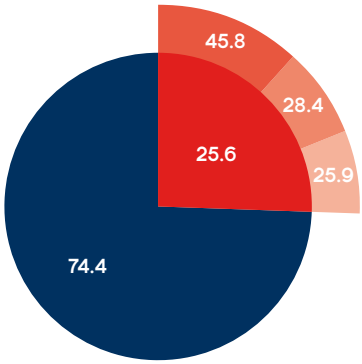
# RHI Magnesita at a Glance




## Refractory products are used in all the world's high-temperature industrial processes.

Without them, the steel, cement, lime, non-ferrous metals, glass, energy, environment and chemical industries couldn't exist. As the most highly vertically integrated business in our sector, our talented team of more than 14,000 employees across 40 countries control the shipment of refractory products more than 180 countries worldwide. Our annual investment of €37 million in research makes us the industry's largest dedicated research team, pushing the boundaries of what is possible.

### Adjusted pro-forma revenue[1] by industry (%)




- Steel
- Industrial
  - Cement/Lime
  - Other Process Industries
  - Non-ferrous Metals

1 Revenue split considers only refractory segments and does not take into account the effect of any divestitures.

### INDUSTRIAL

Our Industrial Division provides refractory solutions for the cement, lime, non-ferrous metals and glass industries as well as the environment, energy and chemicals sectors, providing a wide range of services required by the complex demands of its customers.

### STEEL

Our Steel Division provides its customers with a broad range of customised solutions and comprehensive packages for steel production consisting of refractories (basic and non-basic mixes and bricks), machinery, flow control systems, and Full Line Service solutions.

## Providing everything, for everyone, everywhere

**€2.7bn**
2017 adjusted pro-forma revenue

**180**
Countries shipped worldwide

**€37m**
Annual investment in research

**13**
Raw material sites in four continents

**>14,000**
Employees spread more than 40 countries

**35**
Main production sites across 16 countries

**10,000**
Customers served globally

# Chairman and CEO's Letter

**HERBERT CORDT**
CHAIRMAN

**STEFAN BORGAS**
CHIEF EXECUTIVE OFFICER

## Without any doubt 2017 is what one would call a truly extraordinary business year that will go down in the Company history as the year when we successfully implemented and completed the merger of RHI and Magnesita.

In many ways, this was a transformative effort. The market opening at the London Stock Exchange at the end of October 2017 was an extraordinary milestone and served as a symbolic act to mark the success of our listing in the Premium Segment on the London Stock Exchange as well as the rise of RHI Magnesita to the top of the refractory industry. The merger reshaped the sector's framework as RHI Magnesita is by far the global market leader and thus the new driving force of the industry.

Despite the extensive efforts to make this cross-border merger transaction possible, RHI Magnesita recorded a solid operating performance in 2016 which is attributable to the Company's efficient operations and the macroeconomic tailwind. Customer industries grew and global steel production outside China increased by 4%; the combined revenue is up by 11%[1]. This positive development resulted in some plants running at high capacity. Though, the continued shortage of raw materials from China caused higher material procurement prices and had a significant impact on our cost structure, as price increases could not be fully passed on to customers yet. Supplying our customers continuously throughout this period continues to be our number one focus.

RHI Magnesita was confronted with a series of one-off effects, which reduced EBITA: the expenses related to the merger, currency effects, as well as the EU-induced regulatory remedies. The operating EBITA excluding one-offs was 39% higher compared to 2016.

### Our strategy

RHI Magnesita's strategy is based on the combination of both companies' strengths to capture synergies. There are many complementary aspects: RHI Magnesita's strategic competitive advantages are built on an enlarged portfolio of products and services, higher customer proximity due to a broader geographical footprint, technology leadership as well as a higher raw material integration that grants supply certainty, consistent high quality and cost competitiveness. The combination will capture synergies and drive efficiencies; the synergy effects of roughly €70 million per year will be fully implemented in 2019 but will lead to immediate EBITDA improvements. The synergies are also essential to deleverage our balance sheet and allow for future investments.

The combination is associated with a series of challenges and opportunities — not only at the strategic and economic levels, but also for our employees. The merger now offers the unique opportunity to create a new, common corporate culture and creates many career opportunities.

1 Adjusted pro-forma revenue

## Our culture

Immediately after the completion of the transaction, management presented the new brand, which aims to have an effect both internally and externally: global leadership and innovation are the messages directed at all external and internal stakeholders. Together with customer focus and performance accountability these values build the foundation for our four cultural themes and help us navigate and achieve our ambitions as one global Company.

## Our structure

In the course of the merger, the corporate structure was changed. As a result, the Company's shares have been listed in the Premium Segment of the London Stock Exchange since 27 October 2017. As of 18 December 2017, the share were admitted to the FTSE 250 stock index. This major step was taken because the share's visibility is significantly better in the London marketplace and the financial community has an in-depth understanding of the refractory industry. Austrian retail investors can continue to trade RHI Magnesita's shares on the global market segment of the Vienna Stock Exchange.

RHI Magnesita's Place of Effective Management (PoEM) and its headquarters are in Vienna. The Company follows the UK and Dutch Corporate Governance Code.

The Annual General Meeting will be held on 7 June 2018.

## In summary

On behalf of the Board of Directors and the Executive Management Team, we would like to take the opportunity of expressing our gratitude to our shareholders, suppliers and customers for the confidence and trust they continued to show in our Company, our products and services and our staff throughout this exciting year. We thank all employees for their contribution and efforts in 2017, making this extraordinarily challenging year a success by managing both the merger and the operating business well.

2018 will be an important year for RHI Magnesita. The Board is looking forward to the coming year with confidence and are working on meeting future challenges together with the management team.

The claim "The driving force of the refractory industry" reflects RHI Magnesita's leadership in every aspect of the refractory business. It is not just about being the biggest and strongest. To us, it's about using our competitive advantages to set the pace of innovation and progress in our industry and deliver the best for our customers.

Together we are convinced that we can do more than meet the future — we can shape it!

**HERBERT CORDT**
CHAIRMAN

**STEFAN BORGAS**
CEO

**"It is not just about being the biggest and strongest. To us, it is about using our competitive advantages to set the pace of innovation and progress in our industry and deliver the best for our customers."**

# Business Model

As the leading company in the refractory industry, RHI Magnesita has developed a resilient business model to create value sustainably for all of our stakeholders.

## We have **the resources**

**1 Financial strength**
Our focus on working capital management and cash generation remains strong, we continue to be well financed with high liquidity and a robust balance sheet.

**2 Production facilities and raw material sites**
With a vertically integrated value chain, RHI Magnesita serves more than 10,000 customers in a majority of countries around the world.

**3 Know-how and expertise**
Our technical engineers across 90 countries, working on-site with clients to provide custom-made solutions.

**4 Skilled and motivated people**
The employees' comprehensive knowledge, their competence, ideas and their high commitment and motivation continue to drive our success.

**5 Strong relationships with all our stakeholders**
We operate daily with integrity, honesty, reliability as well as a respectful contact with employees and business partners.

## ...and **the strategy**

**Markets**
Worldwide presence with strong local organisations and solid market positions in most major markets.

**Portfolio**
Comprehensive refractory product portfolio including basic, non-basic, functional products and services in high-performance segments.

**Technology**
Top solution provider in the refractory industry with an extensive portfolio based on innovative technologies and digitalisation.

**Competitiveness**
Cost competitive and safe production network supported by lowest cost G&A services.

**People**
Hire, retain and motivate talent and nurture a meritocratic, performance-driven, client-focused friendly culture.

Read more on page 13

## Our cultural themes

**Act customer-focused and innovatively**
We put the customer at the centre of everything we are doing. We are innovating in every aspect of our business.

**Have open decision-making in a respectful environment**
Allowing us to make fast decisions at all business levels by being transparent in our dissemination against the reasons why.

**Operate cross-functionally, collaboratively and pragmatically**
We base our decisions on one company, one P&L level. We strive to keep it simple and fast paced.

**Are performance-driven and accountable**
Our every action has a result-driven methodology, striving to be ambitious and entrepreneurial; with a risk to reward mindset.

## ...to **add value** through a full suite of products and services

## What differentiates us...

We drive innovation in every aspect of our business, from materials, robotics and Big Data, to bespoke new business models and efficient new processes, under extreme conditions. With our own on-site technical experts able to consult, develop and deliver innovative solutions directly to clients. Our unique ability to cover every step of the way along the value chain, allows RHI Magnesita a significant competitive advantage — enabling us to build a global refractory leader with a distinctive customer proposition based on technology and cost competitiveness to ensure manufacturing of essential materials for the world.

More of our value chain on pages 10 and 11

## ...to **create benefits** for all our stakeholders

**Our investors**
Our clear objective is to create the maximum shareholder value. This is supported by a solid strategy based on our competitive advantage around a strong global market share, opportunities to develop and leveraging of technologies. Furthermore, we are well on track with integration and deleveraging.

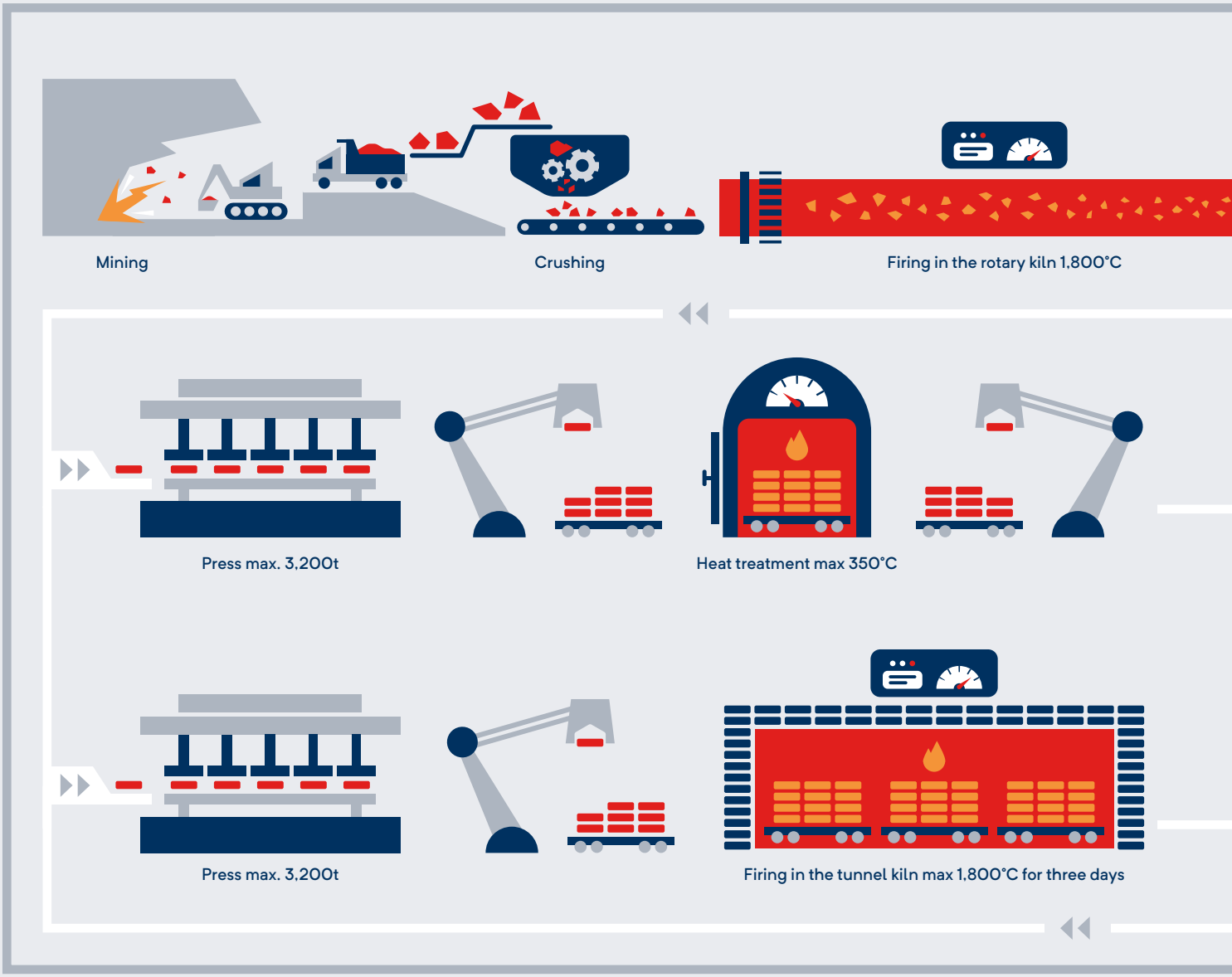
**Our customers**
Our products account for only around 1% to 5% of our customers' production costs. But their reliability — from supply to the product performance — is absolutely crucial. As we are the most vertically integrated company in the industry, we are able to support the success of our customers.

**Our people**
Our people are the most important resource we have. We are creating numerous opportunities for our employees to develop including educational tracks, international development paths and special initiatives for the future management of our Company. 100% safety of our employees is one of the most important operative targets for RHI Magnesita.

**Our environment**
We have taken the lead in applying technology to make refractory products efficiently without harming people or the environment. Through digitisation, robotisation, automation and new materials we continue to make our factories cleaner and greener. To ensure this, we have established an integrated management system to ensure we are consistently meeting those high standards.

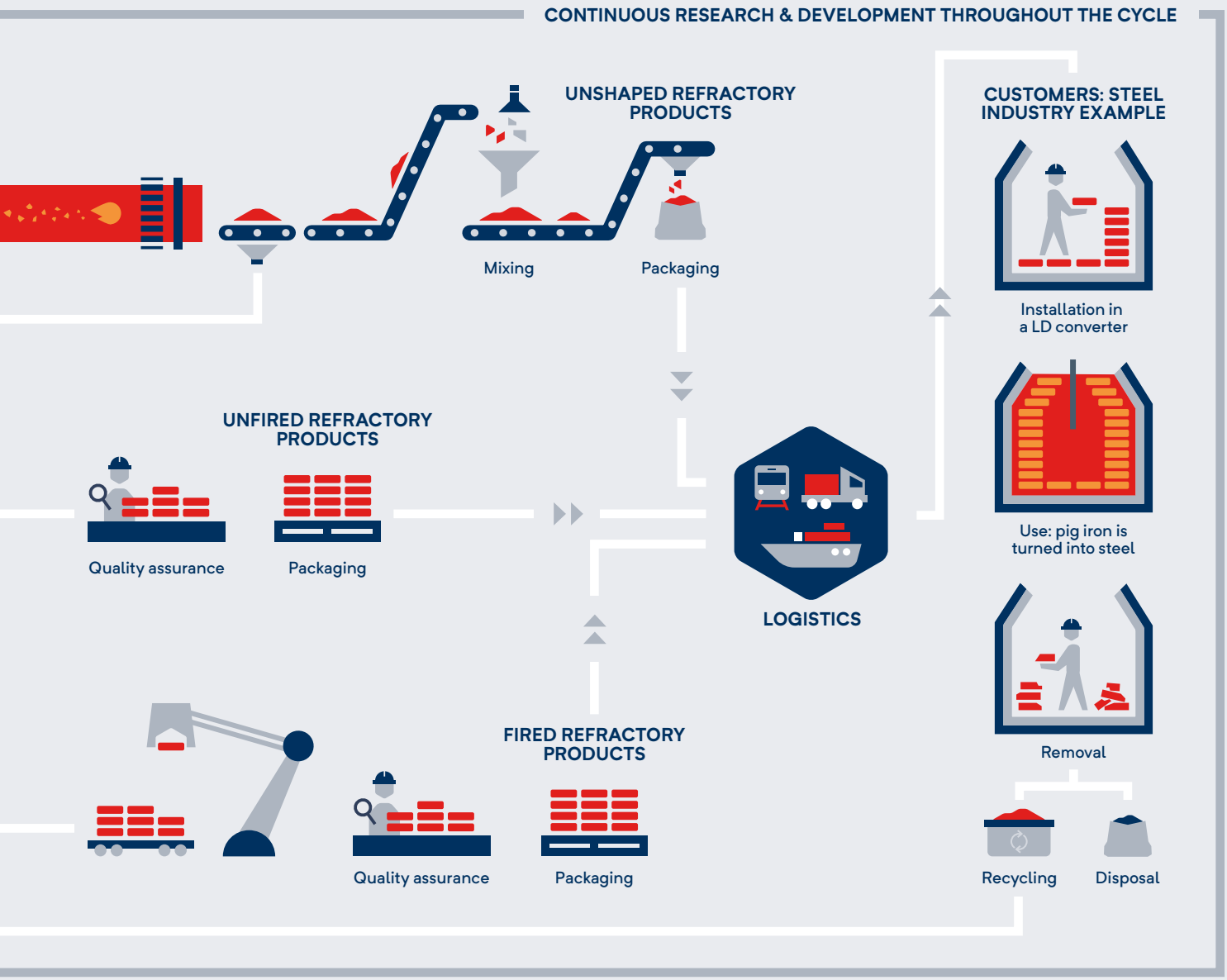
**Our communities**
We are committed to responsible management through compliance of pertaining laws, striving for ethically sound practice. We are able to look back on centuries-old history in some of our local operations and are fully aware of the responsibility we therefore have for the local communities.

# Our Value Chain Explained



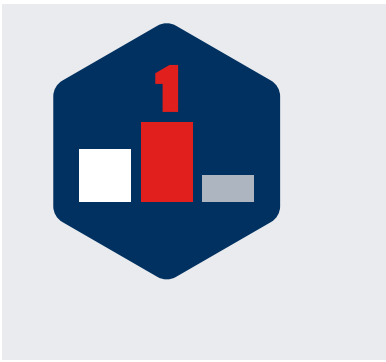

As the leading company in the refractory industry, RHI Magnesita has developed a resilient business model to create value sustainably for all of our stakeholders.

RHI Magnesita covers all steps along the entire value chain. This enables RHI Magnesita to offer its customers high-quality refractory products based on research and development, its own raw materials and technological product and 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. One of the basic materials for refractory products is magnesite, a mineral that RHI Magnesita mines in both underground and surface mines. The magnesite ore is crushed and fired at 1,800°C in special kilns. In the burning process, the $CO_2$ contained in the magnesite is released; moreover, the material's density is increased. Then the bricks and mixes are either mixed with binding agents, packaged and shipped as repair materials, or pressed in different sizes and shapes with a pressure of up to 3,200 tonnes. Depending on the application, the refractory bricks are then either subjected to heat treatment at up to 350°C or fired at up to 1,800°C 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, process and mineral industries. If a service contract has been concluded, the refractory products are also installed by experienced employees of the RHI Magnesita Group. After their use in the customer's production process, worn refractory linings are broken out and, if possible, reused as secondary raw materials. RHI Magnesita thus stands for the entire cycle from raw material production to recycling of finished products.

# Our Strategic Priorities



## Enabling enhanced strategic growth by joining forces in the course of 2017, we started the creation of the globally leading refractory producer RHI Magnesita.

**Strategic rationale of the merger**
The merger of RHI and Magnesita can clearly be seen as a strategic combination that captures synergies, drives efficiencies by establishing a leading market position, strengthening our global geographic cluster, leveraging technology capabilities and retaining raw material integration.

The strategic rationale for the combination was 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 our extended geographical reach and product and services portfolio, RHI Magnesita has enhanced access to the core markets, customer base and geographical regions. Upon completion of the combination, RHI Magnesita has become the leading player in the global refractory market. A market that is otherwise characterised by high fragmentation and intense competition, with more than 2,000 competitors worldwide; though we see clear indications that the market will consolidate strongly, especially driven by efforts of the Chinese authorities in the mid to long term.

Due to the greater scale, enhanced market position and cost synergies of the merger, RHI Magnesita is well positioned to compete and grow further in this consolidating industry. RHI Magnesita's defined strategy is to be seen in this light and focuses on capturing growth options while delivering identified synergies and pivots around our vision to become the driving force of the refractory industry. This has been comprehensively developed around five main topics, which we are tackling in the years to come: markets, portfolio, technology, competitiveness and people. These pillars give us the framework to structurally pursue growth ambitions while ensuring success in the integration and not losing sight of our technological long-term goals.

**Link to remuneration**
To ensure the full focus of our top management, strategic priorities for 2018 and beyond have been allocated to respective managers and will be a core base for the long-term remuneration system of RHI Magnesita.

## Markets

Worldwide lead with strong local organisations and significant market positions including China

**Our focus for the year ahead**

We want to achieve a clear market leader position in all major basic markets. Taking into account the differing market trends and our position in the respective regions, a selective market approach needs to be derived. In developed markets in North America, Europe and South America, we will focus on ensuring full integration of the companies and capitalizing all synergy potentials. In developing countries like China and India, our strategic approach is more focused on enhancing our local market positions by strengthening the local teams and our footprint.

## Portfolio

Comprehensive refractory product portfolio including basic, non-basic, functional products and services in high-performance segments

**Our focus for the year ahead**

RHI Magnesita has already developed a leading market position in basic products especially in the lining for the steel industry. It is our clear goal, to further extend our current market position in high end/quality application through product portfolio extensions especially in the non-basic and functional product segments.

RHI Magnesita, with its high vertical integration, was able to rely more on stable supply of raw materials in the past year. Though we have understood the importance of recycling refractory material, not only for economic but more importantly for environmental reasons. Therefore, we will put an enhanced focus on this topic in the coming years.

## Technology

Top solution provider in the refractory industry with an extensive portfolio based on innovative technologies and digitalisation

**Our focus for the year ahead**

RHI Magnesita has always attached great importance to research and development. The innovative power is based on decades of hard work and driving edge technological research. RHI Magnesita's global research team consists of 251 employees, of which one third have Master's and PHDs in refractories or similar topics, working out of two research hubs and two centres globally. Additionally, RHI Magnesita's technical marketing staff of around 400 employees services our customers worldwide.

We will continue investing in R&D to create products that have a distinct competitive advantage by cost or by product performance. Furthermore, we will deepen our knowledge about our customers' processes in order to stay ahead in the marketplace.

## Competitiveness

Cost competitive and safe production and sales network supported by lowest cost G&A services

**Our focus for the year ahead**

The market environment of the last years was characterised by structural excess capacities in many customer industries and the aggressive export strategy of some Chinese producers. We expect this to continue but on a lower level. Though we believe that the high pressure on the market prices and on the profitability of manufacturers, and subsequently also on suppliers, is about to stay.

Therefore, competitiveness is the backbone of RHI Magnesita's future success. This does not only take into account achieving the derived synergies but also to set up and ensure cost-efficiency along the whole value chain. This remains a must in the prevailing market environment. Therefore, we have started various projects on the top management level to ensure the optimal set up of our plants and our global supply chain.

## People

Hire, retain and motivate talent and nurture a meritocratic, performance-driven, client-focused and friendly culture

**Our focus for the year ahead**

Our employees are the single most important success factor and the reason for the long and proud history of our Company. The merger of RHI and Magnesita has created a truly global player and this we need to ensure at all levels of our Company. Therefore, we are developing ways to encourage international careers, enhancing geographical, gender and functional diversity and are generally establishing a culture of trust and openness. We believe in our young talent and have built a meritocratic environment in which they can nurture.

# Divisional Performance

# Steel Division

With its Steel Division, RHI Magnesita provides its customers with a broad range of customised solutions and comprehensive packages for steel production consisting of refractories (basic and non-basic mixes and bricks), machinery, flow control systems, and Full Line Service solutions.

Sales to the Steel Division accounted for 67.3% of the Company's total revenue in 2017, compared to 64.9% in 2016. Revenue amounted to €1,308.8 million in 2017, up by 22.2% when compared to 2016. This improvement was largely due to the strong pick-up in steel production in 2017, in addition to the two months of Magnesita's sales that started to be consolidated in November 2017. As a result, gross profit in 2017 stood at €302.7 million, representing 23.1% of the Steel Division's sales 290 bps higher than 2016.

According to the World Steel Association, steel output in 2017 reached 1.69 billion tonnes, up 5.3% from 2016. In Europe, the improvement of the underlying market was the main driver for RHI Magnesita's sales performance in the region during the year.

A combination of antidumping measures, economic growth and robust exports boosted the performance of sectors using steel. Steel output in EU increased by 4.1 % compared with 2016, with the strongest growth recorded in Austria, France, Germany, Italy, Poland and Spain.

In North America (excl. Mexico), steel output increased by 4.6% year-on-year. After a few years of decline, the US steel industry recovered on the back of higher internal demand, stronger economic activity and supported by the trade cases enacted in 2016. Steel output in the US posted a 4% increase year-on-year, despite higher imports, which continue to impact the local industry. Capacity utilisation improved to 75% in 2017 from 70% in 2016. Sales in the region outperformed the market, as key growth initiatives came into fruition, with two new EAF plants starting production during the year.

Higher deliveries in Latin America were driven by the 7.7% surge in steel production year-on-year, with Brazil (+9.9%), Mexico (+6.3%) and Argentina (+12.1%) posting strong performance. Production in Brazil was driven by the positive momentum for flats — led by the auto sector demand — and exports, led mainly by the ramp-up of CSP. Likewise, the expansion in Mexico was boosted by the combination of higher internal demand, which grew by 4.4% year-on-year, and exports, which jumped 15.4%. In Argentina, the positive performance was driven by higher demand and supported by the renaissance of public works and infrastructure projects.

Steel production in the CIS remained virtually flat year-on-year. Lower production in Ukraine was offset by higher output in Russia and Moldova. Business in Russia, the most important market in the region, recorded mid single-digit growth, with higher deliveries to EAF, ladle and tundish applications. Moreover, market share gains in flow control contributed to sales growth in the region.

Performance in Africa was slightly positive. The Egyptian market reacted positively to the implementation of import duties on billets from several countries, in addition to the stronger local demand. In South Africa, steel production was adversely affected by higher imports from China, but rebounded in the second half as antidumping and import duties led refractory consumption to return to normal levels.

The market environment in Asia-Pacific was dominated by China and its effect on all steel-producing countries, as it remains a major exporter to the region. In 2017, several countries implemented antidumping measures on steel products from China. Initiatives by the Chinese government to cut capacity, improve product quality, rationalise and modernise the local industry led to lower Chinese exports and higher steel prices. Countries like Thailand, the Philippines and Malaysia were among the biggest beneficiaries of such developments, with steel output increasing significantly over 2016. Concurrently, Vietnam has become one of the largest steel producers in the region after the ramp-up of Formosa Ha Tinh Steel Corporation during 2017. Finally, steel output in India recorded a 6.2% increase over 2016. Sales in Asia-Pacific recorded double-digit growth in 2017, with positive performance across the product spectrum.

# Divisional Performance

## Industrial Division

The Industrial Division provides refractory solutions for the cement, lime, non-ferrous metals and glass industries as well as the environment, energy and chemicals sectors.

RHI Magnesita supplies its Industrial Division customers with high-grade refractory systems. Through the continuous expansion of its technological capabilities and problem-solving expertise, RHI Magnesita can provide a wide range of services required by the complex demands of its customers.

Demand for Cement/Lime is closely linked to the construction industry. Production of, and demand for, non-ferrous metals are closely associated with the market price of such non-ferrous metals, including nickel, zinc, copper, aluminium, tin and lead. Demand for glass is also linked to the construction industry as well as automobile industry. In the environmental, energy and chemicals business, demand is closely linked to the development of the oil price, which is the main driver for new projects.

Sales to this Division accounted for 29.7% of the Company's total revenue, compared to 32.6% in 2016. Revenue from sales to the Industrial Division amounted to €577.6 million in 2017, up 7.2% compared to 2016. This improvement was largely explained by the positive performance of sales to the cement segment, in addition

to the two months of Magnesita's sales that started to be consolidated in November 2017. Gross profit for 2017 amounted to €130.2 million, representing 22.5% of the Industrial Division sales. In comparison to 2016, gross margin was 70 bps lower in 2017.

### Cement/Lime

Revenue contribution of the cement business increased from 35.2% of the Industrial Division sales in 2016 to 38.8% in 2017, and as a percentage of the Company's total revenue, represented 11.7% in 2017 (2016: 11.5% in 2016). Sales to cement customers amounted to €226.8 million in 2017, up 19.8% from the €189.3 million obtained in 2016. Such improvement was driven by a significantly better market environment in 2017, especially in the second half of the year. The raw material crisis in China also influenced the demand for refractories as customers anticipated orders to secure supply.

Regarding the market environment in 2017, demand for cement in China continued to rise in 2017 with the development of construction projects. China is by far the largest cement producer in the world and the largest RHI Magnesita market for cement products. Nevertheless, the Chinese government has recently prohibited capacity expansion in 2018 with the objective to eliminate inefficient capacity and replace it with more modern and environmentally friendly facilities.

In India, the second largest cement producer worldwide, demand declined year-on-year, influenced by lower investments in infrastructure and housing projects. Sales in the region remained nearly stable over 2016, with new contracts offsetting the weaker underlying demand.

In Europe, cement production performed positively after several years of constant decline. In North America, the year was also very positive for the cement industry, with higher demand and consequently higher capacity utilization. RHI Magnesita sales exceeded market growth, buoyed by a greenfield project in the region.

Lower activity in Latin America drove weaker performance of the repair business in the region. Demand in Brazil, which suffered massive declines in the previous years, has apparently stabilised, despite still being at low levels.

### Non-ferrous metals

Revenue contribution of the non-ferrous business was slightly lower in 2017, from 27.2% of the Industrial Division sales in 2016 to 25.3% in 2017. As a percentage of the Company's total revenue, this segment represented 7.6% in 2017 (2016: 8.9% in 2016). Sales to non-ferrous customers remained stable in 2017, at €147.7 million, compared to €146.5 million in 2016.

Despite recovering metal prices in 2017, there were virtually no greenfield projects in most of the non-ferrous segments in the year, consequently, reducing most of the business to standard repairs with very few major new relining activities. Nickel, which had recovered since the mid-2016, lost ground in the first half of 2017. Zinc continued the strong upwards rally to close the year at the highest level in five years, while copper only picked up significantly after the summer. Lead and aluminium also ended the year at significantly higher levels compared to 2016.

In 2017, sales to the lead sector were weaker, especially because of two important relining projects in Mexico and the US delivered in 2016. Furthermore, demand from copper and aluminium customers in China was slightly weaker in 2017. On the other hand, higher sales were recorded to the Chinese copper and nickel industries. A positive trend continued in Africa with capacity expansion planned or already in development. The highlight in the region was the supply for a new plant in Algeria, in addition to several repair orders in Algeria, Libya, Nigeria and South Africa, which also contributed to the positive performance in the region. RHI Magnesita also supplied to large relining projects in ferronickel in New Caledonia and for a ferrochrome Kazakh smelter.

### Other process industries

Other process industries are comprised mostly of glass, EEC (environment, energy and chemicals) and mineral industries. In 2017, this segment accounted for 35.9% of the Industrial Division sales (2016: 37.6%) and 10.8% of the Company's total revenue (2016: 12.3%). Revenue in 2017 amounted to €209.8 million, up by 3.5% over the €202.7 million recorded in 2016.

The strategic decision to carve out the fused cast businesses led to higher profitability in the glass business. This decision was based on the increasing price pressure driven by the oversupply from India and China. Demand of refractories for the glass industry improved during the year, especially from flat glass, as greenfield projects globally came into operation throughout the year. For the container glass segment, demand remained nearly flat year-on-year. Repair activities started to recover, however, from more efficient plants in which refractory life is usually longer.

Sales to the EEC segment were flat compared to 2016, as oil and gas prices had recovered to a level that could trigger new investments.

# Financial Review

OCTAVIO LOPES,
CHIEF FINANCIAL OFFICER

Adjusted pro-forma revenue for 2017 was €2.677 million, an increase of 11% over the adjusted pro-forma revenue of €2.409 million achieved in 2016. The increase reflected sales growth in both Steel and Industrial Divisions, supported by a more favourable market environment compared with 2016.

**Adjusted pro-forma results (unaudited)**
The reported statutory results consolidate ten months of results for RHI and two months of results for RHI Magnesita, which means that the consolidated financial statements only include two months of results of Magnesita Refratários. As such, in an effort to provide comparable information for the two-year time period, the Directors have carefully considered it appropriate to provide and analyse adjusted pro-forma results for the combined Group as if it had always existed.

Given the changes in capital structure arising from the acquisition of Magnesita, the historical interest, tax and dividend charges are not deemed to be meaningful. As a result, adjusted pro-forma results have only been provided down to EBIT.

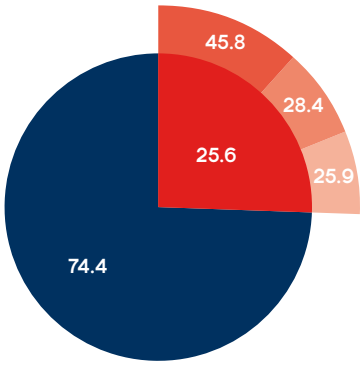
Adjusted pro-forma results are stated before the impact of items such as: divestments, restructuring expenses, merger-related adjustments and other non-merger related other income and expenses, which are generally non-recurring.

Adjusted pro-forma revenue for 2017 was €2,677.2 million, a 11.1% increase over the adjusted pro-forma revenue of €2,409.1 million achieved in 2016. The increase reflects sales growth in both the Steel and Industrial Divisions, supported by strong industrial production globally.

Adjusted pro-forma sales to steel totalled €1,913.1 million, up by 14.2% over 2016 adjusted pro-forma sales. The robust performance was largely driven by the 5.3% increase in world steel production in 2017. According to the World Steel Association, global steel production totalled 1.69 billion tonnes, compared with 1.61 billion tonnes in 2016, with output expanding in almost all regions, with steel production increasing simultaneously in Europe, North America and South America, after a few years of production declines. In addition, RHI Magnesita's growth initiatives evolved constructively, especially in the US, Brazil and India, where deliveries growth surpassed underlying steel market growth.

Adjusted pro-forma revenue of the Industrial Division grew by 2.6% in 2017, to €658 million, compared to

**Adjusted pro-forma revenue[1] by industry (%)**




- Steel
- Industrial
  - Cement/Lime
  - Other Process Industries
  - Non-ferrous Metals

1 Revenue split considers only refractory segments and does not take into account the effect of any divestitures.

## Adjusted pro-forma results

| | a | b | c | d | e | f | g | a+b+c+d+e+f+g | |
|---|---|---|---|---|---|---|---|---|---|
| | Reported 2017 Results | Magnesita Jan-Oct 2017 | Prelim. PPA[1] effect | Merger-related adjustments | Foreign exchange variations[2] | Disposed business[3] | Non-merger related other income/ expenses | Adjusted pro-forma 2017 | Adjusted pro-forma 2016 |
| Revenue | 1,946.1 | 846.1 | — | — | — | 115.1 | — | 2,677.2 | 2,409.1 |
| COGS | (1,485.6) | (614.0) | 2.2 | — | — | (98.1) | — | (1,999.3) | (1,822.1) |
| **Gross Profit** | **460.5** | **232.1** | **2.2** | **—** | **—** | **17.0** | **—** | **677.9** | **587.0** |
| SG&A | (292.6) | (130.8) | (8.2) | (24.4) | — | (7.3) | — | (399.8) | (382.1) |
| Other Operating Income and Expenses | (124.8) | (96.1) | — | (162.3) | (48.2) | — | (10.4) | — | — |
| **EBIT** | **43.1** | **5.2** | **(6.0)** | **(186.7)** | **(48.2)** | **9.6** | **(10.4)** | **278.1** | **204.9** |
| Amortisation | (13.6) | (4.4) | (8.2) | — | — | (0.1) | — | (26.0) | (14.4) |
| **EBITA** | **56.7** | **9.6** | **2.2** | **(186.7)** | **(48.2)** | **9.7** | **(10.4)** | **304.1** | **219.3** |
| **EBITA margin** | **2.9%** | **1.1%** | | | | **8.5%** | | **11.4%** | **9.1%** |
| Depreciation | (59.9) | (29.9) | — | — | — | (2.0) | (3.1) | (84.7) | (90.2) |
| **EBITDA** | **116.6** | **39.5** | **2.2** | **(186.7)** | **(48.2)** | **11.8** | **(7.3)** | **388.8** | **309.5** |
| **EBITDA margin** | **6.0%** | **4.7%** | | | | **10.2%** | | **14.5%** | **12.8%** |

1 Purchase price allocation
2 Foreign exchange variations booked within Other Operating Income/Expenses
3 (i) Divestments related to the merger-control remedies imposed by European Commission of the production sites in Marone, Italy (RHI), Lugones, Spain (RHI) and Oberhausen, Germany (Magnesita) and fused cast business in San Vito, Italy, and Sherbinska, Russia; and (ii) the suspension of production in Aken, Germany.

€642.1 million in 2016. Growth was led by the cement segment, especially in the second half of the year. The raw material crisis in China also influenced the demand for refractories, as some customers anticipated orders to secure supply. Despite recovering metal prices in 2017, there were virtually no greenfield projects in the non-ferrous segment in the year, thus reducing most of the business to standard repairs with very few major new relining activities. Demand for refractories from the glass industry improved during the year, especially from flat glass, as some projects came online during the year. For the container glass segment, demand remained nearly flat year-on-year. Finally, sales to the EEC segment were flat compared to 2016, as oil and gas prices have not recovered yet to a level that would trigger substantial new investments.

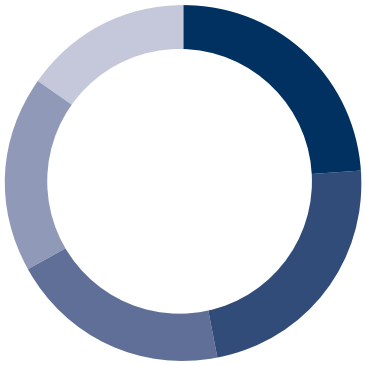
Reported Group revenue amounted to €1,946.1 million, up by 17.9% over 2016 as a result of growth in both steel and industrial sales, as explained above, and the consolidation of Magnesita revenues from 1 November 2017. Reported revenue from the Steel Division totalled €1,308.8 million in 2017, whereas the Industrial Division amounted to €577.6 million.

### Adjusted pro-forma EBITA

Adjusted pro-forma EBITA was €304.1 million, 38.7% above the adjusted pro-forma obtained in 2016. Adjusted pro-forma EBITA margin reached 11.4%, up 230 bps compared to the adjusted pro-forma margin in 2016. The improvement was mostly driven by higher sales with resulting better fixed cost dilution, in addition to the Company's initiatives to improve efficiency in its operations.

The refractory raw material markets suffered a dramatic change after the Chinese government enforced stricter environmental controls that caused temporary and permanent closures of raw material facilities during the year. This measure caused a significant imbalance between supply and demand and, consequently, Chinese-sourced raw material prices skyrocketed. Prices for the two main magnesite-based raw materials, dead-burned magnesite and electro-fused magnesia, from China have more than doubled during the year and remain well above historical levels. This environment created significant challenges for all refractory producers and forced price adjustments across the supply chain. Moreover, the environment

## Adjusted pro-forma revenue by geography



| | |
|---|---|
| North America | 24.0% |
| Europe | 23.2% |
| Asia-Pacific | 19.9% |
| South America | 17.9% |
| MEA-CIS | 15.1% |

# Financial Review
continued

created scarcity of important raw material for the refractory industry across the globe. RHI Magnesita's partially vertically integrated business model, with high-quality raw material sources, allowed the Company to ensure supply to its customers while managing to maintain competitive costs.

Reported EBITA, which does not exclude transaction costs, merger related adjustments, foreign exchange variations, disposed businesses and non-merger related expenses, which are generally non-recurring, amounted to €56.7 million in 2017, with a 2.9% margin.

## Dividends
For the financial year 2017, the Board will propose a dividend of €0.75 per share, which corresponds to a dividend payment of €33.6 million for the shareholders of RHI Magnesita N.V. The proposed dividend is subject to the approval by the Annual General Meeting of Shareholders on 7 June 2018 and was not recognised as a liability in the consolidated financial statements 2017.

## Working capital
Working capital performance is measured in both absolute values and as a percentage of total sales by the Group. Cash flow generation from trading working capital amounted to €10.8 million, with a higher consumption of inventories being offset by an improvement on the trade payables terms. Absolute values for working capital at year-end amounted to €610.2 million. Working capital intensity, measured as a percentage of adjusted pro-forma second half annualized revenue, stood at 22.2% at the end of 2017. At the end of 2016, RHI and Magnesita, had combined working capital equal to €667.8 million, equivalent to 27.8% of adjusted pro-forma 2016 revenue.

## Net debt
Net debt amounted to €750.8 million at year-end, compared to €298.8 million in 2016. The net debt number already includes the acquisition of the control of Magnesita in October 2017 and the proceeds of the merger-related divestments received in November 2017. Leverage, measured by net debt/adjusted pro-forma EBITDA, stood at 1.9x at year-end.

## Synergies
We continue to successfully implement our planned integration actions and remain very confident in achieving significant synergies. We expect synergies of at least €40 million to flow into the profit and loss in 2018 and €70 million are now expected to be fully captured by 2019. Total cash restructuring costs to achieve these synergies are projected to amount to €70 million, of which €53 million have already been expensed in 2017. Most cash outflows related to these restructuring costs will be incurred over 2018.

90% of the initial synergies are a result of expected (i) SG&A reductions, (ii) lower procurement costs with external suppliers due to the consolidation of the procurement efforts of the two companies after the merger and (iii) optimization of the enlarged production network, with reductions in production and supply chain costs. At this point, these initiatives are either already implemented or backed by a comprehensive execution plan. A dedicated integration team is working on several additional fronts which may lead to incremental savings that will be communicated when they reach an adequate maturity level.

Due to the very high volatility in the global raw material markets the planning uncertainty has increased and could provide additional risks but also upsides.

RHI Magnesita expects to complete a very significant refinancing of its capital structure over the course of 2018, taking advantage of its strong financial standing and significantly lower leverage ratios than anticipated when these facilities were originally structured. With that, the Group is confident that net interest expenses will be reduced by at least €10 milion in 2018 and €20 million in 2019, in comparison with the adjusted pro-forma net interest expenses of approximately €50 million expected for RHI Magnesita in 2018, in light of the facilities outstanding as of 31 December 2017, notwithstanding the increase of treasury rates in the G10.

## Integrated Tender Offer
The Group is required — in accordance with Brazilian laws and regulations — to make a mandatory public offer in Brazil that must be addressed to all remaining Magnesita shareholders and must 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.

The Group has decided to combine the mandatory offer with a so-called "Delisting Tender Offer" in an Integrated Tender Offer and filed the respective request with the Brazilian Securities Commission in November 2017.

According to the original and subsequent filings, shareholders of Magnesita will have the option of selling each Magnesita share in exchange for (i) R$17.81, adjusted by SELIC (the Brazilian benchmark

interest rate) from 26 October 2017 until the date of the settlement of the auction of the Integrated Tender Offer, plus 0.1998 RHI Magnesita share or (ii) for a cash-only alternative consideration.

The consideration of the cash-only alternative offer will be the higher of (i) R$31.09, adjusted by SELIC from 26 October 2017 until the date of the settlement of the auction of the Integrated Tender Offer, and (ii) R$35.56, not adjusted by SELIC.

Since the cash plus shares option was equivalent to R$57.73 on 28 February 2018, based on RHI Magnesita's share price and the exchange rate prevailing on that date, the Group expects that substantially all of Magnesita's minority shareholders will tender their shares and opt for the cash plus shares consideration. If 100% of Magnesita minority shareholders tender their shares and opt for the cash plus shares consideration, the Group will disburse R$445.7 million, adjusted by SELIC from 26 October 2017 until the date of the settlement of the auction of the Integrated Tender Offer, and issue an additional 5,000,000 shares.

The Integrated Tender Offer is expected to be completed during 2018.

## Other reported financial KPIs

### Finance costs

Net financial result amounted to €30.6 million in 2017, compared to €21.2 million in 2016. The increase was essentially driven by the consolidation of two months of Magnesita's P&L in 2017 and, to a lower extent, the increase of the net debt due to the acquisition of Magnesita at the end of October 2017.

### Taxation

The Group taxation charge, excluding specific adjusting items (i.e. non-capitalized tax losses and temporary differences of the financial year, deferred tax expense due to tax rate changes and one off non-deductible expenses), was €6.3 million (2016: €25.8 million). The effective tax rate, excluding specific adjusting items, was 26.6% (2016: 24.4%). Note 44 of the financial statements provides additional information on the Group's taxation charge.

### Net result

RHI Magnesita reported a loss of €12.9 million in 2017, compared to a €75.9 million profit in 2016. The loss was driven by transaction costs, merger related adjustments, foreign exchange variations, disposed businesses and non-merger related expenses, which are generally non-recurring.

### Pension

The Group sponsors multiple pensions plans whose liability are subject to future asset performance, interest rate fluctuations, actuarial assumptions, benefit plan changes and government regulations. The majority of the Group's obligations fall under defined benefit pension plans in its subsidiaries in Austria, Germany, United States and Brazil. The total net liability amounted to €308.7 million at the end of 2017. Note 28 of the consolidated financial statements provides additional information on the Group's pension plans.

### Cash flow

Cash flow generation in 2017 was mainly driven by the increase in free cash flow from operations of €221.6 million, an increase of 36.2% over the €162.7 million generated in 2016. The net cash flow from investing activities totalled a positive income of €33.3 million, driven by the net cash inflow of €45.1 million from acquired subsidiaries (cash disbursement less the cash and cash equivalent received from the acquired company). Additionally, the proceeds from the divestment businesses in the amount of €30.6 million also led to a positive cash flow from investing activities. Net cash flow from financing activities added up €16.4 million, which resulted from the funding raised relating to the acquisition of Magnesita, as described in Note 26. The Group had an overall cash generation of €271.3 million in 2017.

### Capital expenditure

We continue to invest in our strategic priorities with investments of €72.0 million in 2017, in line with the €70.8 million invested in the previous year.

**OCTAVIO LOPES**
CFO

# Risk Management and Internal Control System

The Group has established a formal risk management framework with the objective of systematically identifying, assessing and controlling uncertainties and risks related to existing operations and future development areas.

## Risk framework

A bottom-up identification and assessment process was conducted for the first time in the combined Company after the closing of the merger transaction. This process is based on the direct and full integration of all functional and operational managers, uniform structures and methods as well as the use of professional software, and makes sure that material risks can be discussed and monitored adequately by the senior executives and the Board.

The Board is aware of the central importance of a formally approved risk policy and risk appetite specifying the nature and extent of the risks acceptable to the Group. The future design of such a risk policy for the combined Company and its alignment with the corporate strategy are currently work-in-progress and in preparation for discussion with the Board.

Risks considered to be non-acceptable because of their nature or their potential financial or qualitative impact are being mitigated by appropriate strategies. The implementation and effectiveness of the defined mitigation measures are being reviewed continuously. For that purpose, the impact of risks are considered before and after the implementation of those mitigation measures.

The risks identified in the following are those the Board considers to be the principal ones and which may have a significant impact on the results of the Group and on its ability to achieve its strategic objectives. They may occur independently from each other or in combination. In case they occur in combination their impact may be reinforced. Also, the Group is facing other risks than the one mentioned here, some of them being currently unknown or not considered to be material.

## Risk appetite

The definition of a risk policy and risk appetite is essential to the implementation of an appropriate risk framework and culture. RHI Magnesita has started a discussion with the Board and Management team to elaborate the new risk policy of the company and is in the process of defining the following cornerstones. RHI Magnesita has a selective approach to risk and enters only desired risks. Different level of risks can be accepted depending on which company goals are considered:

The Company has a minimalist approach to risks in the health and safety, legal and compliance areas especially as far as the compliance of financial reporting is concerned. Risks in those areas have to be consequently minimized.

The production of refractory materials makes its necessary to use potentially hazardous materials and emissions linked to the production processes cannot be totally avoided. Also the company is aware that taking limited financial risks is necessary to implement its strategies. In those areas, the company has a cautious approach to risk, which has to be avoided or reduced by appropriate mitigation measures.

By striving for worldwide presence, a competitive production network and technology leadership, the Group has a flexible understanding of risk and is prepared to take some under the right conditions. Nevertheless those risks have to be managed and closely monitored.

## Management "In-Control" statement

The Directors have to make sure that the Company has adequate internal risk management and control systems in place.

During 2017, a Financial Prospects and Procedures report was produced by PwC on RHI, and a Financial Prospects and Procedures report was produced by EY on Magnesita. These reports, issued in October 2017, indicated no material deficiencies and were reviewed by and extensively discussed with the Directors. Following the completion of the merger, these procedures were reviewed again internally and additional procedures have been duly implemented to guarantee proper consolidation of the financials of the enlarged Group, as part of the integration plan reviewed by the Directors.

Additionally, a bottom-up risk identification and assessment process was conducted for the first time in the combined Company after closing of the acquisition of Magnesita and combination of the two companies. This process is based on the direct and full integration of all functional and operational managers, uniform structures and methods as well as the use of specialized software and makes sure that material risks can be discussed and monitored adequately by the Directors.

In light of the above, the Directors believe that the Company's financial control and risk management systems assure that the Annual Report does not include any material errors or omissions. Furthermore, the Directors believe that while further improvements can be made as the Group becomes fully integrated, the operational and compliance controls are appropriate to adequately mitigate the risks associated with the Company's strategy and activities. Further, the Executive Management Team

actively monitors the operation of the internal risk management and control systems and carries a systematic assessment of their design and effectiveness at least once a year. During 2018, special attention will be taken to the risks associated with the implementation of the integration plan between RHI and Magnesita.

## Financial risks

Financial risks are presented in the Note 57, page 178 of this Annual Report.

## Viability statement

The Directors have assessed the viability of the Group over a three-year period to December 2020, the period covered by the latest business plan, taking account of the Group's current position, individual asset performance forecasts, current net gearing ratio as disclosed in note 58 of the consolidated financial statements and the potential impact of the principal risks disclosed on pages 24 and 25

The business plan considers the Group's cash flow, capital commitments, financial resources, debt covenants and other key financial risks. Part of the process for the listing at the London Stock Exchange, was a detailed stress test based on this business plan. This test reviewed the viability considering major risk (including changing market conditions, access to financial instruments, ability to capture the planned synergies, exchange rate scenarios, production interruption) and focused in detail on the period from 2018 till June 2019. Because the business plan covers a longer period and the impact of the considered risks was modelled for the full span, the Directors could assess the viability for the Group over a three-year period.

The Directors believe that the Group is well-placed to manage its principal risks successfully. In making this statement the Directors have considered the resilience of the Group, taking account of its current position, the risk appetite, the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions.

Based on this assessment, the Directors have a reasonable expectation that the Group and Company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2020. The Directors have determined that the three-year period to December 2020 is an appropriate period having regard to the Group's business model, strategy principal risks and uncertainties, and viability.

## Internal control system

The Board is ultimately responsible for maintaining effective risk management, which includes the Group's risk governance structure, the Group's system of internal controls and the Group's internal audit approach.

The Group has implemented an internal audit function, with a dual reporting line to the CFO and the Audit Committee. The internal audit function is an integral part of the Group's risk management framework, providing assurance to the Audit Committee and the Board on the effectiveness of mitigation actions and internal controls.

The internal audit function conducts its activities in a risk based manner, developing an audit plan, based on the results of the risk assessment of various business units and strategic priorities that are approved by the Audit Committee.

The internal audit function conducts systematic and ad hoc operational audits and special investigations, reporting the most relevant observations and recommendations regarding the effectiveness of the risk management and internal control procedures to the Audit Committee.

The group has in place a risk management and an internal control system in relation to its financial reporting process and the process of preparing the financial statements. These systems include policies and procedures to ensure that adequate accounting records are maintained and transactions are recorded accurately and fairly to permit the preparation of financial statements in accordance with the applicable accounting standards.

The Board reviews the effectiveness of the system of internal financial, operational and compliance controls and the risk management. The Board examines whether the system of internal controls operated effectively throughout the year and will make recommendations when appropriate.

These systems are based on the three lines of defence model that the Company has implemented, supported by an internal control guideline reflecting the responsibility for risk management and internal controls at all management levels.

The internal audit function supports these systems by activities based on risk oriented audits and the Company's internal control guideline and standards.

For the accounting process, an accounting handbook is available that addresses all the internal control issues into the accounting process.

No matter how comprehensive a risk management and control system may be, it cannot be assumed to be exhaustive, nor can it provide certainty that it will prevent negative developments from occurring in the Group's business and business environment or that response to risk will be fully effective. The Group's risk management framework is designed to avoid or mitigate rather than to eliminate the risks associated with the accomplishment of the Group's strategic objectives. It provides reasonable assurance but not absolute assurance against material misstatement or loss.

In 2016, the Group had not identified any major failings in its internal risk management and control system.

# Risk Management and Internal Control System

continued

| | PRINCIPAL RISKS | MITIGATION |
|---|---|---|
| **Macroeconomic environment and condition of customer industries** | Changes in global economic and adverse political developments used to and are expected to have a noticeable impact on the Group's revenue and profitability.<br><br>The demand for refractory products is directly influenced by steel production, the investment climate, metal and energy prices and the production methods used by customers.<br><br>Due to the Group's cost structure, fluctuations in sales volume have an impact on the utilization of the production capacities, and consequently on the Group's profitability. | • Diversified customer base in term of industries and geographies<br>• Diversified product portfolio in terms of technology and prices<br>• Technological leadership<br>• Optimisation of the production network to increase cost flexibility<br>• Continuous monitoring of revenue and profitability performance |
| **Fluctuations in exchange rates and energy prices, increasing volatility of raw material prices** | Due to the Group's global sales and production activities, revenue and profitability may be impacted by currency fluctuations.<br><br>The Group relies on the external supply of energy and raw material for its production activities. Fluctuations in demand and/or supply on the global markets have a significant impact on the prices and hence on the production costs for refractory products. | • Active balance sheet and exposure management<br>• Improvement of energy efficiency<br>• Vertical integration and usage of own raw material<br>• Supply chain optimisation |
| **Business interruption and supply chain** | As a producing company, the Group is exposed to business interruption risk resulting either from natural catastrophes, fire, machinery breakdown or supply chain disruption.<br><br>The Group partly relies on a small number of production sites or a small number of external suppliers for certain materials.<br><br>The inability to produce or supply those materials may have a significant impact on the Group's ability to produce and deliver its products. | • Diversified production network in terms of geographies<br>• Centralised supply chain management allowing production transfers and substitutions in case of disruption<br>• Operational risk management and maintenance policies<br>• Risk based investment policy<br>• Global insurance coverage |

| | PRINCIPAL RISKS | MITIGATION |
|---|---|---|
| **Regulatory and compliance risks** | Full compliance with laws and regulations is a matter of course for the Group. Nevertheless, like many other internationally operating corporations, it is confronted with increasing regulatory complexity and is exposed to regulatory and compliance risks that may result in financial losses or operational restrictions. | • Development and implementation of best practices through a code of conduct and further compliance policies and procedures<br>• Implementation of an effective internal control system, in particular in exposed processed<br>• Global communication and training of compliance programmes<br>• Whistle-blowing system (Compliance Helpline)<br>• Ethical values supported by corporate culture |
| **Environment, health and safety risks** | Controlled emissions and usage of potentially hazardous materials are inherent to the production of refractory products. Regulatory changes in this area may result in higher production costs and additional investment needs. Also the risk of uncontrolled emissions at our production sites exists and may result in high financial losses and liabilities.<br><br>Especially at our production sites, employees and contractors may be exposed to health and safety hazards which cannot be completely eliminated. Also, our products may potentially cause accidents at the customers' sites. | • Usage of recycling material wherever possible<br>• Selection of raw materials and additives according to ecological criteria<br>• Regular environmental audits and risk monitoring at all sites<br>• Regular legal compliance checks<br>• Worldwide health and safety policies<br>• Health and safety objectives defined as goals for top executives<br>• Quality management |
| **Risks related to the merger** | Considerable integration efforts are necessary to deliver the planned synergies and the expected benefits of the merger. The risks associated with the merger include, for example, the diversion of management attention, operational disruptions and increased employee and/or customer churn. | • Preparation of integration at an early stage<br>• Dedicated project team<br>• Continuous monitoring of risk and performance<br>• Establishment of a strong, common corporate culture |

# Corporate Social Responsibility

RHI Magnesita is committed to a high level of corporate social responsibility (CSR) and stands for the responsible use of resources, respect for human rights, employee development, health and safety as well as social engagement in the communities.

As a globally operating, resource- and energy-intensive industrial company, it is also confronted with a great number of challenges that it strives to tackle with appropriate measures. Through various initiatives and measures the Group also contributes to and supports the Sustainable Development Goals (SDGs) of the United Nations. The supported SDGs are highlighted in the respective sections. G4-15

Non-financial performance indicators are important value drivers in a company that are not directly reflected in the statement of profit or loss, the statement of financial position or the statement of cash flows, but account for a substantial part of the Company's success.

An outstanding market position as well as a competitive advantage and a leading edge in innovation are generated by the interaction of a variety of intangible factors and are reflected in the financial indicators.

This combined report meets the requirements of the G4 Guidelines of the Global Reporting Initiative (GRI) in the core option and covers all CSR activities of the RHI Magnesita Group in the financial year 2017. Therefore, it is to be regarded as a consolidated non-financial statement for the whole Group. Taking into account the fact that the merger between RHI and Magnesita was completed at the end of October 2017, non-financial performance indicators of the last financial year include 12-month figures for former RHI companies and two-month figures for former Magnesita companies and are based on definitions developed by RHI for previous reporting periods. For the previous year's legacy RHI performance data are reported. In cases where certain data and key figures cannot be assessed throughout the Group, it is accordingly noted in the report or only country-specific information is provided.
An overview of the information to be published in accordance with GRI G4 including the respective page number can be found at the end of this annual report. The report also complies with the legislation in the United Kingdom and the Netherlands regarding the reporting of non-financial information by which Directive 2014/95/EU of the European Union has been implemented.
A reference table on the topics to be reported is available on the corporate website. G4-15, G4-28, G4-32

## SUSTAINABLE DEVELOPMENT GOALS

## Key CSR topics G4-18, G4-19, G4-24 to G4-27

Based on the GRI principle of materiality, the focus of this report is placed on the key CSR topics of the RHI Magnesita Group. In the year 2015, the materiality of the CSR topics was reviewed and reprioritised. An online survey was conducted to integrate stakeholders worldwide. Internal stakeholders were chosen by their function in the Group and their relation to CSR topics. The selection of external stakeholders such as customers, suppliers, authorities, associations as well as education and research institutions was based on their contact points with the Company. The questions were related to topics that should be at the centre of CSR management and of reporting, and to the evaluation of the Group's CSR performance. The results showed that the topics identified in 2013 have maintained their relevance for the Group and its stakeholders.

Until a new materiality analysis is carried out, the following 12 topics defined by RHI are also considered to be material for the RHI Magnesita Group, and within the organisation are relevant to all companies included in the consolidated financial statements 2017: G4-20

- Sustainable profitable growth
- Innovation
- Governance, business ethics and values
- Communication
- Product responsibility and quality management
- Raw materials and mining
- Environmental protection and emissions
- Recycling and waste management
- Energy efficiency
- Responsible employer
- Human rights
- Good corporate citizenship

All of these topics are of "high" or "very high" importance, with "profitable growth" and "innovation" clearly rated as most important both from an internal and external perspective.

## External assessment of the Group's CSR performance

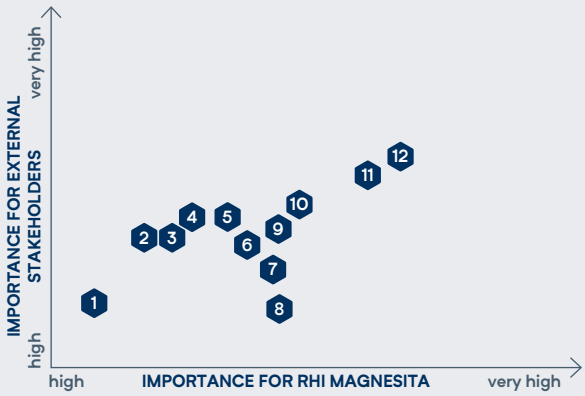
More and more customers of RHI Magnesita focus on corporate social responsibility in their supply chain and therefore require an assessment of their suppliers. As a result of such an evaluation, the Group received a golden award from the international assessment platform EcoVadis for the extensive measures in the areas of environment, labour practices and human rights, fair business practices and sustainable procurement.

## Engagement in associations and organisations G4-16

RHI Magnesita and its subsidiaries are members in various associations and organisations, among others:

- in special interest groups (e.g. Federation of Austrian Industries, the Brazilian National Confederation of Industry, Confederation of Indian Industry)
- in chambers of commerce (e.g. Austrian Federal Economic Chamber, ICC Austria)

## MATERIALITY MATRIX




1. Good corporate citizenship
2. Raw materials and mining
3. Human rights
4. Governance, business ethics and values
5. Environmental protection and emissions
6. Responsible employer
7. Recycling and waste management
8. Communication
9. Energy efficiency
10. Product responsibility and quality management
11. Innovation
12. Sustainable profitable growth

# Corporate Social Responsibility
continued

### Table 1: Economic value generated according to GRI

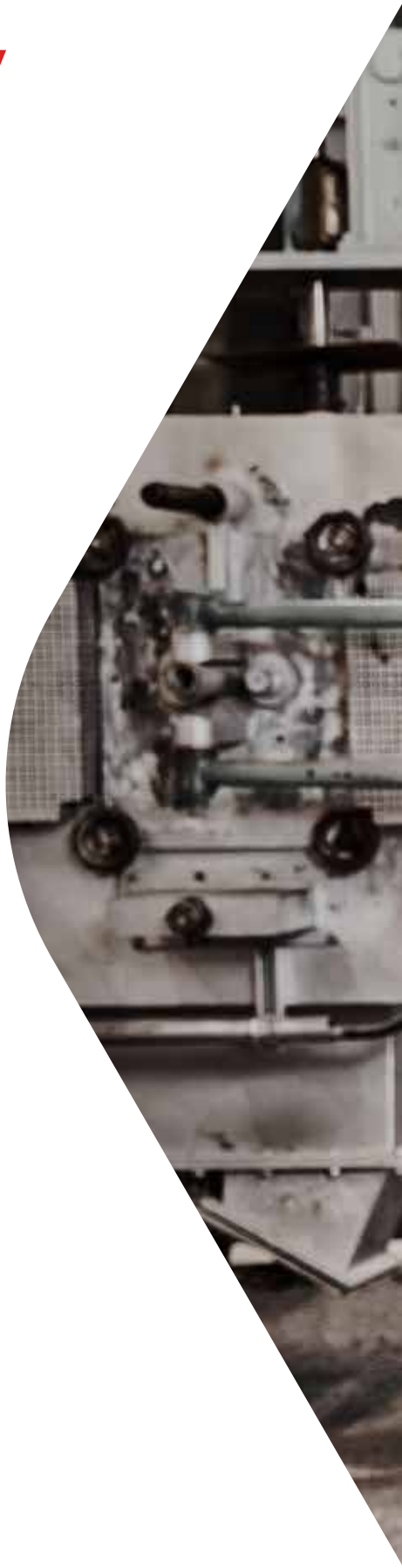
| in € million | 2015 | 2016 | **2017** |
|---|---|---|---|
| Revenue and other operating income | 1,758.5 | 1,655.8 | **1,949.7** |
| Interest income and dividends | 14.0 | 12.5 | **15.9** |
| Economic value generated | 1,772.5 | 1,668.3 | **1,965.6** |
| Distribution of economic value generated | | | |
| Operating costs[1] | (1,152.0) | (1,063.0) | **(1,269.4)** |
| Personnel costs[2] | (408.1) | (398.7) | **(431.8)** |
| Payments to shareholders | (30.5) | (30.5) | **(31.0)** |
| Payments to outside creditors | (20.3) | (17.0) | **(24.9)** |
| Payments to public sector entities | (35.7) | (44.9) | **(52.0)** |
| Residual economic value | 125.9 | 114.2 | **156.5** |

1 Cost of sale + selling and marketing expenses + general and administrative expenses + other operating expenses + restructuring costs (excluding personnel costs, depreciation and amortisation and other taxes)
2 Personnel costs adjusted for non-cash personnel costs related to restructuring

- in trade associations such as:
  - World Refractories Association (WRA)
  - European Refractories Producers Federation (PRE), via the Association of the Austrian Mining and Steel Producing Industry of the Austrian Federal Economic Chamber
  - Association of the Austrian Mining and Steel Producing Industry of the Austrian Federal Economic Chamber
  - Austrian Society for Metallurgy Association of the German Refractory Industry
  - Steel Institute VDEh, formerly Association of German Steel Manufacturers (VDEh),
  - Brazilian Association of Metallurgy, Materials & Mining (ABM)
  - Brazilian Association of Refractories Producers (ABRAFAR)
  - Latin-American Association of Refractories Producers (ALAFAR)
- in respACT — Austrian Business Council for Sustainable Development

**Financial indicators according to GRI** G4-EC1
In 2016, the RHI Magnesita Group generated an economic value of €1,965.6 million. After costs incurred and payments to shareholders, outside creditors and public sector entities totalling €1,809.1 million, the residual economic value amounts to €156.5 million. Figures for the years 2015 and 2016 are legacy RHI data.

The presentation corresponds to the definition of GRI. These are financial flows derived from the statement of profit or loss.



# Business Ethics, Values and Human Rights

RHI Magnesita is committed to responsible management. The Group's intention is to go beyond risk mitigation through compliance with pertaining laws and to strive for ethically sound practice for the sake of the Company and all stakeholders. Integrity, honesty, reliability as well as a respectful contact with employees and business partners form the basis of the Company's daily activities.

Not only the achievements made but also the corporate values are essential for the trust and confidence the customers, partners, investors and the public place in RHI Magnesita. To enable this, a comprehensive compliance programme, which provides both the guidelines and the tools, is implemented and continuously improved throughout the Group.

## The RHI Magnesita compliance programme

The compliance programme centres on the RHI Magnesita Code of Conduct, which was developed under the leadership of the Executive Management Team and coordinated with the Board. Based on the corporate values, it comprises binding requirements and fundamental rules of good corporate conduct with respect to all relevant compliance issues such as ensuring fair and corruption-free competition, avoiding conflicts of interest and compliance with the relevant environmental regulations, labour and social laws. G4-42

The Code of Conduct was updated in the course of the merger to reflect the new corporate identity of the combined Group but also to integrate the highest compliance standards from both companies. Additional policies and procedures provide for detailed guidance where necessary. The Code of Conduct is valid worldwide throughout the entire RHI Magnesita Group and binding for all employees regardless of their position or type of employment. Third parties acting on behalf of the Company are required to adhere to the same standards and to advocate fair and sustainable business activities together with RHI Magnesita. All contracts with sales consultants and agents contain comprehensive compliance provisions, adherence to which is subject to a monitoring and appraisal process. On the other hand, suppliers and service providers have been obliged to comply with the principles required by RHI Magnesita via the Supplier Code of Conduct. Since 2016, the commitment to comply with the Supplier Code of Conduct has also been an integral part of the general purchasing conditions.
G4-56, G4-HR4, G4-HR5, G4-HR6

In order to mitigate new risks resulting from changes in the internal and external environment, RHI Magnesita conducts periodic risk assessments. Whenever significant increases in compliance risks are identified, corresponding controls are evaluated. Based on the resulting findings, adequate prevention measures — from internal regulations through appropriate processes and controls to supporting IT systems — are developed and implemented. The adequacy and effectiveness of the measures are reviewed on a regular basis and improved continuously. G4-SO3

A prominent component of the compliance programme is ongoing communication and education. The Compliance Office delivers regular trainings on various compliance topics and conducts workshops with managers and key personnel on current questions and challenges. In 2016, the main focus was on anti-trust and competition law. Training measures covered the whole team responsible for the completion of the merger and for the integration of RHI and Magnesita, in total more than 200 people from all functions and regions. In addition, a new e-learning program has been developed covering all aspects of the Code of Conduct. It will be rolled-out in the second quarter of 2018 and shall be made available not only to employees but also to business partners. Moreover, comprehensive information on various risk-relevant topics is offered on the intranet and per email, and the Compliance Office supports operational units on an ongoing basis with practical advice in daily business.

Another central element of the RHI Magnesita compliance programme is the Compliance Helpline. This system offers different communication channels — a web portal, a telephone hotline and email — and is available in ten different languages. Both employees and external parties have the opportunity to report compliance violations or suspicious facts to an independent channel. The system is operated by an external service

provider assuring full protection of the reporting person's identity. All indications of serious misconduct will be investigated by the Compliance Office, which also makes recommendations regarding the appropriate corrective actions and disciplinary or legal steps, if applicable. In 2017, a total of 16 reports were received. In 13 cases an internal investigation was conducted, while three reports were not related to compliance issues. G4-58

Finally, institutionalised reporting by the Compliance Office to the Executive Management Team and the Audit Committee provides for a continuous adaptation and further development of the compliance programme as well as its alignment to the Group's strategic requirements. G4-43

### Fighting corruption

Fighting corruption is one of the top priorities of the RHI Magnesita compliance programme. The Group is convinced that competition can be decided based on the commitment of its employees and the quality of its products and services, without any undue influence. Accordingly, strict anti-corruption rules, including rules governing invitations, gifts, donations, sponsoring and similar benefits, have been adopted. As a principle decision, RHI Magnesita refrains from any contribution related to political parties, authorities and officials. Compliance with these rules is achieved through internal guidelines, defined processes, regular trainings and audits. G4-SO6

Based on the results of the compliance risk assessment and past experience in the various markets, the effectiveness of the internal control system is regularly evaluated and adapted to fit with the Company's processes and the actual risks it faces in different countries and industries.

Prevention of corruption has been an important part of RHI Magnesita's training

## SUPPORTED SDGs

programme for several years, also because in some fast-growing markets that the Group is engaged in, it is exposed to higher corruption risks. In addition to specifying clear guidelines, practical examples and case studies are used to teach the borderline between acceptable hospitality and undue influence. If there are nevertheless any doubts regarding correct behaviour, the Compliance Office provides advice to exposed employees. G4-SO4

Moreover, employees as well as business partners are called upon to report suspicious facts to the Compliance Helpline. In the reporting year, five cases of suspicions related to corrupt practices were reported and thereupon investigated by the Compliance Office. Two of them were closed due to lack of evidence, three cases are still under investigation. G4-SO5

### Human rights

As a globally operating company with production sites in Europe, North America, South America and Asia, RHI Magnesita encounters a wide variety of cultural conditions and standards, both internally and externally. As stated in the Code of Conduct, the Company makes a clear commitment to compliance with human and civil rights as well as the applicable labour and social laws and has established this matter as part of the compliance programme throughout the Group.

RHI Magnesita attaches top priority to dealing with each other appreciatively and respectfully, as well as to providing equal opportunities for all people.

The Company strictly rejects any form of discrimination based on race, skin colour, religion, gender, age, origin, nationality, disability, sexual orientation as well as (sexual) harassment, offensive behaviour, aggression, hurtful behaviour, improper behaviour or any other violation of human rights.

Embedded in the larger scope of the compliance programme, not only all employees but also suppliers and external service providers are required to comply with these principles, which is explicitly stated as part of contractual agreements. Compliance with those provisions can be checked by RHI Magnesita at any time. G4-HR4, G4-HR5, G4-HR6

Human rights aspects are also explained in the course of compliance training and understanding is enhanced with the participants using practical examples. Should there be any suspicion that human rights have been violated, the Compliance Helpline provides an appropriate reporting system. In the event of reasonable suspicion of human rights violation, the Compliance Office will initiate a comprehensive investigation. In the year 2017, two cases regarding workplace practices were reported via the Compliance Helpline and investigated. G4-HR2, G4-HR3, G4-HR12

RHI Magnesita reports on the measures it has taken to prevent modern slavery and human trafficking in its business and supply chain. The statements in accordance with the UK Modern Slavery Act 2015 and the California Transparency in Supply Chains Act are available on the corporate website.

# People and Communities

The employees' comprehensive knowledge, their competence, ideas and their high commitment and motivation are indispensable to the success of RHI Magnesita. Only as an attractive employer for existing employees and for potential job applicants will RHI Magnesita be able to win the best qualified people, develop them, use their potential in the long term and consequently also stay competitive as a Company.

With more than 14,000 highly skilled employees from 40 countries, RHI Magnesita is faced with a variety of challenges including filling key positions with the right people, reacting to a threatening shortage of skilled labour, ongoing digitisation, the ageing of personnel due to demographic changes, succession management and transfer of knowledge between generations, creating equal opportunities and development opportunities as well as responding to individual needs regarding work-life balance. The Group strives to overcome these challenges with measures such as training, apprenticeship programmes or targeted employer branding measures, also because the failure to attract, develop or retain skilled or qualified employees could negatively impact the Company's business.

The year 2017 was characterised by the preparation for the merger between RHI and Magnesita. As a result of the combination of the two companies, the entire organisational structure, including personnel management was restructured. The new structure of the human resources (HR) organisation is based on the following areas: Centres of Expertise, Global HR Business Partners and Regional and Local HR Business Partners. The Centres of Expertise are small departments working on global frameworks to design HR tools, processes and policies. The Global HR Business Partners are responsible for translating these frameworks for their respective client group. The Regional and Local HR Business Partners, the biggest group of HR employees, help on the spot where the business takes place with a daily connection to the business needs. The human resources organisation understands itself as a strategic partner or managers rather than an administrative control function. As part of the transformation of the Group, the human resources policies and processes of the two former companies are gradually being aligned and simplified in line with the new corporate culture based on accountability.

In the reporting year, a joint Global Management Assessment project was carried out in partnership with an external consultant to ensure neutrality in the process. The objective of the project was to identify the available strengths and development areas in the combined management team with focus on building a strong leadership to execute the new strategy. Staffing decisions for the combined Company were taken in a transparent and fair nomination and selection process steered by the human resources organisation and management. To give employees the opportunity to proactively apply for positions in departments of their interest, RHI Magnesita provided various channels for the submission of generic applications. Clear communication and continuous information were crucial to ensure retention and reduce uncertainty among employees.

By the end of the financial year 2017, the number of employees increased by 95% from 7,385 to 14,389 as a result of the combination. 42.9% of the employees in fully consolidated companies of the RHI Magnesita Group worked in South America, 28.6% in Western Europe, 17.4% in Asia-Pacific, 8.2% in North America, 1.6% in the Near and Middle East, 0.8% in Africa and 0.5% in Eastern Europe. [G4-9, G4-10]

Key personnel figures in the RHI Magnesita Group are shown in table 2.

RHI Magnesita generally concludes permanent contracts with employees. At the end of the year 2017, 93% of the employees had a permanent employment contract with the Company. Seasonal workers are only employed at the Turkish raw material and production site in Eskisehir for climate reasons. Temporary workers are mainly hired to cover order peaks in production. [G4-10]

Due to the combination of RHI and Magnesita as well as resulting overlaps and synergy targets, a workforce reduction had to be started in the previous financial year. Social compensation plans and severance packages were agreed

upon between representatives of employers and employees to mitigate the impacts of the separation from the Company. The turnover rate, defined as all exits (including retirements, excluding seasonal workers, temporary workers as well as exits due to the sale of certain legal entities in connection with the merger) divided by the average number of employees for the year, amounted to 9.8% in 2016. From a regional perspective, the rate was highest in North America, at 18%, followed by Africa at 13%, Eastern Europe at 12%, South America at 11%, Near and Middle East at 9%, Western Europe at 8%. The Asia-Pacific region recorded the lowest turnover rate, at 7%. The turnover rate is a consolidated figure for former RHI and former Magnesita employees and covers the business year 2017 in case of both companies, since other calculation methods would not provide meaningful data. The average affiliation with the Group was 9.24 years. G4-LA1

### Diversity

Staff diversity contributes to an innovative climate in the Company, so it is important to use diversity to maintain the Group's competitiveness and economic success. RHI Magnesita's staff consists of people from a total of 76 nationalities. Employees with 17 different nationalities work at the Company's administrative seat in Vienna, Austria. The average age of RHI Magnesita employees amounts to 39 years, with 59.9% of the employees falling into the age group of 30 to 50 years. The under-30 age group includes 21.2% of the employees and 18.9% are more than 50 years old. The worldwide share of women was approximately 10.2%. Please refer to table 3. The share of women in the Executive Management Team was 12.5%, while the share of women in the first three reporting levels amounted to 7.6%, 8.4% and 17.1% at the end of the financial year 2017. G4-10, G4-LA12

## SUPPORTED SDGs

## Table 2: Key personnel indicators

| | 2017 | 2016 | % Change |
|---|---|---|---|
| Annual average number of employees[1] | **8,569** | 7,678 | 11.6% |
| Number of employees at 12/31 | **14,389** | 7,385 | 94.8% |
| Revenue in € million | **1,946.1** | 1,651.2 | 17.9% |
| Revenue per employee in €1,000 | **227.1** | 215.1 | 5.6% |
| EBIT in € million | **43.1** | 116.1 | -62.9% |
| EBIT per employee in €1,000 | **5.0** | 15.1 | -66.9% |
| Value added in € million[2] | **497.7** | 514.8 | -3.3% |
| Value added per employee in €1,000 | **58.1** | 67.0 | -13.3% |
| Personnel expenses in € million | **454.6** | 398.7 | 14.0% |
| Personnel expenses per employee in €1,000 | **53.1** | 51.9 | 2.3% |
| Personnel expenses in % of revenue | **23.4%** | 24.1% | -0.7pp |

1 Weighted by level of employment
2 Value added: EBIT + personnel expenses (excl. interest expenses for personnel provisions)

## Table 3: Gender diversity

| At 12/31/2017 Employee Group | Number women | % by gender | Number men | % by gender | Total |
|---|---|---|---|---|---|
| Salaried employees | 1,268 | 21.9 | 4,528 | 78.1 | 5,796 |
| Waged workers | 166 | 2.0 | 8,205 | 98.0 | 8,371 |
| Commercial apprentices | 11 | 38.0 | 18 | 62.0 | 29 |
| Technical apprentices | 18 | 9.3 | 175 | 90.7 | 193 |
| Total | 1,463 | 10.17 | 12,926 | 89.83 | 14,389 |

# People and Communities
continued

**>14,000**
**employees worldwide**

**76**
**different nationalities**

The topics of diversity and equal opportunities are continuously promoted through different initiatives. The focus is placed on making the most out of the potential of both genders, all age groups and people with disabilities. RHI Magnesita attaches great importance to getting girls and women interested in a technical career in the industry. Making female role models in technical professions visible has become an integral part of the Company's profile at career events. As a partner of the initiative of the Austrian company OMV AG "Austria is looking for the Technikqueens", RHI Magnesita strived to inspire girls at an early stage to pursue a technical profession. In 2017, the initiative was completed with a closing workshop in which all 25 girls and their female mentors participated. Furthermore, the four mentees of RHI Magnesita had the opportunity to gain insight into a typical working day of the female engineers of the Company during a shadowing day. Three participants of the "Technikqueens" initiative were also offered a summer internship in Vienna, during which they gained valuable working experience in an international and innovative working environment. To make staff diversity more visible, the Group promotes videos with employees of different nationalities and gender. The purpose of the videos is to provide insight into the success stories and the everyday work life of the employees. Moreover, the network for the promotion of an interdepartmental exchange of female engineers at the location in Vienna was further boosted. As part of a demography project launched in Germany and Austria, a workshop was organised to evaluate possibilities for age-appropriate work in order to sustainably secure employees' ability to work at an older age. Further workshops are planned at different locations to share best practices in 2018. Employees at an older age also have the opportunity to join health management initiatives of the Company and make use of flexible working hour models. Internationalisation is promoted through international career opportunities and training courses on intercultural competence.

The PRISMA programme aims to promote social inclusion and offers the opportunity to hire and train people with disabilities in Brazil. It recognizes their potential and proves that people with disabilities can achieve professional and financial autonomy when given the chance. RHI Magnesita encourages diversity and always treats its employees with respect, fairness and dignity without tolerating discrimination of any kind.

The salary of new employees in the Group is based on training, professional experience and the management level of the respective position. No difference is made between men and women. 81% of the management functions at RHI Magnesita's production sites worldwide were held by local employees at the end of the 2017 financial year. G4-LA13, G4-EC6

### Training, advanced education and personnel development G4-LA10

RHI Magnesita takes account of demographic changes in society and the related shortage of skilled labour by offering apprentice training. At the end of the 2017 financial year, 222 apprentices were employed in Austria, Colombia, Germany, Ireland and Switzerland, with 87% of them working in technical apprenticeships. The share of female apprentices was 13% after 12% in the year 2016. About 62% of them worked in a technical apprenticeship. Additional offers such as language courses or stays at locations abroad as part of apprentice exchange programmes promote the mobility of young people and consequently enhance their job opportunities. Other training measures include social and digital competence, energy efficiency, methods of modern production technology, occupational safety and general business

administration. The target is to cover the demand for skilled professionals with apprentices who have been trained to meet these specific requirements.

In addition, to that, a programme preparing school students for the world of work was conducted in Brazil, part of which the students worked mainly in administrative areas at the sites in Contagem, Brumado and Matozinhos. The internship programme represented another important initiative in Brazil. In the framework of this programme university and technical students with potential were recruited to gain practical knowledge and skills in the Company. To support their development, the students received on the job training from managers, technical and social skills training as well as regular feedback on their work. The programme helps fill open positions within the Company with young talent and offered a great chance for the students to start their careers.

RHI Magnesita offers its employees a wide range of development opportunities, which are aligned to the abilities, knowledge and needs of the respective person. In advanced training, RHI Magnesita distinguishes between open training, development programmes and talent management initiatives. In open training, there is a strong focus on conveying knowledge internally, i.e. training courses for employees held by employees. In the reporting year, emphasis was put on measures preparing for the combination of RHI and Magnesita. Therefore, the offer of e-learning content as complement to conventional seminars was only selectively extended. In addition to the existing training offer, a so-called Sales Academy was established that focuses on the training of technical skills as well as offering e-learning training units for sales employees.

Knowledge building and personal development for defined functions are promoted in customised development programmes, which extend over a longer period of time and several modules. In 2017, the "Customer Performance Management (CPM) Negotiation Excellence Program", tailored to support RHI Magnesita's sales processes by training negotiation skills as well as CPM tools, was set-up and launched with two pilot groups, namely with one international group on management level and with one for German-speaking sales managers. Besides the existing training programmes, which prepare managers and experts (e.g. project managers) for their tasks in a structured manner, the previous year's focus was on adapting training contents to meet the combined Company's demands. In 2016, 94 employees from former RHI plants from the countries Austria, Belgium, Canada, Germany, Italy, Mexico, Spain, Sweden, Switzerland, the United Kingdom and the USA participated in development programmes. Former Magnesita's Global Leadership Development Program focused on developing employees from the higher levels of the organisation such as vice presidents, Directors, managers and senior specialists. Internal and external multipliers and different

# People and Communities
continued

methods were used in the programme such as workshops, forums or e-learning. The participants' satisfaction with the initiatives of the programme were measured through surveys; the results showed a satisfaction rate of 82% regarding all initiatives.

New talent management cycles were put on hold due to the merger. Instead, there was a strong focus on the retention of existing talent: employees with especially high potential were offered new job opportunities within the new organisational structure and were given the chance to develop new skills and work on projects related to the merger.

In former RHI plants the annual appraisal interview represented a central starting point for the definition of further development opportunities within the Group. In Austria, the rate of interviews conducted amounted to 89%, in Germany to 69%, and worldwide to 64%. In former Magnesita plants a process called "People Cycle" was used to follow up performance and career development of employees from professional level to managers and Directors. It included for instance the assessment of competencies as well as the creation of individual development plans and goals. In the current financial year the practices will be aligned with each other so that a newly designed process for performance and career development reviews can be implemented as of 2019. [G4-LA11]

## Health and safety at work

Health and safety at work is a high-priority topic at RHI Magnesita. It goes beyond written policies and procedures and constitutes an integral part of the corporate culture. Every employee is expected to take responsibility for their own and their colleagues' safety; executives play a special role in this regard. At the production sites, employees are required to work with different machines and chemicals which may involve various health and safety risks. In order to minimise work related risks, the Group has introduced a number of measures such as uniform minimum standards for wearing personal protective equipment, clear instructions on working in specific working environments (e.g. confined spaces) or with hazardous materials as well as measures to improve personal conduct of employees. Occupational health and safety is part of the integrated management system. At the end of the year 2017, 20 sites of the Group were certified according to the Occupational Health and Safety Assessment Series (OHSAS) 18001:2007.

Based on uniform definitions throughout the Group, RHI Magnesita collects parametres on accident development as well as reported near accidents for the purpose of accident prevention. As at the end of 2017, unsafe situations are also reported in order to further minimise the likelihood of accidents. RHI Magnesita also collects and analyses accident related figures of subcontractors and external service providers to further reduce occupational health and safety risks. The accident rate, defined as the number of accidents resulting in lost time of more than eight hours per 200,000 working hours, is determined on a monthly basis. In addition, this figure is a bonus-relevant indicator for the Executive Management Team and managers in the operations area.

The accident rate was reduced significantly in every region and was lowered from 1.74 in 2016 to 1.06 in 2017. The number of days lost based on an eight-hour working day per 200,000 working hours amounted to 28.25 compared with 33.5 in 2016. The calculations take into account employees of the RHI Magnesita Group and leased personnel. The figures include former RHI sites and since November 2017 also former Magnesita sites that form part of the Group since the merger. However, data does not cover the Indian subsidiary Orient Refractories Ltd., the Belgian joint venture Sinterco S.A. as well as some small sales offices. [G4-LA6] Please refer to Table 4.

Besides Group-wide campaigns and taking into account the fact that not every production site faces the same challenges, RHI Magnesita conducts campaigns tailored to regional or local needs. In 2016 for example, a winter campaign was implemented at selected sites to avoid harm resulting from special risks during the cold season.

The involvement of employees is a key factor in preventing accidents and occupational illnesses. 80% of lost hours due to work related accidents at the plants are the result of personal misbehaviour which means that a great number of these accidents could be avoided. This is why RHI Magnesita regards the improvement of behavioural based safety of employees as one of the most significant issues. At regularly held Safety Minutes at the OHSAS-certified locations, safety-relevant topics are discussed with a focus on employees' own behaviour. At several production sites special observation audits have been introduced to strengthen the safe behaviour of employees. Additionally, formal employer-employee committees for occupational health and safety were set up to work together on health and safety topics. [G4-LA5]

The Safety Leadership Program of RHI Magnesita was extended to include the training of communication skills on health and safety related topics in order to shape the safety culture further. The programme also covers legal requirements and corporate rules. In addition, special workshops were organised in 2017 for the plant managers of selected plants to further improve their safety performance. Moreover, RHI Magnesita introduced so-called Quick Check Booklets for employees to do a last minute risk assessment. A higher awareness of residual hazards is to be reached in this way before starting a new task.

Numerous local company agreements regarding health and safety are in place at the Group, for example regarding non-smoker protection, alcohol at the workplace or data protection relating to accident reports and their processing. In Austria, impulse tests have been used since 2006 to assess psychological stresses, which are then discussed at workshops in order to minimise them. G4-LA8

In the financial year 2017, no work related diseases were reported. Workers with a high incidence or risk of disease associated with their job are not specifically reported. This aspect is covered by local reporting requirements, if legally necessary. G4-LA6, G4-LA7

## Corporate benefits G4-LA2

In general, all employees are entitled to corporate benefits. The individual benefits exceed the legally required level and vary according to region. All employees without a separate bonus agreement participate in the economic success of RHI Magnesita and receive a bonus linked to the Company's economic results and, in some cases, to the achievement of defined goals in the team.

Where it is legally possible, the Company supports pension plans with deferred compensation models. In such models, employees use part of their monthly remuneration for pension provisions. Moreover, RHI Magnesita provides accident insurance and health insurance for business travel abroad for employees worldwide. Medical or safety-related emergencies are especially challenging when they occur during a business trip. Therefore, a 24/7 emergency hotline for medical and safety-relevant questions is available to employees. The assistance provided ranges from preventive advice to concrete support on site. A country information portal offering up-to-date information about the destination country, potential health and safety risks, natural hazards and political events supports employees in optimally planning business trips.

Furthermore, RHI Magnesita provides local benefits such as meal allowances, transportation allowances, special shopping conditions, private health insurance as well as cultural and sports offers.

## Work-life balance

RHI Magnesita is convinced that the best performance is achieved when it is easy for employees to combine their professional and private life. Flexible working hours, home office solutions, part-time models, advanced education and models for returning to work after parental leave facilitate a reconciliation of professional and private life. At the end of the reporting period, 10.8% of our female employees worldwide and 0.5% of our male employees worked part time. In the course of the year 2017, 48 people were on parental leave in Austria, of whom 17 women and seven men started their parental leave in the reporting year. The childcare options provided by RHI Magnesita range from kindergarten places to childcare vouchers and daycare. G4-10, G4-LA3

### Table 4: Accident rate, lost days, fatal accidents G4-LA6

| Category | Year | Europe | America | Asia | Total |
|---|---|---|---|---|---|
| Accidents | 2017 | 1.87 | 0.21 | 0.47 | 1.06 |
| Accidents | 2016 | 2.58 | 0.56 | 0.69 | 1.74 |
| Accidents | 2015 | 2.75 | 1.01 | 0.66 | 1.85 |
| Lost days* | 2017 | 42.00 | 16.50 | 14.75 | 28.25 |
| Lost days | 2016 | 43.50 | 14.75 | 23.25 | 33.50 |
| Lost days | 2015 | 47.25 | 62.25 | 38.25 | 46.00 |
| Fatal accidents | 2017 | 0 | 0 | 0 | 0 |
| Fatal accidents | 2016 | 0 | 0 | 0 | 0 |
| Fatal accidents | 2015 | 0 | 0 | 0 | 0 |

* Lost days mean scheduled work days. Data only include lost days due to work-related accidents.

Data for the years 2015 and 2016 are legacy RHI data.

# People and Communities
continued

**Table 5: Collective bargaining agreements** G4-11

| At 31/12/2017 | Employees covered | Employees not covered |
|---|---|---|
| Region | % Share | % Share |
| Western Europe | 94.2 | 5.8 |
| Eastern Europe | 68.3 | 31.7 |
| Near Middle East | 0.0 | 100.0 |
| Africa | 92.6 | 7.4 |
| North America | 81.25 | 18.75 |
| South America | 72.4 | 27.6 |
| Asia-Pacific | 0.0 | 100.0 |
| Total | 71.85 | 28.15 |

In Brazil, employees and their families are offered specialised support and guidance in personal as well as financial and legal matters such as divorce or debt management. Moreover, an event called "Portas Abertas" (Open Doors) is organised every year for family members to visit the plants and thus strengthen the relationship between families and the Company. In 2017, such an event took place in Contagem, Brumado, Santa Luz, Uberaba and Ponte Alta.

## Employee representation

RHI Magnesita considers its employee representatives worldwide business partners. Active exchange between management and employee representatives was sought, for example through participation in works council conferences. Dealing with each other is characterised by mutual respect and openness, which allows solving difficult problems together and to the best possible satisfaction of all parties involved. Worldwide, 71.85% of our employees are covered by collective bargaining agreements. G4-11 Please refer to table 5.

## Internal communication

The employees of RHI Magnesita work at more than 100 locations on all continents. This results in a need for reliable and prompt information within the Group, while different languages, time zones and cultures impose great challenges. The combination of RHI and Magnesita with the purpose of joining forces and building the global leader in refractories was also a combination of two companies with different corporate cultures. Thus, the topic of corporate culture was a priority area of integration planning. An extensive cultural survey was conducted in both companies at the beginning of the year 2017 with more than 4,000 employees participating. Based on the findings of the survey, a team of executives defined four cultural themes that emphasize a collaborative and cross-functional way of working for the benefit of customers and value fresh thinking and new ideas. The new brand and logo "RHI Magnesita" was also intended to mark the starting point of cultural transformation and were created as a basis for a common corporate culture. The RHI Magnesita brand helps connect the employees of the combined Company and demonstrates the onset of change and transformation both internally and externally. The rebranding was rolled out to all locations around the world until the completion of the combination and thus served as an unmistakable signal for integration.

Cultural integration and transformation calls for completely new strategies and tools, especially in the area of internal communication. In November 2017, an employee application, the "myRHIMagnesita-App" was made available worldwide to all employees of the combined Company. This application goes far beyond the classic one-way communication channels and enables cross-functional and cross-hierarchical interaction; employees can comment, discuss, exchange ideas on different topics and build networks in a simple way. Moreover, with the application the Company is able to reach employees working in production who previously had no access to the intranet. Modern means of online communication such as VoIP telephony (Voice over Internet Protocol), chat functions and online conferences based on "Skype for Business" further facilitate a fast and inexpensive exchange of information. At the end of the year 2017, 50% of our employees could be reached via the internal digital channels. The objective is to further increase the ratio mainly by promoting the application among employees without a Company email account.

In addition to the digital activities, which also included the implementation of a new intranet and a new Company website, an important starting point for the cultural transformation at RHI Magnesita was set through "town hall meetings" and global leadership calls. At more than 30 locations worldwide, the Executive Management Team of RHI Magnesita presented the key messages on the new strategy, brand and corporate culture, reaching more than 10,000 employees in person.

**Social responsibility** G4-SO1

RHI Magnesita assumes social responsibility in the regions where its sites are located and supports initiatives and projects that address local demands. In the year 2016, a guideline was introduced in order to define clear rules and a unified process for providing contributions as well as to ensure targeted donations and support payments. Thematic priorities and the maximum volume of contributions are determined for the Group as a whole. In 2016, education and social cohesion were identified as the focal points for donations and sponsoring activities and approximately €0.9 million was provided for various projects. €0.25 million was accounted for in India in accordance with the local legal requirements that regulate the spending of companies in the area of social responsibility. RHI Magnesita in Brazil donated €0.35 million for social, health and cultural projects in accordance with the Brazilian tax incentive laws. G4-EC1

The demand of companies for skilled workers is growing, this is why RHI Magnesita started a global programme in the year 2013, focusing on an improvement in the technical vocational training of young people in Mexico and Turkey. The three-year project was 50% co-financed by the Austrian Development Cooperation and was awarded the Trigos Austria 2017 sustainability award in the category of "Best partnership — international engagement". The local stakeholders carried on the activities after the project ended which illustrates the sustainability of the measures. Building on the success of the project, in the past financial year opportunities were explored in the framework of a feasibility study to set up a similar project at other production sites.

In Brazil a community relations officer is working closely together with the local communities at the raw material sites to plan and implement projects that address the demands of the communities and help improve local conditions. Exemplary initiatives include a project focusing on digital inclusion by improving the digital skills of local people and a project helping employees and people of the communities complete their primary and secondary school studies. Furthermore, the Volunteer Program with more than 100 registered volunteers, encourages the employees to express their social engagement by participating in various projects supported by the Company.

For 2018, three topics were defined as priority areas of social responsibility: education and social inclusion, social cohesion — support of various local initiatives as good corporate citizen such as sports, cultural and other initiatives — as well as environment.

**"RHI Magnesita assumes social responsibility in the regions where its sites are located and supports projects that address local demands."**

# Environment and Energy

RHI Magnesita strives to make production as resource-friendly and energy-efficient as possible, especially in terms of raw material and energy consumption.

At the same time, administrative obligations by local authorities have been permanently increasing in the previous years. The corporate environmental policy also reflects the Group's commitment to environmental protection, nevertheless it has to be borne in mind that the refractory industry is resource and energy intense by its nature.

Specialists from research, development and production work in a global network to reduce the impact on the environment to the greatest possible extent. A central competence centre for environmental protection, energy, health and occupational safety coordinates RHI Magnesita's activities and defines corporate environmental guidelines, for example, with respect to uniform measuring methods, in order to ensure comparable data. The global environmental management system of the Group was recertified at 17 production sites at the end of the year 2017 according to the international standard ISO 14001:2015. The multi-site certificate and further site certificates are published on the corporate website. In addition, the production sites without an external certification also use the key elements of the environmental management system. Regular internal due diligences of the plants ensure compliance with the relevant legal requirements. Moreover, RHI Magnesita's products and services also contribute to more energy-efficient production and reduced emissions at customers' sites.

In 2017, the RHI Magnesita Group invested €15.5 million in environmental measures, which comprise environmental investments, waste disposal costs and services such as certifications and consulting. For example, the second stage of the modification of the smelter at the Radenthein plant, Austria, was

completed. The focus of this second phase was on redesigning the mixing processes whereby diffuse dust emissions are also reduced at the site. The entire project is scheduled to be finished in the current financial year. Further important environmental projects were the installation of a waste gas cleaning system in Veitsch, Austria, at the hot mixers in the tempering line as well as the installation of a denitrification unit at the raw material plant in Dashiqiao, China. G4-EN31

### Integrated management system

The integrated management system (IMS) of RHI Magnesita in the areas of quality (ISO 9001), environment (ISO 14001) and occupational health and safety (OHSAS 18001) serves as an instrument to ensure the continuous improvement of performance and processes throughout the Group. Operational and administrative processes are audited internally and externally at regular intervals; identified improvement measures are subsequently implemented and monitored as part of the continuous improvement process (CIP). A Group-wide CIP tool to process and track process improvements and improvement measures is planned to be introduced in 2018-2019. This is another step to network the knowledge gained through group wide improvement initiatives.

In 2016, the quality and environmental management systems were thoroughly revised and adapted to meet the requirements of the revisions of the international standards ISO 9001 and ISO 14001. Already existing corporate activities such as risk management and stakeholder management were considered accordingly in the framework of IMS to be in line with the new requirements. The quality management system of the Group is externally certified according to ISO 9001:2015 by a multi-site certificate at 27 sites.

## SUPPORTED SDGs

Additional site certificates as well as the full list of certificates can be found on the corporate website.

Complaint management constitutes a significant aspect of the quality management at RHI Magnesita. Customer complaint management aims at closely monitoring customer satisfaction and covers all relevant aspects of a customer order. Its goal is to identify measures to sustainably improve the product or the service to meet customer requirements and thus increase customer satisfaction.

As a post-merger activity, corporate IMS will integrate all existing systems throughout the Group until the year 2020. This also includes a consolidated reporting, audit and certification process.

### Raw material mining G4-EN1

RHI Magnesita attaches major importance to backward integration, that is our own production of raw materials. The most important raw materials are sintered magnesia, fused magnesia and sintered doloma. Access to and availability of high-quality raw materials are decisive for refractory products because they have a significant influence on their performance characteristics. Deposits of the naturally occurring minerals magnesite and dolomite can be found all over the world. 70% of the global magnesite deposits are located in China, North Korea and Russia. Raw dolomite can often be found in the earth's crust, however, it must have special characteristics to be used for refractory purposes. As access to own raw materials provides a strategic advantage, RHI Magnesita employs geologists and mining engineers to further prospect and evaluate deposits suitable for the refractory industry.

The Group operates raw material sites on three continents. Brumado, Brazil has the biggest deposits; magnesite is mined in the open-pit system at this site. Other surface mines are situated in Turkey, Eskisehir and Hochfilzen, Austria, while underground mining of raw magnesite is used at the Austrian sites Breitenau and Radenthein. In addition, part of the raw material supply of the site in Hochfilzen, Austria, is secured by the recovery of production waste, called fine tailings. 44,000 tonnes of raw materials were returned in this way to the production process in 2017. Dolomite is extracted in the surface mining operation in York, USA. Long-term mining licences secure the access to the deposits. Moreover, joint ventures were established to further ensure the supply of the raw material plants of the Company.

RHI Magnesita also pursues an alternative method of extracting raw materials from seawater in Europe. The seawater process plants are located in Porsgrunn, Norway and Drogheda, Ireland. In this production method, the magnesium chloride contained in seawater is converted into magnesium hydroxide and calcium chloride in a reactor using hydrated lime or dolime. The magnesium

# Environment and Energy
continued

hydroxide settles in a sedimentation basin and is then dehydrated in filter systems. It is heat-treated to turn it into caustic magnesia, which is then fired to become sintered magnesia or charged to the fusion process. This process requires more energy than the treatment of magnesite ore due to the two-stage procedure, but enables higher raw material qualities.

**Reforestation and recultivation** G4-EN13
The mining of raw materials involves interference with nature. RHI Magnesita takes comprehensive measures to restore natural habitats, especially in the surface mines, but also in the surroundings of production sites. In many cases, the activities go beyond national regulations and nature conservation requirements; they are considered to be a process that takes several years and requires sustainable commitment. In Eskisehir, Turkey, for example, 2,500 trees were planted in cooperation with the Osmangazi University and the local forestry office in 2017. With this campaign, the area planted with trees has grown to 174 hectares. In Brazil an area of 13 hectares was reforested in the reporting period at the site in Uberaba and an area of 7.3 hectares at the site in Brumado. At the site in Hochfilzen, Austria, the Schmerlhalde West mine dump, which is located at a sea level of 1,820 metres in the Weißenstein magnesite mine, was also recultivated. As is appropriate for the high Alpine environment, plants and trees such as mountain pines, larches and willow cuttings were planted.

**$CO_2$ emissions** G4-EN15, G4-EN16, G4-EN19
The production of raw materials for refractories is energy-intensive and associated with emissions. On the one hand, the materials only obtain the necessary refractory properties at temperatures of 1,800°C and above; on the other hand, carbon dioxide is released in the treatment of raw materials. This is inevitable as carbon dioxide is already contained in the raw material. RHI Magnesita uses two processes for the production of raw materials. Magnesia is produced by firing magnesite from mines ("dry route"), or extracted from seawater ("wet route"). In both processes the $CO_2$ emissions are largely raw material related; therefore, the options to lower emissions are limited.

For example, in the production of one tonne of magnesia using the dry route, 1.4 tonnes of carbon dioxide are created, which consists of 1.0 tonnes of $CO_2$ contained in the raw material and 0.4 tonnes 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. 10% is related to energy losses of the plant such as heat losses and waste gas temperature. Theoretically, a third of this could be reduced, which corresponds to about 0.05 tonnes of carbon dioxide. As RHI Magnesita continuously takes measures to enhance energy efficiency, the physical and thermal possibilities have been nearly exhausted.

In 2017, the Group's total $CO_2$ emissions added up to 1.95 million tonnes compared to 1.65 million tonnes in 2016. The $CO_2$ emissions of the former Magnesita plants have been taken into account only for the period after the merger and account for around 0.3 million tonnes. The $CO_2$ emissions of the former RHI plants were comparable to the previous year. The main part of $CO_2$ emissions, 90%, was accounted for by direct carbon dioxide emissions, i.e. emissions related to the Company's own production processes. Around 60% of the direct $CO_2$ emissions come from the European sites that are subject to the emissions trading system of the European Union and are externally audited. The emissions of the site Eskisehir, Turkey are shown under the region Asia since they are not subject to the EU emissions trading system. Indirect $CO_2$ emissions, which are derived from power consumption, accounted for 10% of the total $CO_2$ emissions. Shown in a simplified manner, the carbon dioxide emissions created in electricity production are integrated based on a European primary energy mix. Raw material production accounted for 89% of the direct $CO_2$ emissions, and the production of finished products for 11%. The production option "dry route" was responsible for 85% of raw material production related carbon dioxide emissions, while the "wet route" option accounted for approximately 15% of the emissions. Please refer to table 6.

**Use of secondary raw materials** G4-EN27
RHI Magnesita attaches great importance on the sustainable and intelligent use of resources. The recycling of used refractory products constitutes one of the major strategic initiatives of the Company going forward. The objective is to reuse a large part of the refractory products used by customers as high-grade recycling materials. Due to chemical changes of the refractory materials during use in customer aggregates, only a certain portion of the scrap material has been recovered directly to produce refractory materials so far. RHI Magnesita intends to tap this unused potential to a much greater extent by applying alternative treatment methods. The recovery of refractory materials has several advantages. On the one hand, it serves to secure the supply with raw materials in the long term and to reduce cost-intensive raw material procurement; on the other hand, it also enables a significant reduction of $CO_2$ emissions and energy consumption. Moreover, the recycling of scrap materials reduces the volume of waste and cuts disposal costs.

## Energy efficiency G4-EN3, G4-EN6

As a Company operating in an energy-intensive industry, RHI Magnesita attaches great importance to the concept of "energy efficiency" for economic and ecological reasons. To ensure competitive production of refractory materials, a highly energy-efficient process along the entire value chain is necessary due to the energy intensity, in particular in the area of raw material production. Moreover, the efficient use of energy contributes to the reduction of $CO_2$ emissions. In 2016, the Group's absolute energy consumption totalled 3,880 gigawatt hours compared with 3,420 gigawatt hours in 2016. The increase in energy consumption compared with 2016 is mainly attributable to the combination of RHI and Magnesita. The energy consumption of the former RHI plants was comparable to 2016. Please refer to table 7.

The energy mix in the RHI Magnesita Group consists of natural gas, electricity, diesel, petrol, oil, liquefied petroleum gas (LPG), propane, coal and coke. Renewable energies cannot be used for reasons related to production technology, as the required firing temperatures cannot be achieved with these fuels. The improvement of the specific energy consumption, which is on the one hand achieved through the continuous development of processes and on the other hand through investments, is supported at certain European production sites by the energy management system according to ISO 50001. The Group has set the target to reduce specific energy consumption, i.e. energy consumption in relation to production volume, by 0.5% per year. In 2016, this target was achieved again and savings of 1,930 megawatt hours were realised. The target set is highly ambitious, as the specific energy requirements of the Group heavily depend on the product mix and the capacity utilisation of the plants. If a larger volume of products of an energy-intensive product group is produced, specific

### Table 6: $CO_2$ emissions in 1,000 tonnes G4-EN15, G4-EN16

| Direct $CO_2$ emissions (Scope 1) | 2015 | 2016 | **2017** |
|---|---|---|---|
| Europe | 1,265 | 958 | **1,000** |
| America | 22 | 14 | **258** |
| Asia | 112 | 475 | **490** |
| Total direct $CO_2$ emissions | 1,399 | 1,447 | **1,748** |
| Indirect $CO_2$ emissions (Scope 2) | 246 | 200 | **202** |
| Total | 1,645 | 1,647 | **1,950** |

Data of the years 2015 and 2016 are legacy RHI data.

### Table 7: Development of energy consumption G4-EN3

| | in GWh | | | in 1,000 GJ | | |
|---|---|---|---|---|---|---|
| Energy consumption | 2015 | 2016 | **2017** | 2015 | 2016 | **2017** |
| Natural gas | 2,067 | 2,264 | **2,530** | 7,440 | 8,151 | **9,106** |
| Electricity | 529 | 452 | **435** | 1,905 | 1,626 | **1,564** |
| Coal/coke | 476 | 520 | **647** | 1,713 | 1,873 | **2,330** |
| Diesel/petrol/oil | 267 | 170 | **253** | 961 | 613 | **912** |
| LPG/propane | 134 | 10 | **12** | 483 | 36 | **45** |
| Total | 3,473 | 3,416 | **3,877** | 12,502 | 12,299 | **13,957** |

Data of the years 2015 and 2016 are legacy RHI data.

# Environment and Energy
continued

energy consumption will increase. In addition, customers' growing quality demands often lead to higher firing temperatures, longer firing times or more demanding after-treatment, which causes higher energy consumption in the manufacturing process. At the same time, these refractory solutions help support the customers' energy efficiency efforts. Fired refractories are predominantly produced in tunnel kilns, which are among the most energy-efficient firing aggregates if utilisation is consistent and high and firing temperatures are stable. If utilisation fluctuates and batch sizes decrease, these advantages cannot be used. Moreover, the demands placed on flue gas purification are increasing. However, additional energy is required to ensure a clean thermal afterburning process at a minimum temperature of 750°C. Due to the process improvements successfully implemented in the past, the possibilities for further improvements in rotary kilns are only marginal. On the one hand, a minimum amount of dissociation energy is required to produce sinter; on the other hand, there are also mechanical limits to further insulation.

### Waste management G4-EN23, G4-EN27

RHI Magnesita continuously reduces ceramic scrap and returns it to the production process in order to minimise the quantity of waste. Residual materials that cannot be avoided are handled by licensed waste companies. In 2016, the Group reported 52,000 tonnes of non-hazardous waste and 3,750 tonnes of hazardous waste. Distinction between non-hazardous and hazardous waste is regulated in the respective national legislations. The increase in the total amount of waste compared with 2016 is mostly attributable to the merger. The quantities of hazardous and non-hazardous waste of the former RHI sites were comparable to 2016. Please refer to table 8.

75% of the waste consisted of ceramic scrap and mineral waste, which could not be returned to production so far due to mixing with other materials or because of insufficient grain size. Internal residues can only be reused to a limited extent. This primarily depends on the product mix as only defined residues can be used for high-grade products. In the reporting year, the Group placed a strong focus in its environmental programme on the efforts to avoid creating ceramic waste through the help of technical and organisational measures. Positive results were seen in the reporting period, for instance, in China where an increasing share of mineral residues such as filter dusts could be separated and sorted out at a very early stage and when meeting quality requirements be returned to the production process.

Since 2009, the Group has been working with an innovative packaging solution for refractories that was in use at 13 production sites in 2016. The intelligent stretch foil offers a high transport protection and also reduces the amount of packaging waste at the customer site, as it does not require cardboard packaging and tyre bands made of steel or plastic. In addition, the replacement of conventional shrink packaging with stretchhood packaging leads to savings of around 280,000 cubic metres of gas per year according to calculations at pilot plants. Of a total of 1,300,000 packaging units shipped in 2017, 75% were packaged using this method compared to 84% in the year 2016. The decrease in the share of stretchhood packaging is due to the merger between RHI and Magnesita, as the method is still to be extended to former Magnesita plants.

### Reduction of dust emissions G4-EN21

Dust is primarily generated in firing and treatment processes. RHI Magnesita continuously works on maintaining both collected and diffuse dust emissions at a low level. This is achieved among other things through preventive and systematic maintenance and service. In the reporting year, the programme focusing on a reduction of diffuse dust was continued as an essential part of the environmental programme. Major projects at the Austrian sites in Radenthein and Veitsch as well as structural adaptations of material conveyor belts at handover points produced remarkable successes. In addition to positive effects on the environment, there is also an economic benefit as the material is maintained in the production cycle.

### Water consumption G4-EN8

Water is primarily used for cooling purposes in the Group, but also to wash raw materials. A very low percentage of the water is used for briquetting and in production as part of the recipe. In the financial year 2017, RHI Magnesita used 5.5 million cubic metres of water, compared with 5.2 million cubic metres in 2016. The increase in water consumption compared with the previous year is mostly attributable to the combination of RHI and Magnesita. The Austrian sites accounted for 75% and primarily utilised ground water. At these sites, the use of water is the most environmentally friendly type of cooling since no cooling circuits or energy have to be employed for alternative air cooling. At locations where water is scarcer, for example in Mexico and India, air cooling systems, among other things, and process water for irrigation are used.

## Sustainable transport concepts G4-EN30

RHI Magnesita strives to optimize its transport routes and transport costs through efficient logistics concepts and to minimise negative impacts on the environment. Measures including the reduction of empty trips, optimal utilisation of the means of transport, an increase in the share of purely rail-based transport or a reduction of traffic on roads through combined transport contribute to realizing these requirements. The accomplishment of the targets linked with these measures is regularly reviewed internally and externally as part of the integrated management system. In 2016, the Group successfully increased the share of rail transports from the Austrian plants as a follow-up measure to the "Distribution Network Study" project that was completed in 2016. Moreover, the number of supra-regional round trips for raw material and finished good flows within the Group was increased. By means of round trips, empty trips can be avoided and thus negative environmental effects can be reduced by cutting back on kilometres driven.

As a post-merger activity RHI Magnesita launched the "Transport Logistics Network Study" project, a comprehensive analysis of the combined logistics network of RHI and Magnesita using state-of-the-art optimisation tools. Based on this analysis as well as on the results of workshops with strategic logistics partners, both economic and ecological benefits are planned to be generated through optimised utilisation of all means of transport, reduced ton kilometres, a streamlined warehousing network, optimised selection of transport modes and an extended implementation of round trips. The improvement measures will start to be implemented in the first quarter of 2018.

### Table 8: Development of waste volume G4-EN23

| | Hazardous waste | | | Non-hazardous waste | | |
|---|---|---|---|---|---|---|
| Waste in tonnes | 2015 | 2016 | **2017** | 2015 | 2016 | **2017** |
| Europe | 2,160 | 2,450 | **3,620** | 38,000 | 30,000 | **32,000** |
| America | 60 | 40 | **90** | 11,000 | 3,000 | **10,000** |
| Asia | 100 | 30 | **40** | 9,000 | 11,000 | **10,000** |
| Total | 2,320 | 2,520 | **3,750** | 58,000 | 44,000 | **52,000** |

Data of the years 2015 and 2016 are legacy RHI data.

## Use of substitute materials to protect health and the environment G4-PR1, G4-EN27

In order to reduce the effects of hazardous substances on the health of employees of RHI Magnesita and those of the customers as well as on the environment, research and development strongly focuses on the search for substitute materials. New substances are tested for potential dangers before they are used, and provided that appropriate alternatives are available, hazardous materials are replaced by less hazardous or non-hazardous substances. The classification in accordance with chemical legislation and an evaluation of the impact of the substances on health and the environment guarantee a safe production process and the safe use of the products at the customer's site.

RHI Magnesita complies with the relevant legal requirements concerning chemicals. The authorisation process of the REACH Regulation (EC No 1907/2006, "Registration, Evaluation, Authorisation and Restriction of Chemicals") provides for strict requirements for instance regarding the use of the substance coal tar pitch. For more than 30 years, coal tar pitch was the only material used for vacuum-pressure impregnation of refractory bricks and functional products.

As a result of the combined efforts of R&D and the Austrian production plant Radenthein, RHI Magnesita developed an alternative and coal tar pitch could be substituted by non-hazardous petroleum based materials. The existing production process was adapted to the new substance and no negative impact on product performance was identified.

By using non-hazardous raw materials, the amount of hazardous waste is reduced when refractory products are disposed of. Another advantage is the fact that products not containing hazardous substances can be reused more easily as no test of substitute substances is required.

# Innovation, Research and Development

Innovative power is one of the key prerequisites for RHI Magnesita to remain competitive in the contested global refractories market and to secure sustainable profitable growth. Addressing ideas systematically and turning them into marketable products, processes and services is a decisive lever for RHI Magnesita to generate growth.

The Company builds on the innovative power of its employees to live up to its claim of technology leadership. Innovation management gives creativity a structure and ensures that ideas are converted to marketable products, services and new business models.

## SUPPORTED SDGs

### Innovation management

The "Innovation Management" department, which was established in the year 2013, was integrated into the "Corporate Development" department in 2016. This represents an important step in the harmonisation of the key topics strategy, innovation and mergers and acquisitions (M&A). Bundling these individual, yet interlinked disciplines allows RHI Magnesita to systematically analyse, develop and leverage potentials in targeted markets and technologies. Innovation management translates identified strategic areas into the context of the Company, aligns them with the Company's overall strategy and ensures their implementation. The close connection with the M&A team supports the decision-making as to whether the development of certain technologies should be pursued by the Company itself or through external M&A projects. The acquisition of the Swedish Agellis Group in 2016 demonstrates how the integration of technology leaders from different industries can support the overall innovation strategy of RHI Magnesita. Not only does the advanced measurement technology for both steel and non-ferrous plants broaden RHI Magnesita's overall portfolio, but it also offers opportunities for future innovative products and services in order to serve customers with the best possible production assistance. The department "Corporate Development" therefore assumes a trans-disciplinary as well as cross-divisional function, which ensures the strict coherence of all strategic activities within the Company, while a systematic process supports efficient and effective procedures within the Group.

In workshops and as part of the continuous improvement process, ideas are generated and processed in a structured manner based on a defined innovation process.

The improvement and further development of manufacturing processes is one of the main topics of innovation management at RHI Magnesita. The Company's clear objective is the identification, development and utilisation of new, high-performance production technologies and services that lead to a significant boost in efficiency and enable the manufacturing of products with superior material properties and/or functionalities. Through this approach RHI Magnesita not only creates the basis for patentable, innovative processes, but also sets new standards in the field of refractories.

The ongoing advancements due to digitisation and the increasing degree of automation have a significant contribution to the development of existing production processes and services. Through analysis, evaluation and prioritisation of existing technologies, innovation management ensures their quick and seamless integration. Trends such as Big Data, connectivity, artificial intelligence and predictive maintenance are only a few aspects which open up new opportunities for the Company. The clear objective is to align RHI Magnesita's activities to new trends and to implement new business and service models that fulfil the demands of the Company's stakeholders.

### Intellectual property: patents and trademarks

Based on patents and trademarks, the new products, systems and technologies of RHI Magnesita are internationally protected in the market and their abuse is prevented.

RHI Magnesita continuously examines the patentability of newly developed products, systems and technologies in order to provide targeted intellectual property protection for the Group's new refractory solutions, thus strategically securing the Company's market position as a global leader in the refractory industry. In 2016, 15 priority patent applications were filed to provide a competitive advantage for the Company. They included patent applications regarding the geometries of refractory components, improved technologies for customer furnaces and advanced compositions of refractory raw materials. After the merger of RHI and Magnesita the patent portfolio comprised 170 patent families at the end of the year 2017. A well-established monitoring process is used to analyse competitors' patent activities in the market and to further secure legal compliance.

# Innovation, Research and Development
continued

## RHI Magnesita: new trademark

RHI MAGNESITA

The trademark portfolio of the Group consists of trademarks such as Radex, Deltek, Compac, Ankerharth, Dola, Stampmag, Sindoform or Gnox; this portfolio is currently optimised to the market needs. G4-4

The new trademark "RHI Magnesita" and the logo have been internationally registered. The logo, formed from the symbol of infinity and the shapes of the core products of the Company, represents the continuity of our commitment and service, the interconnection of our people and customers worldwide and the underlying solidity of our products.

### Organisation and strategic approaches of research and development

The research and development division consists of four R&D centres which are located in Leoben (Austria), Contagem (Brasil), York (USA) and Dalian (China). At the end of the year 2017, more than 240 people with 17 different nationalities worked in research and development; the share of women was 25%. G4-LA12

In line with the corporate strategy, targeted research and development activities were continued in the reporting period. The most important R&D focal points included:

- the further development of special ceramics such as isostatically pressed components, complex cast products and slide gate plates, among others in view of the optimisation of clean steel applications
- the development of methods for non-destructive material testing in line with quality assurance and the optimisation of production processes through Big Data analyses of the production parametres
- the use of recycled raw materials and research of new methods for the treatment and reuse of refractory materials changed during operation
- the use of new raw materials and combination of materials
- the development of environmentally friendly binder systems

The most important scientific cooperation partners in 2016 included Austrian higher education institutions such as the University of Leoben, Johannes Kepler University, Joanneum Research, the University of Graz and the Graz University of Technology, the Vienna University of Technology, as well as the Federal University of São Carlos in Brazil, the Slovak Academy of Sciences, McGill University in Canada and Fraunhofer-Gesellschaft in Germany. RHI Magnesita also worked closely with technology leaders in the steel industry such as voestalpine Stahl Donawitz, voestalpine Stahl Linz, Böhler Edelstahl and Primetals Technologies at competence centres promoted by the Austrian Research Promotion Agency.

Research costs before subsidies and capitalisation amounted to €24 million in 2017.

### Basic research

In basic research, which is often conducted in collaboration with scientific cooperation partners and within the framework of subsidised competence centres, an important focus lies on gaining an understanding of corrosion and erosion mechanisms of RHI Magnesita products in different customer processes. The further development of the models for the simulation systems used at RHI Magnesita also takes place as part of scientific collaborations.

The simulation and modelling methods used include the finite element method (FEM), computational fluid dynamics (CFD), the discrete element method (DEM), thermochemical simulations and water modelling. These methods enable the analysis of the flow conditions of liquid steel from the steel ladle through the tundish to solidification in the mould. Based on the models, customer-specific

design and refractory solutions are offered. In the reporting year, the understanding of flow-relevant parametres in the casting channel of the slide gate system was improved using the new water model for the simulation of slide gate valves.

### Development of new products and production methods

Innovative raw materials and production processes provide the basis for new products. New fused raw materials are developed based on phase-theory considerations and thermochemical calculations at the test plants in Leoben and Contagem and developed further until ready for series production at the production facilities. In addition to classic oxidic raw materials, research also deals with non-oxidic raw materials, which have turned out to be promising.

A new technology for the application of a thin material layer in the bore of isostatically pressed refractories has been developed. This R&D advance enables that a thin insulating and/or anti-clogging layer can be introduced into a range of continuous casting products.

### Optimisation of existing products and production methods as well as process improvements

To enhance existing production processes, the process data and data from the automatic product test facilities are interlinked and analysed on the basis of Big Data approaches. In the framework of a project launched in the year 2016 in cooperation with VRVis, a leading Austrian research institution in visual computing, a customised software tool has been developed and is being permanently updated for the rapid processing of complex mass data in order to be able to derive proposals for optimisation.

In order to optimize products and adapt them to customer requirements, used refractory materials taken from a variety of customer aggregates are thoroughly studied. The proposals for optimisation derived from the analyses lead to a longer service life of refractory linings and to improvements of the customer's specific process costs. The results of these analyses often serve as a basis for product innovations.

The close interdisciplinary cooperation between material development, design development in the simulation department and production process development enables further improvements of the properties of existing products and optimal adaptation to customer needs. Examining raw material alternatives to existing products in order to secure raw material availability and to optimize the customer's total cost of ownership is also one of the fundamental activities of research and development.

Knowledge transfer to customers is an important cornerstone in R&D. At the Training Center Cement in Leoben, Austria, customers are familiarised with RHI Magnesita's refractory products and lining techniques in seminars lasting several days. The participants can learn and practice handling refractory products on a full-scale model of a cement rotary kiln using modern lining machinery.

### Environmental protection and energy efficiency G4-EN6, G4-EN27

Together with specialists at the production sites, processes and process data are documented, analysed and measures are derived to stabilise processes and save resources. The main focus is on energy-intensive processes such as drying, curing and sintering.

The processes are also examined using modelling and simulation. The objective is to further develop the environmental standards and to lower the energy consumption of RHI Magnesita.

The area of material development looks for alternatives for substances, which may no longer be used within the EU after the implementation of the REACH Regulation (EC No 1907/2006, "Registration, Evaluation, Authorisation and Restriction of Chemicals") or are considered to cause concern. New developments with reduced emissions have already been successfully placed in the market.

# Governance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# Board of Directors

## Executive Directors

**STEFAN BORGAS**
A German national, Chief Executive Officer of the Company with effect from October 2017.

Stefan was Chief Executive Officer at RHI from December 2016 until October 2017. 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 was elected new President of the World Refractories Association in January 2018. Stefan has a business administration degree from the University Saarbrücken and an MBA from the University of St. Gallen-HSG.

**OCTAVIO LOPES**
A Brazilian national, Chief Financial Officer of the Company with effect from October 2017.

Octavio was Chairman of Magnesita from July 2016. He was Chief Executive Officer of Magnesita from June 2012 until June 2016 and Chief Executive Officer of Magnesita International from June 2016 until October 2017. He held several positions, including Managing Director and Partner, at GP Investments, between 1997 and 2016. From 2004 until 2007, he was the Chief Executive Officer of Equatorial Energia. Octavio has previously served as a member of the Board 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-Independent Non-Executive Directors

### HERBERT CORDT

An Austrian national, Chairman of the Company with effect from October 2017.

Herbert was Chairman of the Supervisory Board of RHI from 2010 until 2017 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. From 1992, he has been Managing Partner at CORDT & PARTNER Management- und Finanzierungsconsulting GesmbH. He was Managing Director at GASKOKS — Österreichische Warenhandelsgesellschaft mbH from 1991. In this capacity he served on several Supervisory Boards of leading Austrian Industrial companies. From 1979 to 1984, he was Vice Governor at Österreichische Postsparkasse. He also worked as adviser for the Federal Finance Minister of Austria from 1975 to 1979. Additionally, he is a member of the Board of Advisors for the MSFS Program, School of Foreign Service at Georgetown University, Washington, DC since 2015. Herbert graduated from the Diplomatic Academy of Vienna (*Diplomatische Akademie Wien*) and obtained a Doctorate in Law from the University of Vienna as well as a Master of Science Degree in Foreign Service from Georgetown University Washington D.C.

### DAVID A. SCHLAFF

An Austrian national, Non-Executive Director of the Company with effect from October 2017.

David 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 from 2010 until 2017. 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

A German national, Non-Executive Director of the Company with effect from October 2017.

Stanislaus was Chief Executive Officer and Chief Restructuring Officer at Energieservice Westfalen Weser GmbH in 2015. From 2013 to 2015, he was 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 until 2017. 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.

### FERSEN LAMBRANHO

A Brazilian national, Non-Executive Director of the Company with effect from October 2017.

Fersen is a member of the board and Chairman of GP Investments. He joined the firm in 1998 and became a managing director in 1999. Prior to joining GP, Fersen was CEO of Lojas Americanas, where he worked for 12 years and was a board member from 1998 to 2003. Fersen currently serves on the boards of Centauro, GP Advisors, Spice Private Equity, LEON Restaurants and RHI Magnesita. He has previously served as chairman of the boards of Oi, Contax, Gafisa, ABC Supermercados and Magnesita. In addition, he previously served on the board of BRMalls, San Antonio, Allis, BHG, Estácio, BRZ Investimentos, Tele Norte Leste Participações, São Carlos Empreendimentos e Participações, Playcenter, Shoptime, Farmasa, BR Properties, GP Investments Acquisition Corp and Americanas.com. He is also a board member of several non-profit entities, such as Fundação Bienal de São Paulo, the São Paulo Museum of Art and COPPEAD-UFRJ. Fersen holds a Bachelor's degree in civil engineering from the Universidade Federal do Rio de Janeiro and a Msc degree in business administration from COPPEAD-UFRJ. He also completed the Owner President Management Program at the Harvard Business School.

# Board of Directors
continued

## Independent Non-Executive Directors

### JAMES LENG
A British national, Deputy Chairman and Senior Independent Director of the Company with effect from October 2017.

James has had an extensive non-executive career with a number of international publicly listed companies which include Chairman of Corus Group plc (2001 to 2008), the global steel company sold to Tata Steel of India, Chairman of HSBC Bank plc (2010 to 2013) and Chairman of Nomura European Holdings plc (2015 to 2017). Directorships include AON plc (risk management services), Alstom SA (engineering), Pilkington plc (glass), Hanson plc (aggregates and building products) and IMI plc (engineering). Other notable positions include drectorships of TNK-BP (Russian oil and gas) and lead Non-Executive Director at the UK's 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 to 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.

### CELIA BAXTER
A British national, Non-Executive Director of the Company with effect from October 2017.

Celia is currently a Non-Executive Director at Bekaert SA and a Non-Executive Director and Remuneration Chair of Senior PLC. Celia was Director of Group Human Resources for Bunzl plc from 2003 to 2016. Previously she served as Head of Human Resources of Enterprise Oil plc, having been Director of Group Human Resources at Tate & Lyle plc. She started her professional career in 1982 at the Ford Motor Company where she held several management positions. In 1988 she joined KPMG Peat Marwick as a Human Resources consultant. She holds a PhD and BSc in botany from the University of Reading.

### ANDREW HOSTY
A British national, Non-Executive Director of the Company with effect from October 2017.

Andrew 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. He 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.

### JOHN RAMSAY
A British national, Non-Executive Director of the Company with effect from October 2017.

John served as 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. John was appointed a Non-Executive Director of G4S plc with effect from January 2018. He is a Chartered Accountant and also holds an Honours Degree in accounting.

### WOLFGANG RUTTENSTORFER
An Austrian national, Non-Executive Director of the Company with effect from October 2017.

Wolfgang served as a member of the Supervisory Board of RHI AG from 2012 to 2017 and, following the sickness related absence of the CEO, as the Interim Chief Executive Officer as a Member of the Management Board of RHI AG from 26 June 2016 until 30 November 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 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.

**KARL SEVELDA**
An Austrian national, Non-Executive Director of the Company with effect from October 2017.

Karl 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.

## Employee Representative Directors

**FRANZ REITER**
An Austrian national. Director/Employee representative from October 2017.

Franz has been with the Group since 1977 and is an Administrator at Veitsch-Radex GmbH.

**MICHAEL SCHWARZ**
A German national. Director/Employee representative from October 2017.

Michael has been with the Group since 1983 and is a member of the workers council at Didier Werke A.G.

# Executive Management Team

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**1. STEFAN BORGAS — CHIEF EXECUTIVE OFFICER**
See biography on page 52

**2. OCTAVIO LOPES — CHIEF FINANCIAL OFFICER**
See biography on page 52

**3. GERD SCHUBERT — CHIEF OPERATIONS OFFICER**
After completing his doctorate in mineral engineering at RWTH Aachen, Gerd started his career at Degussa AG, where he held several positions including manager of a Brazilian plant, technical director and plant group manager. Following the acquisition by Ferro Corporation, he managed the production and technology divisions as Global Operations and Restructuring Director. In early 2014, he took over the function of COO at the Pfleiderer Group and was appointed to the Management Board of RHI AG as COO/CTO in January 2017.

**4. REINHOLD STEINER — CHIEF SALES OFFICER**
After completing his studies in petroleum science at the University of Leoben, Reinhold Steiner began his professional career as Assistant to the Board of voestalpine Schienen GmbH and held several management positions in the voestalpine Group. After working as a managing director at the Russian CHTPZ Group, he was a managing director in the management consulting field before joining RHI in 2012 as Head of Sales CIS region. In 2013, he was appointed to the Management Board of the RHI Group as CSO Steel Division.

**5. LUIS RODOLFO BITTENCOURT — CHIEF TECHNOLOGY OFFICER**
Luis has been working for Magnesita for 31 years. He held several positions in his career on the refractory and mining activities starting as Raw Material Research Engineer and becoming Raw Material Research Manager, Mining/Geology Manager, Technical Purchasing Manager, Plant Manager, Quality Control Manager, R&D Director, Minerals VP, and R&D VP. He is currently President of Magnesita Refratários in Brazil and the Brazilian Refractory Producers Association. He holds a Bachelor's degree in mining engineering from the Federal University of Minas Gerais-Brazil, a Master's degree in Metallurgical Engineering from the University of Utah (USA), and a PhD degree on Ceramic Engineering from the University of Missouri (USA).

**6. THOMAS JAKOWIAK — EXECUTIVE VICE PRESIDENT INTEGRATION MANAGEMENT**
After studying applied geosciences at the University of Leoben, Thomas started his professional career as a sales engineer with R&A Rost GmbH in Vienna. In the year 2000, he joined the RHI Group and was soon put in charge of the sales management for the business unit in the Asia-Pacific region. Since 2005, he has been the Head of the Cement/Lime business unit and was appointed to the Management Board of RHI AG as CSO of the Industrial Division at the beginning of the year 2016.

**7. LUIZ ROSSATO — EXECUTIVE VICE PRESIDENT CORPORATE DEVELOPMENT**
Luiz Rossato is Vice President and Head of Corporate Development (Strategy, M&A, Innovation and PMO) of the Company since October 2017. Mr. Rossato joined Magnesita Refratarios in 2008 and was the Vice President of Legal, M&A and Institutional Relations, as well as responsible for Corporate Communication, being a member of the Executive Committee of Magnesita Refratários from 2012 until 2017. He graduated in law at Mackenzie Presbyterian University, in Brazil, and has more than 20 years of work experience. He worked in renowned law firms in Brazil, including Mattos Filho, Veiga Filho, Marrey Jr. and Quiroga Advogados, where he has participated in important M&A, Capital Market and Corporate Law transactions in general, as well as experience in international offices (New York and Milan). He was also a corporate lawyer and company secretary at Abyara Real Estate Planning until the beginning of 2008. In 2012, he received the "General Counsel of the Year — Latin America" award by the International Law Office and the Association of Corporate Counsel, and in 2013 he attended the Advanced Management Program at Wharton University in the United States.

**8. SIMONE OREMOVIC — EXECUTIVE VICE PRESIDENT PEOPLE AND CULTURE MANAGEMENT**
Simone is Executive Vice President People and Culture Management at RHI Magnesita since November 2017. She is in charge of all people topics across the globe and is located in our Headquarters in Vienna. Simone has 20 years of experience in Human Resources. Before joining RHI Magnesita, she started her career in HR at General Electric and worked in different operational and corporate roles. Her main focus was on leadership and talent management as well as HR process. She is a certified Six Sigma Master Black belt. After GE she changed to Telekom Austria Group as HR Director and then to IBM Austria, also in a leading HR role. From 2013 to 2017 she was a member of the Management Board of Baxter AG and in charge of global HR of the plasma production sites. Simone has a degree from the European Business School (Paris) and of the Economic University of Vienna.

# Corporate Governance

RHI Magnesita N.V. (the "**Company**") was incorporated as a public company (naamloze vennootschap) under the laws of the Netherlands, under the name RHI-MAG N.V., on 20 June 2017. The articles of association of the Company (the "**Articles of Association**") were most recently amended with effect as of 26 October 2017, amending, among other amendments, the name of the Company into RHI Magnesita N.V.

The Strategic Report, together with the Governance Report, constitutes the report of the Directors within the meaning of Section 2:391 of the Dutch Civil Code and has been approved and signed by RHI Magnesita's Board.

## Compliance with the Dutch Corporate Governance Code and the UK Corporate Governance Code

The Company is committed to the highest standards of corporate governance. The board of the Company (the "**Board**") has applied the principles of, complies and intends to continue to comply with the requirements of, both the Dutch corporate governance code (the "**Dutch Corporate Governance Code**" or "**DCGC**") and the United Kingdom corporate governance code (the "**UK Corporate Governance Code**" or "**UKCGC**") in full to the fullest extent possible, except for a limited number of deviations set out below.

## Deviations from the Dutch Corporate Governance Code in 2017

The Company did not comply with the following provisions of the Dutch Corporate Governance Code in 2017:

### Best practice provision 2.2.2 of the Dutch Corporate Governance Code

The Board is non-compliant with best practice provision 2.2.2 of the Dutch Corporate Governance Code. This provision recommends that in case of a one-tier board a non-executive director should be appointed for a period of four years. Code provision B.2.3 of the UK Corporate Governance Code 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 Company appoints the non-executive Directors of the Company (the "**Non-Executive Directors**") (other than Employee Nominated Directors (as defined below)) 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.

## Deviations from the UK Corporate Governance Code in 2017

The Company did not comply with the following provisions of the UK Corporate Governance Code in 2017:

### Code Provision A.3.1

The chairman of the Board (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 AG ("**RHI**") for more than nine years, which constitutes non-compliance with Code provision A.3.1 of the UK Corporate Governance Code 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 judgement, despite his non-independence under the UK Corporate Governance Code, and that his experience as Chairman of RHI AG's supervisory board is valuable to the Company, particularly in view of the acquisition by the Company of shares in the capital of Magnesita Refratários S.A. ("**Magnesita**") and the further development of the group of which the Company forms part (the "**Group**"), and therefore warrants his appointment as Chairman.

## Board and management structure [G4-34]

The Company has a one-tier board structure with a Board consisting of both executive Directors (the "**Executive Directors**", and collectively with the Non-Executive Directors, the "**Directors**"). As at the date of this annual report (the "**Annual Report**"), the provisions of Dutch law that are commonly referred to as the "large company regime" (structuurregime) do not apply to the Company.

The Board has established three committees: an audit and compliance committee (the "**Audit and Compliance Committee**" or "**Audit Committee**"), a remuneration committee (the "**Remuneration Committee**") and a nomination committee (the "**Nomination Committee**", and together with the Audit and Compliance Committee and the Remuneration Committee, the "**Committees**") to ensure a strong governance framework for decision-making. While safety, health, environmental, community and other corporate responsibility matters are regularly reviewed, the Directors believe that these matters should be the focus of a Board Committee and this will be established in 2018.

The Committees consist of Non-Executive Directors only. Should the need arise the Board will establish additional committees as appropriate. A summary of the role and responsibilities of each Committee is shown on pages 62 to 64.

## The Board

### Powers, responsibilities and functioning

The Board is collectively responsible for and has the power to conduct the general affairs of the Company. This role includes being collectively responsible for the long-term success of the Company, and for its leadership, strategy, values, standards, control and management. G4-42

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 Company 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 Company 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 the Board rules adopted by the Board (the "**Board Rules**") or a resolution of the Board. Each Director has a duty towards the Company to properly perform the duties assigned to him or her. Furthermore, each Director has a duty to act in the corporate interests of the Company and its business. Under Dutch law, corporate interest extends to the interests of all stakeholders of the Company, such as shareholders, creditors, employees and other stakeholders.

The Board as a whole is entitled to represent the Company. Additionally, the chief executive officer of the Company ("**CEO**") and the Chairman, acting individually, and two Executive Directors, acting jointly, are also authorised to represent the Company. In addition, pursuant to the Articles of Association, the Board may appoint officers who are authorised to represent the Company within the limits of the specific powers delegated to them.

### Composition, appointment, term and dismissal G4-38 and G4-39

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 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 in accordance with the reference terms (referentievoorschriften) as referred to in Section 2:333k (12)(13) of the Dutch Civil Code (the "**DCC**"). The exact number of Executive Directors and Non-Executive Directors shall be determined by the general meeting of the Company (the "**General Meeting**") taking into account the foregoing. The General Meeting is authorised to resolve to amend the Articles of Association, on the proposal of the Board. The General Meeting may designate one Executive Director as CEO and one Executive Director as CFO and may grant other titles to Executive Directors, in each case for a term to be determined by the General Meeting, which shall not be longer than the term of office of the relevant person to the Board. An Executive Director can have more than one title. Furthermore, the General Meeting shall designate one Non-Executive Director as the Chairman and one or more Non-Executive Directors as deputy chairman/deputy chairmen (the "**Deputy Chairman**" or the "**Deputy Chairmen**"), in each case for a term to be determined by the General Meeting which shall not be longer than the term of office of the relevant person to the Board. The General Meeting will also decide whether a Director is appointed as an Executive Director or as a Non-Executive Director.

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 Company's issued capital.

Pursuant to an agreement between the Company and Alumina Holdings LLC ("**Alumina**"), the vehicle through which GP Investments, Ltd. holds its participation in Magnesita, Alumina is entitled to nominate one person for appointment as a Non-Executive Director. Alumina elected to nominate Fersen Lambranho for appointment, who was subsequently appointed as Non-Executive Director.

# Corporate Governance
continued

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 Company'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.

From 20 June 2017, being the date of incorporation of the Company, to 6 October 2017 the Board consisted of Stefan Borgas (Executive Director), Herbert Cordt (Non-Executive Director) and Wolfgang Ruttenstorfer (Non-Executive Director). With effect as of 6 October 2017, one additional Executive Director and eight additional Non-Executive Directors were appointed. At the date of this Annual Report, the Board is composed as follows:

| Name | Position | Year of birth | Date of appointment | Expiry/ reappointment date |
|---|---|---|---|---|
| Stefan Borgas | Executive Director (CEO)[1] | 1964 | 20 June 2017 | 2018 AGM |
| Octavio Lopes | Executive Director (CFO)[1] | 1971 | 6 October 2017 | 2018 AGM |
| Herbert Cordt | Non-Independent Non-Executive Director, Chairman[1] | 1947 | 20 June 2017 | 2018 AGM |
| Fersen Lambranho | Non-independent Non-Executive Director[1] | 1961 | 6 October 2017 | 2018 AGM |
| David A. Schlaff | Non-independent Non-Executive Director[1] | 1978 | 6 October 2017 | 2018 AGM |
| Stanislaus Prinz zu Sayn-Wittgenstein | Non-independent Non-Executive Director[1] | 1965 | 6 October 2017 | 2018 AGM |
| Celia Baxter | Independent Non-Executive Director[2, 3] | 1958 | 6 October 2017 | 2018 AGM |
| Andrew Hosty | Independent Non-Executive Director[2, 3] | 1965 | 6 October 2017 | 2018 AGM |
| James Leng | Independent Non-Executive Director[2, 3]<br>Deputy Chairman and Senior Independent Director | 1945 | 6 October 2017 | 2018 AGM |
| John Ramsay | Independent Non-Executive Director[2, 3] | 1957 | 6 October 2017 | 2018 AGM |
| Wolfgang Ruttenstorfer | Independent Non-Executive Director[2, 4] | 1950 | 20 June 2017 | 2018 AGM |
| Karl Sevelda | Independent Non-Executive Director[2, 3] | 1950 | 6 October 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.

The UKCGC requires that, excluding the Chairman, at least half of the Board should comprise Non-Executive Directors determined to be independent.

The Board has considered the independence of the Non-Executive Directors, including potential conflicts of interest, and the table above sets out those Directors considered independent in character and judgement. Each of these Directors has also confirmed that there is no reason why they should not continue to be considered independent.

The Chairman's other significant commitments are set out in the table below: G4-41

| Name of company | Function |
|---|---|
| Watermill Group Boston | Member of the advisory board |
| Georgetown University, School of Foreign Service, MSFS Program | Member of the advisory board |
| CORDT & PARTNER Management- und | Managing partner |

James Leng has been appointed 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. He is also available to shareholders if they have concerns that the normal channels of communication through the CEO and/or the Chairman has failed to resolve or for which contact with them is inappropriate.

## Board diversity G4-LA12

The Board also recognises the benefits that the experience of a diverse Board can bring. The Company aims to ensure that the Board represents a balance in terms of diversity, with criteria that includes, background, age, gender, education, nationality, skills, expertise and experience. The Board pursues a policy of having at least 30% of the seats on the Board held by men and at least 30% of the seats on the Board held by women, in accordance with the "balanced composition" requirement under Dutch law.

The Board is conscious that due to the recent formation of the Company its current composition does not meet the "balanced composition" required under Dutch law. However, the Board is committed to encouraging diversity and will pursue its programme in this regard.

## Meetings and decision-making of the Board

The Board meets six times a year or additionally as often as deemed necessary by the Chairman or the Deputy-Chairman. Board papers are circulated in advance of meetings to allow Directors sufficient time to consider their content prior to the meeting.

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.

The Board has adopted Board Rules in accordance with the Articles of Association. 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.

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.

Attendance at Board meetings in 2017:

| | Eligible to attend | Attended |
|---|---|---|
| Stefan Borgas | 3 | 3 |
| Octavio Lopes | 3 | 3 |
| Herbert Cordt | 3 | 3 |
| Fersen Lambranho | 3 | 2 |
| David A. Schlaff | 3 | 2 |
| Stanislaus Prinz zu Sayn-Wittgenstein | 3 | 2 |
| Celia Baxter | 3 | 3 |
| Andrew Hosty | 3 | 3 |
| James Leng | 3 | 3 |
| John Ramsay | 3 | 3 |
| Wolfgang Ruttenstorfer | 3 | 3 |
| Karl Sevelda | 3 | 3 |

# Corporate Governance
continued

### Conflict of interests and time commitment G4-41

Dutch law provides that a Director may not participate in the discussions and decision-making by the Board if such Director has a direct or indirect personal interest conflicting with the interests of the Company 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 Company and the business connected with it with the required level of integrity and objectivity. Pursuant to the Articles of Association and the Board Rules, the Board has adopted procedures under which each Director is required to 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 Annual Report.

The existence of a personal conflict (or a potential conflict) of interest does not affect the authority to represent the Company, as described under "—The Board—Powers, responsibilities and functioning" above.

On appointment, and each subsequent year, Non-Executive Directors are required to confirm in writing that they have sufficient time to devote to the Company's affairs. In addition, they are required to seek prior approval from the Chairman before taking on any additional external commitments that may affect their time available to devote to the Company, and the Board is advised of any changes. The Board is satisfied that all Non-Executive Directors are contributing effectively to the operation of the Board.

### Group Company Secretary

**Robert K Moorhouse FCIS**

The Company Secretary advises the Board and ensures good information flows and comprehensive practical support is provided to the Directors. He maintains the Corporate Governance Framework and organises Directors' induction and training. The Company Secretary communicates with shareholders as appropriate and ensures due regard is paid to their interests. Both appointment and removal of the Company Secretary is a matter for the Board as a whole.

### Performance of the Board, its Committees and the Directors G4-44

During 2018 the Chairman of the Board and the Deputy Chairman will lead a review of the Board's effectiveness, its Committees and individual Directors. The Board is committed to future annual reviews being facilitated externally at least once every three years.

### Committees G4-38

**Audit and Compliance Committee**

The Terms of Reference of the Audit and Compliance Committee available, in full on the Company's website, are summarised below:

- monitoring the integrity of the Company's financial statements, including its annual and half-yearly reports, preliminary announcements and any other formal statements relating to its financial performance;
- 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;
- reviewing the Company's internal financial control systems and risk management that identify, assess, manage and monitor financial risks, and its other internal control and risk management systems;
- monitoring and assessing the compliance with recommendations and observations from internal and external auditors such as management letters and management's responses;
- monitoring the role and functioning of the internal audit function and review of the Audit and Compliance Committee effectiveness; review of compliance, whistle-blowing and anti-fraud framework; and
- maintaining relations with the external auditor, including, in particular, their independence, remuneration and any non-audit services carried out by them for the Company.

All members of the Audit and Compliance Committee are independent Non-Executive Directors from a UK Corporate Governance standpoint, 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 has competence relevant to the sector in which the Company 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 Audit and Compliance Committee consists of John Ramsay (Chairman), Andrew Hosty and Wolfgang Ruttenstorfer.

The composition of the Audit and Compliance Committee is compliant with the UK Corporate Governance Code and the Dutch Corporate Governance Code.

Attendance at Audit and Compliance Committee meetings in 2017:

| | Eligible to attend | Attended |
|---|---|---|
| John Ramsay | 1 | 1 |
| Andrew Hosty | 1 | 1 |
| Wolfgang Ruttenstorfer | 1 | 1 |

The Company confirms that it complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

**Remuneration Committee**

The Terms of Reference of the Remuneration Committee, available in full on the Company's website are summarised below:

- determine and agree with the Board the framework or broad policy for the remuneration of the Chairman of the Board, the Executive Directors and other members of the executive management as it is designated to consider, to be proposed by the Board for approval at the General Meeting;
- within the terms of the agreed policy and in consultation with the Chairman and/or Group Chief Executive, as appropriate, determine with agreement of the Board the total individual remuneration package of the Chairman, each Executive Director, and other designated senior executives including bonuses, incentive payments and share options or other share awards;
- approve the design of, and determine targets for, any performance related pay plans operated by the Company and recommend to the Board for approval the total annual payments made under such plans;
- review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made and, if so, the overall amount of such awards, the individual awards to Executive Directors, and other designated senior executives and the performance targets to be used;
- determine the policy for, and scope of, retirement arrangements for each Executive Director and other designated senior executives;
- ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is recognised; and
- oversee any major changes in employee benefits structures throughout the Group.
- reviewing the performance of any retained advisers and the effectiveness of the Remuneration Committee; and
- preparing the Remuneration Report.

The Remuneration Committee consists of at least three members, all of whom are Non-Executive Directors who meet the independence requirements of the Dutch and the UKCGC. Members of the Remuneration Committee are appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Remuneration Committee. The Remuneration Committee consists of Celia Baxter (Chairperson), James Leng and Karl Sevelda.

The composition of the Remuneration Committee is compliant with the UK Corporate Governance Code and the Dutch Corporate Governance Code.

Attendance at Remuneration Committee meetings in 2017:

| | Eligible to attend | Attended |
|---|---|---|
| Celia Baxter | 2 | 2 |
| James Leng | 2 | 2 |
| Karl Sevelda | 2 | 2 |

# Corporate Governance
continued

The Committee has appointed Korn Ferry as consultants to provide advice on the development of the Remuneration Policy and the development of the annual bonus and performance share plan and ad hoc remuneration matters. Korn Ferry is not connected to the Company.

**Nomination Committee**
The Terms of Reference of the Nomination Committee, available in full on the Company's website are summarised below:

- 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;
- keeping under review succession plans for senior management appointments, including in relation to the Executive Directors, and the Company's policy and process in relation to the recruitment of candidates for these roles;
- making proposals for (re)appointments of Directors; and
- making recommendations concerning membership of the Audit and Remuneration Committees and any other Board Company as appropriate, in consultation with the Chairman of those committees.

The Nomination Committee consists of at least three members, a majority of whom are independent Non-Executive Directors. Members of the Nomination Committee are appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Nomination Committee. The Nomination Committee consists of Herbert Cordt (Chairman), James Leng and Celia Baxter.

The composition of the Nomination Committee is compliant with the UKCGC and the Dutch Corporate Governance Code.

In view of the fact that the Company was only established and the Directors appointed some two months before the end of the financial year the Nomination Committee has held no formal meetings. It is the intention that this Committee will meet at least twice a year or on such further occasions as required.

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.

**Executive Management Team** G4-34
At the date of this Annual Report, the Executive Management Team of the Company is composed as follows:

- Stefan Borgas, Chief Executive Officer (CEO);
- Octavio Lopes, Chief Financial Officer (CFO);
- Gerd Schubert, Chief Operations Officer;
- Reinhold Steiner, Chief Sales Officer;
- Luis Bittencourt, Chief Technology Officer;
- Thomas Jakowiak, Executive VP Integration Management;
- Luiz Rossato, Executive VP Corporate Development;
- Simone Oremovic, Executive VP People and Culture Management.

There is a clear division of responsibilities as set out in the "Reserved Matters for the Board" and those delegated to the executive management team. The types of decisions reserved for the Board include, among other items, overall responsibility for strategy and management; major acquisitions and investments; structure and capital; financial reporting and controls; and corporate governance. The executive management assist the Board with its responsibilities concerning the strategy of the Company; make strategy recommendations to the Board; is accountable for implementing the Board's decisions; and is responsible for directing and overseeing the operations of the Company.

**Transactions with majority shareholders**
Since there are no legal or natural persons who hold at least 10% of the shares in the capital of the Company, no declaration in accordance with best practice provision 2.7.5 of the Dutch Corporate Governance Code has to be published. There have been no transactions between the Company and MSP Stiftung within the meaning of best practice provision 2.7.5 of the Dutch Corporate Governance Code.

**Outline of anti-takeover measures**
No anti-takeover measures have been implemented.

**Major shareholdings** G4-7

At the date hereof, the Company is aware of the following persons holding directly or indirectly at least 3% of the issued and outstanding shares in the capital of the Company:

| Shareholder | Number of shares | % |
|---|---|---|
| MSP Stiftung[1] | 11,347,058 | 25.32 |
| Alumina Holdings LLC[2] | 4,258,905 | 9.50 |
| 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 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 Alumina Holdings LLC is a corporation incorporated under the laws of Delaware, USA, which is controlled, indirectly by GP Capital Partners III, L.P. ("GPCPIII") and GP Partners IV, L.P. ("GPCPIV"), private equity funds whose ownership is dispersed. 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. GP Investments is listed on the Luxembourg Stock Exchange and is controlled by Partners Holdings, Inc., a company incorporated under the laws of the British Virgin Islands and controlled by Mr. Antonio Bonchristiano and Mr. Fersen Lambranho.

3 Ms. Elizabeth 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 hold a family relationship.

## Communications with shareholders and other stakeholders

Communication with the Company's investors is a priority for the Board. The Company runs an extensive investor relations programme, and the CEO, CFO and Director of Investor Relations hold meetings with institutional investors throughout the year, including results presentations, webcasts, road shows, one-to-one meetings and investor tours.

The Company's major shareholders are encouraged to meet with the Chairman and the Senior Independent Director to discuss any matters they may wish to raise.

The Directors receive regular updates on the Company's major shareholders, and receive reports on shareholder feedback at each Board meeting. The Non-Executive Directors are invited to attend the Company's results presentations.

Key shareholders and shareholder bodies were written to in January 2018 as part of the consultation process with regard to the development of the executive remuneration policy and the adoption of a performance share plan. The consultation is ongoing.

## Culture

The combination of RHI and Magnesita is a blend of two companies with complementary yet variant corporate cultures. The development of a new joint corporate culture and the definition of common principles has been a high priority. Assisted by the findings of an employee survey, four cultural themes have been defined. These cultural themes will underpin the implementation of the vision and strategy of the new Company. These themes will also serve as guiding principles for all employees specifically embracing cooperation and daily work within RHI Magnesita. In the course of 2018 a group of employees, our "culture champions", will support the implementation of this new culture together with the integration plan throughout the Group.

The following key cultural themes determine the actions of RHI Magnesita:

- act customer-focused and innovatively
- have open decision-making in a respectful environment
- operate cross-functionally, collaboratively and pragmatically across the global organisation
- be performance-driven and accountable.

RHI Magnesita is also committed to responsible management and its activities are based on integrity, honesty, reliability and respectful contact with employees and business partners. The new Code of Conduct, the Compliance Helpline as well as additional policies and procedures of our comprehensive compliance programme are essential tools to embed the corporate culture and values as well as the fundamental legal and ethical rules RHI Magnesita stands for.

# Corporate Governance
continued

## Corporate governance declaration

The Dutch Corporate Governance Code requires companies to publish a statement concerning their approach to corporate governance and compliance with the Dutch Corporate Governance Code. This is referred to in article 2a of the decree on requirements for annual reports (Besluit inhoud bestuursverslag) of 23 December 2004, as most recently amended on 1 January 2018 (the "**Decree**").

The information required to be included in this corporate governance statement as described in articles 3, 3a and 3b of the Decree, forms part of the Annual Report, which is available on the Company's website. The information required to be included in this corporate governance statement as described in sections 3, 3a and 3b of the Decree can be found in the following chapters, sections and pages of the Annual Report and are deemed to be included and repeated in this statement:

- the information concerning compliance with the Dutch Corporate Governance Code, as required by section three of the Decree, can be found on page 58:
- the information concerning the Company's main features of the internal risk management and control systems relating to the financial reporting process, as required by section 3a sub a of the Decree, can be found on page 22:
- the information regarding the functioning of the General Meeting and its main authorities and the rights of the Company's shareholders and holders of certificates of shares and how they can be exercised, as required by section 3a sub b of the Decree, can be found on page 62:
- the information regarding the composition and functioning of the Board and its Committees, as required by section 3a sub c of the Decree, can be found on page 62:
- the diversity policy with regard to the composition of the Board and their Committees, can be found on page 61; and
- the information concerning the disclosure of the information required by the Decree on Section 10 EU Takeover Directive, as required by section 3b of the Decree, may be found on page 64.

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Company's Annual Report. The Company's Annual Report comprises the Strategic Report, the Governance Report, the Consolidated Financial Statements, the Company's Financial Statements and some other information. The Directors are responsible for preparing the Annual Report in accordance with applicable law and regulations. The Directors are required by law to prepare the Annual Report for each financial year. The Directors have prepared the Annual Report in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the relevant provisions of the Dutch Civil Code. The Directors must not approve the Annual Report unless they are satisfied that it gives a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing the Annual Report, the Directors are required to:

(a) select suitable accounting policies and then apply them consistently;
(b) make judgements and accounting estimates that are reasonable and prudent;
(c) state whether applicable IFRS as adopted by the European Union and the relevant provisions of the Dutch Civil Code have been followed, subject to any material departures disclosed and explained in the Annual Report; and
(d) prepare the Annual Report on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy at any time, the financial position of the Company and the Group and enable them to ensure that the Annual Report complies with applicable law and, as regards the consolidated financial statements, Article four of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

With reference to section 5.25c paragraph 2c of the Dutch Act on Supervision, each of the Directors, whose names and functions are listed in the Governance section, confirm that, to the best of their knowledge:

- the Company's financial statements and the consolidated financial statements, which have been prepared in accordance with IFRS as adopted by the European Union and the relevant provisions of the Dutch Civil Code, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group;
- the Annual Report gives a true and fair view on the situation on the balance sheet date, the development and performance of the business and the position of the Company and the Group companies of which the financial information is included in the Annual Report and includes a description of the principal risks and uncertainties that the Company faces; and
- having taken all matters considered by the Board and brought to the attention of the Board during the financial year into account, the Directors consider that the Annual Report, taken as a whole is fair, balanced and understandable. The Directors believe that the disclosures set out in the Annual Report provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

After conducting a review of management analysis, the Directors have reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors consider it appropriate to adopt the going-concern basis in preparing the Annual Report.

Directors are also required to provide a broader assessment of viability over a longer period which can be found on page 23 (the "Viability Statement") of the integrated report and accounts.

The financial statements on pages 94 to 202 were approved by the Board on 20 March 2018 and signed on its behalf by Herbert Cordt, Stefan Borgas and Octavio Lopes.

# Audit Committee Report

## The Audit Committee advises the Board in relation to the financial reporting process and its other responsibilities and prepares resolutions of the Board in relation thereto.

The responsibilities of the Audit Committee focus on supervising the activities of the Board with respect to:

- Supervising and monitoring the effect of internal risk management and control systems, including supervision of the enforcement of the relevant legislation and regulations, and supervising the effects of the code of conduct;
- Supervising the recording, management and submission of financial information by the Company (including choices of accounting policies, application and assessment of the effects of new rules, information regarding the handling of estimated items in the financial statements, forecasts, work of the internal auditor and the external auditor);
- Supervising the compliance with recommendations and observations of the internal auditor and the external auditor;
- Supervising the functioning of the internal audit department and controllers, and in particular, codetermining the plan of action for the internal audit department and taking note of the findings and considerations of the internal audit department;
- Supervising the policy of the Company on tax planning;
- Supervising the financing of the Company;
- Supervising the applications for information and communication technology;
- Supervising the relationship with the external auditor including, in particular, assessing its independence, remuneration and non-audit related work for the Company;
- Determining the involvement of the external auditor in respect of the contents and publication of financial reporting by the Company (other than the Annual Accounts), and acknowledging irregularities in respect of the content of the financial reporting as may be reported by the external auditor;
- Recommending the appointment of an external auditor by the General Meeting and
- Approving the Annual Accounts and the annual budget.

The Audit Committee maintains regular contact with and supervises the external auditor.

The Audit Committee comprises three members, all of whom are Independent Non-Executive Directors. Appointments to the Committee are made by the Board. The Board has satisfied itself that the Committee's membership includes Directors with recent and relevant financial experience.

The members of the Committee that served since 6 October 2017 were:

| | |
|---|---|
| John Ramsay | Chairman |
| Wolfgang Ruttensdorfer | Member |
| Andrew Hosty | Member |

### Meetings attendance

The Committee meets as required, but not less than three times a year.

Since 6 October 2017, the Audit Committee met on the following dates:

- 13 December 2017
- 21 February 2018
- 8 March 2018
- 19 March 2018

All Audit Committee members have attended all meetings of the Audit Committee to date.

The Chief Financial Officer was present at all meetings of the Audit Committee to date.

The Chairman and the Chief Executive Officer were present at all the meetings of the Audit Committee to the date with the exception of the ones that took place on 8 March 2018 and 19 March.

The Chairman of the Committee has had monthly private discussions with the external auditor and the CFO, since December 2017.

## Committee activities

The main activities of the Committee included the following:

- The critical review of the significant financial reporting issues in connection with the preparation of the Company's financial and related formal statements, with the assistance of reports received from management and the external auditor;
- An assessment of the scope and effectiveness of the systems established to identify, assess, manage and monitor financial and non-financial risks;
- Monitoring and reviewing the plans, work and effectiveness of the internal audit function, including any actions taken following any significant failures in internal controls;
- Review of the external auditor, its terms of engagement, findings of its work and at the end of the audit process reviewing its effectiveness;
- Review of the independence and objectivity of the external auditor;
- Reviewing the process of purchase price allocation after the merger of RHI and Magnesita and definition of appropriate accounting policy regarding the transaction;
- Review of treasury guidelines; and
- Review of financing options.

## External auditor

The Company's external auditor, PricewaterhouseCoopers Accountants N.V. (PwC), was appointed at the Annual General Meeting held on 4 October 2017.

The external auditor reports to the Committee on the actions taken to comply with professional and regulatory requirements and with best practice designed to ensure its independence.

The performance of the external auditor is reviewed by the Audit Committee on an annual basis through a qualitative assessment of the services provided against the agreed audit plan and taking account of feedback received from management. Following this review, the Audit Committee is satisfied that the external audit process operates effectively.

## Internal control

In the course of the preparation of the merger of RHI and Magnesita, there have been several internal and external activities focused on the control environment of RHI and Magnesita as a stand-alone entity as well as the newly founded group. These have included:

- The full year audit of the 12 months ended 31 December 2017 of RHI Magnesita N.V. performed by PwC for the purpose of this Annual Report and Accounts;
- The full year audit of the 12 months ended 31 December 2017 of Magnesita performed by PwC for the purpose of the Annual Report and Accounts to be published under the regulations of the stock-exchange of São Paulo;
- The half year audit of the six months ended 30 June 2017 of RHI performed by PwC for the purposes of the Prospectus;
- The half year audit of the six months ended 30 June 2017 of Magnesita performed by PwC for the purposes of the Prospectus;
- Financial Prospects and Procedures report produced by PwC on RHI and a Financial Prospectus and Procedures report produced by EY on Magnesita.

The statutory audits have not resulted in any significant control issues being brought to the attention of the Committee that would require material adjustment to the accounts.
The Financial Prospectus and Procedure work concluded that both businesses have well established and robust procedures, systems, controls and people to enable them to comply with their obligations, including compliance with the listing rules and disclosure guidance and transparency rules. The Financial Prospectus and Procedures work also enabled the Board to attest in the Prospectus issued in September 2017 that responsibility exists for the merged entity, RHI Magnesita N.V., to establish procedures that provide a reasonable basis for making proper judgements on an ongoing basis as the Financial Prospectus and Procedures of the Company and its Group.

The combined business is facing additional risks as a direct result of the integration. This means that in 2018 there will be more focus on areas of the business affected by integration where changes in systems, personnel or processes could lead to weaknesses in internal controls during the transitional period.

**JOHN RAMSAY**
CHAIRMAN OF THE AUDIT COMMITTEE

# Remuneration Committee Report

## Dear Shareholders

I am pleased to present the Report of the Remuneration Committee for the financial year ended 31 December 2017.

RHI Magnesita, the combination of the businesses of RHI and Magnesita, was incorporated on 20 June 2017 and admitted to the London Stock Exchange on 27 October 2017. As a Dutch incorporated and registered company that is listed on the London Stock Exchange, RHI Magnesita is required to comply with both UK and Dutch reporting requirements including their respective Corporate Governance Codes. The Board has also determined to provide certain additional voluntary disclosures recognising the importance of best practice and transparency of reporting. Our Remuneration Report is compiled on this basis and the following Annual General Meeting ("AGM") resolutions will be presented to shareholders at the AGM for approval:

- A binding shareholder resolution to approve the new Directors' Remuneration Policy. Subject to shareholders' approval at the AGM, the Directors' Remuneration Policy will be effective from 1 January 2018 and is intended to operate for the three-year period to January 2021; if approval is not obtained the current policy will continue to apply.
- An advisory shareholder resolution to approve this Annual Statement and the Annual Report on Remuneration; and
- A binding shareholder resolution to approve the new RHI Magnesita long-term incentive plan.

## Remit of the Committee

In consultation with the other Non-Executive Directors, the Committee has responsibility for proposing to the Board the remuneration for the Chairman and Executive Directors. It also oversees and monitors the level and structure of remuneration for senior management. As reflected by the proposed changes to the UKCGC the Committee, in addition, will review and provide input into the remuneration policy and structure for Group employees as a whole. The Committee and the full Board understand the importance and support the principle of ensuring that both the remuneration policy for senior management and employees as a whole are aligned and supportive of the Group's business strategy. Further, the Committee has the benefit of the involvement of the employee representatives who sit on the Board and therefore are able to consider and comment on the Committee's proposals to the Board prior to the Board's decisions on remuneration matters.

## Review of 2017 and work of the Committee

Prior to the business combination, the Chief Executive Officer ("CEO") of RHI Magnesita was the CEO of the RHI business and the Chief Financial Officer ("CFO") was the CEO of the Magnesita business. The remuneration structures, prior to Admission, were set by the respective remuneration committees of RHI for the CEO and Magnesita for the CFO. As a short-term measure, the Directors' remuneration arrangements, in place at the time of Admission, were adopted as the Directors' Remuneration Policy, which allowed the Executive Directors' existing remuneration packages to continue post Admission. Full details of these packages were set out in the Admission document and are included in the Annual Report on Remuneration.

The Committee's time since Admission has been spent predominantly on the design of the new Directors' Remuneration Policy which is compliant with UK and Dutch governance. As part of this design work we have considered how to implement the policy for the financial year 2018. The Committee's work in this area has been informed by consultation with our major shareholders. We have consulted on our proposals face to face with our three largest shareholders and corresponded with a further 15 shareholders and three investor bodies to gather their views and opinions. The majority of shareholders consulted were supportive of our proposals.

The Committee has produced a Remuneration Report that provides a summary of the different elements of the remuneration packages of the Executive Directors for the financial year 2017 and the actual remuneration for the period from the date of Admission (27 October 2017 to 31 December 2017).

At the end of the 2017 financial year, the Committee reviewed the extent to which the targets under the respective pre-Admission Annual Bonus Plans of RHI for the CEO and Magnesita for the CFO had been met, taking into account performance during 2017. The targets for the Annual Bonus for the CEO were set at the beginning of 2017 by the remuneration committee of RHI and were based on three financial measures relating to the RHI business alone: RHI Group Operating Earnings Before Interest and Tax (EBIT), RHI Group Operating Return on Operating Average Capital Employed (ROACE) and RHI Group Net Debt and a non-financial target relating to the acquisition, merger and listing of RHI Magnesita. The targets for

the Annual Bonus for the CFO were set at the beginning of 2017 by the remuneration committee of Magnesita and were based on two financial measures relating to the Magnesita business alone: Magnesita Group Economic Profit and Magnesita Group Operating Cash Flow and Magnesita Group safety key performance indicators.

The targets and performance against them for both the CEO and CFO have been subject to independent audit and are disclosed in the Annual Report on Remuneration, resulting in an award of 99.8% of base salary for the CEO and 101.0% of salary for the CFO out of a maximum of 120% of salary respectively.

There were no long-term incentives subsisting at the time of Admission. The CEO's 2017 phantom share award vested prior to Admission and will be paid in three equal tranches in 2018, 2019 and 2020.

## Policy overview

The Remuneration Policy has been designed to be in line with market practice for UK-listed companies, while taking into account a number of legacy issues and Dutch law. In determining the new Remuneration Policy and implementation of that Policy for 2018 we have taken into account the existing contractual entitlements and target remuneration levels of the Executive Directors, as well as the remuneration policy in operation at the time of Admission and the views of shareholders gained during our consultation.

Certain aspects of this new policy are applicable to the current Executive Directors only and reflect the historic structure of their remuneration and legacy contracts, for example the salaries of the CEO and CFO were set prior to Admission. Further, the CFO will retain his legacy 2017 remuneration package for 2018 and the Committee will explore with him during the course of 2018 how his package for 2019 can be aligned to the new remuneration policy and strategy. It is our wish to bring the Executive Directors' remuneration packages within the new remuneration strategy in the medium term while acknowledging that this may practically only be fully achievable if and when new incumbents are appointed.

Our forward-looking remuneration policy, structured in line with market practice for UK-listed companies, comprises: base salary; standard benefits and retirement allowance; annual bonus with 50% of the bonus paid in excess of target being invested in shares of the Company and held for at least three years; and performance share awards with three-year performance and vesting periods plus a requirement to hold the vested shares (after sales to meet tax) for a two-year period post vesting. The Executive Directors will also have a shareholding requirement under which they will be required to build up over five years a holding of shares in the Company which will be retained while they are Executive Directors of the Company. This shareholding requirement is set at 200% of their salary.

## Implementation of the policy for 2018

### Fixed pay

Both Executive Directors retain their 2017 level of fixed pay for 2018. However, the CEO's base salary is reduced by 13% with the reduction provided as a retirement allowance. No salary increases will take place in 2018.

### Annual bonus and long-term incentive awards

The CEO's annual bonus opportunity for 2018 is 150% of salary and the CFO's 120% of salary. The bonus will be based 75% on Group financial metrics (35% Operating EBIT measured on a constant currency basis; 25% Free Cash Flow; 15% Synergy targets) and 25% on key strategic priorities of the business, which are critical to the future profitability of the Group.

The performance targets for the annual bonus are considered by the Board to be commercially sensitive and will be disclosed retrospectively in the 2018 Remuneration Report provided they are not considered to still be commercially sensitive at that time.

The CEO will be granted a long-term incentive performance share award in 2018 with the potential, if performance targets are met, to receive three years later shares with a market value at the date of grant (in 2018) of 200% of salary. The CFO will not receive a long-term incentive as he is retaining his 2017 pre-Admission remuneration package which does not include a long-term incentive element. The performance targets that will determine vesting of the performance share award will be based one-third on adjusted earnings per share (EPS) targets, one-third on reported EBIT targets and the remaining third on relative Total Shareholder Return (TSR).

# Remuneration Committee Report
continued

25% of the TSR part of the award will vest for matching the FTSE 350 All Share Index performance and 100% for achieving TSR that is at least 25% in absolute terms higher than the Index (e.g. if Index TSR is 23% over three years then the vesting range is TSR of 23% to 48%) (with straight line vesting in between). Given the complexities of a merger on end of year reporting, the Board will not be able to finalise the EPS and EBIT targets until after this report is published. These targets will exceptionally therefore not be included in the 2017 Remuneration Report but will be included in the announcement to the market when awards are made. Further details of the proposed long-term incentive performance share awards are provided in the notice of AGM.

**Managing risk and ensuring alignment of pay with shareholder returns**
The Committee strongly believes that the Executive Directors' pay should reflect the shareholders' experience. The Committee may therefore amend the annual bonus and/or performance share plan awards if it considers the performance outcome is not representative of the underlying performance of the Company and/or there have been regulatory, environmental or health and safety issues that the Committee considers are of such severity that a scale back is appropriate. Further, the Committee may recoup (through clawback and malus) variable pay awards as detailed in the Remuneration Policy.

**Cascade of policy**
The principles of the Executive Directors' Remuneration Policy, including participation in the Group's long-term incentive plan through the grant of performance share awards will be cascaded to the Executive Management Board.

**Non-Executive Director remuneration**
The structure of remuneration for the Non-Executive Directors follows standard UK market practice with a base fee plus additional Board Committee membership and chairmanship fees. No incentives, pension or other similar forms of remuneration are payable. Further details are set out in the Remuneration Report.

**Conclusion**
We believe that the proposed Remuneration Policy and its implementation for 2018 is strongly aligned to the Company's business strategy and long-term shareholder interests. We do hope you will be supportive of our new policy, its application for financial year 2018 and new long-term incentive plan.

**CELIA BAXTER**
CHAIRMAN OF THE REMUNERATION COMMITTEE

# Directors' Remuneration Policy

As a short-term measure, the directors' remuneration arrangements in place at the time of Admission were adopted as the Directors' Remuneration Policy, which enabled the Executive Directors' remuneration packages to continue post-Admission. The intention of the newly appointed Remuneration Committee was to develop a new Remuneration Policy for 2018 that complied with UK governance.

This Directors' Remuneration Policy will be presented to shareholders at the June 2018 AGM. Subject to shareholder approval, the policy will be effective from 1 January 2018 and is intended to operate for the three-year period to January 2021.

### Policy overview

The Remuneration Committee has responsibility for determining the remuneration for the Chairman and Executive Directors.

The aim of the Company's remuneration strategy is to provide a level of fixed pay that, together with incentives, will attract, retain and motivate high-calibre, high-performing executives, aligning them to the long-term performance of the Company and its long-term share performance while rewarding them for creating and delivering shareholder value.

The remuneration policy put in place when the Company listed replicated the Executive Directors' existing remuneration arrangements created by RHI and Magnesita for the CEO and CFO respectively. This enabled the continuation of the Executive Directors' remuneration structure prior to listing while a new policy was developed by the Remuneration Committee to bring to the Company's first AGM for approval.

Only certain aspects of this new policy are applicable to the current Executive Directors and reflect the historic structure of their remuneration and legacy contracts for example, the salaries of the CEO and CFO were set prior to Admission. In addition, the CFO will retain his legacy 2017 remuneration package for 2018 and the Committee will explore with him during the course of 2018 how his package for 2019 can be aligned to the new forward-looking policy and remuneration strategy. It is the Remuneration Committee's wish to bring the Executive Directors' remuneration packages within the new remuneration strategy within the medium term while acknowledging that this may practically only be fully achievable if and when new incumbents are appointed.

The remuneration policy has been structured in line with market practice for UK-listed companies, while taking into account the legacy issues and Dutch law.

### The remuneration policy for Executive and Non-Executive Directors

The table on pages 74 to 77 sets out the remuneration policy for the Executive Directors.

# Directors' Remuneration Policy
continued

## Policy table for Executive Directors

| Element and purpose | How it operates | Maximum opportunity | Performance related framework and recovery |
|---|---|---|---|
| **Base salary**<br><br>To assist in the recruitment and retention of appropriate talent.<br><br>To provide a fair fixed level of pay commensurate for the role ensuring no over reliance on variable pay. | Salaries are paid monthly and reviewed annually.<br><br>The Company's policy is to set salaries at mid-market levels taking into account salaries at companies of a similar size by market capitalisation, revenue and any other factors considered relevant by the Committee such as international business mix and complexity.<br><br>Decisions on salary are influenced by:<br>• The performance and experience of the individual<br>• The performance of the Group<br>• The individual's role and responsibilities and any change in those responsibilities<br>• Pay and employment conditions elsewhere in the Group<br>• Rates of inflation and market-wide increases across international locations<br>• The geographic location of the executive<br><br>The salaries of the CEO and CFO were set prior to Admission. | There is no prescribed maximum annual base salary or salary increase.<br><br>In respect of salary increases the Committee is guided by the general increase for the broader employee population and region where the executive is based.<br><br>Increases beyond this may be awarded in certain circumstances such as where there is a change in responsibility and experience or the scale of the role or size, value or complexity of the business. | Salaries will be reviewed by the Committee annually taking into account the various factors noted in the "How it operates" section of the policy. |
| **Retirement allowance**<br><br>To provide competitive retirement benefits for recruitment and retention purposes. | Directors may participate in a defined contribution plan, and/or receive cash in lieu of all or some of such benefit.<br><br>Only base salary is pensionable.<br><br>Exceptionally for Executive Directors outside the UK the pension will be structured as required by local regulation and in line with industry norms.<br><br>The CFO receives a cash payment in lieu of pension of 30% of salary. This is a legacy issue where the pension entitlement was set on recruitment. | For the CEO and new Directors 15% of salary.<br><br>For the current CFO 30% of salary.<br><br>Exceptionally for Executive Directors outside of the UK an amount as required by local regulation and in line with industry norms. | None |
| **Other benefits**<br><br>To provide a competitive benefit package for recruitment and retention purposes as well as to support the personal health and well-being of the executive. | Benefits provided currently include: private health insurance, life insurance, car/ car allowance and fuel allowance.<br><br>The current CFO is entitled to reasonable relocation expenses on termination of his contract (by either party). This is a legacy issue where the benefit was in place prior to Admission.<br><br>Additional benefits and tax payable as a result of reimbursement of reasonable business expenses may be provided from time to time if the Committee decides payment of such benefits and tax is appropriate and in line with market practice. | There is no maximum level of benefits provided to an Executive Director. | None |

| Element and purpose | How it operates | Maximum opportunity | Performance related framework and recovery |
|---|---|---|---|
| **Annual bonus**<br><br>To provide focus on the short-term performance of the Company and to provide a reward for achieving short-term personal, strategic and financial Company performance.<br><br>To provide a mechanism for alignment with longer-term performance and shareholder alignment.<br><br>The requirement for Executive Directors to acquire shares with their bonus aligns them to the "development of the market price of the shares" in the Company as provided in the Dutch Corporate Governance Code. | The annual bonus is based on the Group's performance as set and assessed by the Committee on an annual basis.<br><br>The annual bonus is paid in cash and the Executive Directors (except for the CFO in respect of his 2018 annual bonus) are required to acquire shares in the Company with 50% of the amount paid in excess of target (after tax) which will be held for a minimum period of three years. | Up to 150% of base salary maximum potential opportunity.<br><br>Target potential opportunity is 50% of maximum opportunity.<br><br>For 2018 the CFO's target potential opportunity will be 100% of salary which is 83.3% of maximum (on the basis that his maximum potential opportunity will be 120% of salary), and threshold potential opportunity will be 66.6% of maximum (being 80% of salary). | Details of the performance targets set for the year under review and performance against them will normally be provided each year in the Annual Report on Remuneration. If for reasons of commercial sensitivity, the targets cannot be disclosed then they will be disclosed in the following year.<br><br>Performance normally measured over a one-year period.<br><br>Targets will be based on the Group's annual financial and non-financial performance for the particular performance year. At least 70% of the bonus will be subject to financial performance metrics.<br><br>The Committee may scale back the bonus that is payable if it considers the outcome to be reasonably unacceptable or if it is not representative of the underlying performance of the Company and/or there have been regulatory, environmental or health and safety issues that the Committee considers are of such severity that a scale back of the bonus is appropriate.<br><br>For the financial targets, not more than 25% of the maximum potential bonus opportunity will be payable for achieving threshold performance rising on a graduated scale to 100% for maximum performance. Threshold performance being the level of performance required for the bonus to start paying.<br><br>In relation to strategic targets the structure of the target will vary based on the nature of the target set and it will not always be practicable to set targets using a graduated scale. Vesting may therefore take place in full if specific criteria are met in full.<br><br>Payments under the annual bonus plan may be subject to clawback/malus for a period of three years from payment in the event of a material misstatement of the Company's financial results, an error in calculating the level of grant or level of vesting or payment, a failure of risk management including the liquidation of the Group, if the participant has been guilty of fraud or gross misconduct or the Company has been brought into disrepute. The clawback/malus provisions as set out above do not limit Article 2:135 of the Dutch Civil Code. |

# Directors' Remuneration Policy
continued

## Policy table for Executive Directors continued

| Element and purpose | How it operates | Maximum opportunity | Performance related framework and recovery |
|---|---|---|---|
| **Performance Share awards granted under the RHI Magnesita Long-Term Incentive Plan**<br><br>To incentivise and reward execution of the longer-term business strategy.<br><br>To provide alignment to shareholders and the longer-term performance of the Company and to recognise and reward value creation over the longer term.<br><br>The "development of the market price of the shares" in the Company is, as required by the Dutch Corporate Governance Code, taken into account by providing a long-term incentive using shares as the delivery mechanism. In addition, part of the award is determined by Total Shareholder Return which is a measure of share price performance. | Performance share awards may take the form of nil-cost options or conditional awards. Awards are normally made annually.<br><br>Awards normally vest after three years subject to performance and continued service. Where Executive Directors cease employment or are under notice prior to the three-year vesting date different rules may apply.<br><br>Shares resulting from the exercise of an option or vesting of a conditional award cannot be sold until five years have elapsed from the date of award, other than to pay tax.<br><br>To the extent an award vests, the Committee may permit dividend equivalents to be paid either in the form of cash or shares representing the dividends that would have been paid on those shares during the vesting period (and where the award is a nil-cost option to the fifth anniversary of award). Dividend equivalents are payments in cash or shares equal to the value of the dividends that would have been paid during the period referred to above, on the number of shares that vest. | 200% of salary (face value of award) annually (normal limit). Where the face value is the market value of the shares subject to an award at the time it is awarded.<br><br>In exceptional circumstances on recruitment 250% of salary (face value of award). | Awards vest based on three-year (or longer) performance measured against a range of challenging targets set and assessed by the Remuneration Committee. The Committee will determine the specific metrics and targets that will apply to each award prior to the date of award subject to the vesting of at least 25% of an award being determined by Total Shareholder Return.<br><br>The targets for each award will be set out in the Annual Report on Remuneration.<br><br>In relation to financial targets not more than 25% of the total award will vest for threshold performance rising on a graduated scale to 100% for maximum performance. Threshold performance being the level of performance required for the Performance Shares to start to vest. In relation to strategic targets the structure of the target will vary based on the nature of the target set and it will not always be practicable to set targets using a graduated scale and so vesting may take place in full if specific criteria are met in full.<br><br>The Committee may scale back the level of vesting if it considers the outcome to be reasonably unacceptable or if it is not reflective of the underlying performance of the Company and/or there have been regulatory, environmental or health and safety issues that the Committee considers are of such severity that a scale back of the Performance Share award is appropriate.<br><br>Performance Shares may be subject to clawback/malus for three years from the date of vesting in the event of a material misstatement of the Company's financial results, an error in calculating the level of grant or level of vesting or payment, a failure of risk management including the liquidation of the Group, if the participant has been guilty of fraud or gross misconduct or the Company has been brought into disrepute. The clawback/malus provisions as set out above do not limit Article 2:135 of the Dutch Civil Code. |
| **Share ownership**<br><br>To increase alignment between management and shareholders and the longer-term performance of the Company. | Requirement for the Executive Directors is to normally retain all of the shares acquired from annual bonus payments following expiry of the three-year holding period and normally 50% of vested Performance Shares (net of tax) following the two-year holding period until the shareholding requirement is achieved.<br><br>The Committee normally expects this requirement to be met within five years of appointment or approval of this Policy, if later. | The level of requirement will be disclosed in the Annual Report on Remuneration. | None. |

The table below sets out the remuneration policy for the Non-Executive Directors (including the Chairman).

## Policy table for Non-Executive Directors

| Element and purpose | How it operates | Maximum opportunity | Performance related framework and recovery |
|---|---|---|---|
| **Non-Executive Directors (including the Chairman and Deputy Chairman)**<br><br>To provide fees reflecting time commitments and responsibilities of each role to enable recruitment of the right calibre of Non-Executive Directors who can further the interests of the Group through their experience, stewardship and contribution to strategic development of the Group. | The Non-Executive Directors are paid a basic fee. Supplemental fees may be paid for additional responsibilities and activities, including for a Committee Chairman and member of the main Board Committees and the Senior Independent Director.<br><br>Cash fee normally paid quarterly. The Chairman's fee is inclusive of all of his responsibilities.<br><br>Reasonable expenses incurred by the Non-Executive Directors in carrying out their duties may be reimbursed by the Company including any personal tax payable by the Non-Executive Directors as a result of reimbursement of those expenses. The Company may also pay an allowance in lieu of expenses if it deems this is appropriate.<br><br>Fees are reviewed periodically. | There is no prescribed maximum annual fee or fee increase.<br><br>The Board is guided by the general increase in the Non-Executive market but may decide to award a lower or higher fee increase to recognise, for example, an increase in the scale, scope or responsibility of the role and/or take account of relevant market movements. | None. |

# Directors' Remuneration Policy
continued

## Performance criteria and discretions

### Selection of criteria

The Committee assesses annually at the beginning of the relevant performance period which performance measures, or combination and weighting of performance measures, are most appropriate for both annual bonus and any performance share awarded to reflect the Company's strategic initiatives for the performance period. The Committee has the discretion to change the performance measures for awards granted in future years based upon the strategic plans of the Company. The Committee sets what it considers are demanding targets for variable pay in the context of the Company's trading environment and strategic objectives and considering the Company's internal financial planning, and market forecasts. Any non-financial goals will be well defined.

### Discretions retained by the Committee

The Committee operates the Group's variable pay plans according to their respective rules. In administering these plans, the Committee may apply certain operational discretions. These include the following:

- determining the extent of vesting based on the assessment of performance;
- determining the status of leavers and, where relevant, the extent of vesting;
- determining the extent of vesting of awards under share based plans in the event of a change of control; and
- making appropriate adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events, variation of capital and special dividends);
- adjusting existing targets if events occur that cause the Committee to determine that the targets set are no longer appropriate and that amendment is required so the relevant award can achieve its original intended purpose, provided that the new targets are not materially less difficult to satisfy.

The Committee also retains discretion to make non-significant changes to the Policy without reverting to shareholders (for example, for regulatory, tax, legislative or administrative purposes).

## Executive Directors' service contracts and payments for loss of office

Service contracts and letters of appointment are available for inspection at the Company's registered office.

### Service contracts and loss of office

It is the Company's policy that notice periods for Executive Directors will not exceed 12 months and the service contracts for the Executive Directors Messrs Borgas and Lopes are terminable by either the Company or the Executive Director on 12 months' notice.

The Committee's policy in relation to termination of service contracts is to deal with each case on its merits having regard to the circumstances of the individual, the termination of employment, any legal advice received and what is in the best interests of the Company and its shareholders. An Executive Director's service contract may be terminated early (other than for cause) by payment in lieu of salary in equal monthly instalments over the notice period. The Company may include pension contributions and benefits within the payment in lieu of notice if this is deemed appropriate or is specifically provided for in the service contract. Unless a contract specifically provides otherwise, all payments would discontinue or reduce to the extent that alternative employment is obtained. There are no enhanced provisions on a change of control and there are no specific severance arrangements.

An Executive Director's service contract may be terminated without notice for certain events such as gross misconduct in which case no payments or compensation beyond sums accrued to the date of termination will be paid.

The Company may also pay outplacement costs, legal costs and other reasonable relevant costs associated with termination and may settle any claim or potential claim relating to the termination.

### Treatment of variable pay awards on termination

Annual bonuses and Performance Share awards are non-contractual and are dealt with in accordance with the rules of the relevant plans except that if Octavio Lopes' contract is terminated by the Company before payment is made of his 2017 bonus then he shall remain entitled to that bonus to be paid on the same date of payment as for the other executives of the Company.

At the discretion of the Committee, in certain circumstances, for example, to incentivise short-term retention and completion of key business deliverables, and where poor performance is not relevant to the cessation, a pro-rata bonus may become payable at the normal payment date for the period of employment with financial performance targets based on full year performance. Where the Committee decides to make a payment, the rationale will be fully disclosed in the Annual Report on Remuneration.

The default treatment for share based awards is that any unvested award will lapse on termination of employment or, in certain circumstances on the executive giving notice. However, under the rules of the long-term incentive plan under which Performance Share awards will be made, in certain prescribed circumstances, such as death, injury, ill-health, retirement with the Company's agreement, redundancy, leaving the Group because the employer company or business leaves the Group or where the Committee determines otherwise, awards are eligible to vest subject to the performance conditions being met over the normal performance period (or a shorter period where the participant has died) and with the award being reduced (unless the Committee considers, in exceptional circumstances, a different treatment is appropriate) by an amount to reflect the proportion of the performance period not actually served.

**Approach to recruitment and promotions**
The recruitment package for a new Director would be set in accordance with the terms of the Company's approved remuneration policy.

On recruitment, salary may be set below the normal market rate, with phased increases as the Director gains experience.

Annual bonus opportunity will reflect the period of service for the year.

The normal annual Performance Share award limit is 200% of salary face value in a financial year (face value being the market value of the shares subject to an award at the time it is awarded). A higher limit of 250% of salary (face value) is included in the recruitment policy for use in exceptional circumstances for the Company to be able to attract and secure the right candidate if required. A Performance Share award may be made shortly after an appointment if the usual annual award date has passed.

On an internal appointment, any variable pay element awarded in respect of their prior role will normally be allowed to continue according to its terms.

The policy enables the Committee to include those benefits it deems appropriate for an Executive Director. On recruitment, this may include benefits such as relocation, housing or schooling expenses. In arriving at a benefits package the Committee's prevailing consideration will be to pay only what is considered necessary and appropriate taking into account the importance of securing the right candidate for the job and acting in the best interests of the Company's shareholders and limiting certain benefits to a specified period where possible.

On recruitment, the Company may compensate for incentive pay (or benefit arrangements) foregone from a previous employer. Replacement share awards would be made under the Company's long-term incentive plan and any subsequently adopted share plans using the separate specific limit for these purposes of 250% of salary (face value) or as necessary and as permitted under the Listing Rules. The new awards would take account of the structure of awards being forfeited (cash or shares), quantum foregone, the extent to which performance conditions apply, the likelihood of meeting any existing performance conditions and the time left to vesting.

**Policy for Executive Directors on external appointments**
Subject to Board approval, Executive Directors may accept external non-executive positions and retain the fees payable for such appointments.

**Non-Executive Directors**
**Letters of appointment and policy on recruitment**
All Non-Executive Directors have letters of appointment for a fixed period of three years, subject to reappointment each year at the AGM. No additional compensation is payable on termination, with fees being payable to the date of termination. The appointments are terminable by either party on three months' written notice.

On appointment of a new Non-Executive Director, the fee arrangement will be set in accordance with the approved remuneration policy in force at that time.

# Directors' Remuneration Policy
continued

### Legacy arrangements
In approving this Directors' Remuneration Policy, authority is given to the Company to honour any commitments entered in to with Directors, which were fully disclosed in the Admission document. Details of any such payments will be set out in the Annual Report on Remuneration as they arise.

### How the views of shareholders and employees are taken into account
The Committee formally consults directly with employees on executive pay via the Employee Representatives appointed to the Board. In addition, the Committee takes due account of the overall approach to remuneration and the remuneration structures for employees in the Group when setting pay for the Executive Directors, for example consideration is given to Group-wide increases when determining any Executive Director salary increases. The Committee receives periodic updates from the CEO and Human Resources Director function of the Group which includes employee feedback received on remuneration practices across the Group. The Committee recognises the importance of employee communication and this was a major consideration in the appointment of the Employee Representatives to the Board.

The Committee consulted with major shareholders on the terms of the remuneration policy to be brought to shareholders at the 2018 AGM and took note of guidance from shareholder representative bodies. Views expressed and guidance provided were taken into account when finalising the policy, for example in ensuring that the design of the various elements of pay and other parts of the policy is in line, as far as possible taking into account that views differ between investors and that the policy must support the strategy of the Company, with their views and guidance. The Committee will consider any further shareholder feedback received in relation to the policy at the AGM. This, plus any feedback received from time to time, as well as guidance from shareholder representative bodies more generally will be considered as part of the Company's annual review of remuneration policy and implementation of that policy.

Remuneration comparison measurement was considered as part of the Committee's formulation of policy in terms of considering remuneration data for companies of a comparable size and complexity to the Company. This was only one of many factors considered by the Committee.

The Committee has taken note of the views of the Executive Directors with regard to the amount and structure of their remuneration and the provisions of 3.1.2 of the Dutch Corporate Governance Code (matters that should be taken into consideration when formulating the remuneration policy) have been brought to their attention.

### How the Executive Directors' Remuneration Policy relates to the wider Group
The policy described above applies specifically to the Company's Executive and Non-Executive Directors. The Committee is aware of and provides feedback on the wider Group remuneration structures. The Company's policy is for the Executive Directors' remuneration policy and structure to be cascaded as far as practicable to the senior management team and for the overriding principles to be taken into account for the Group-wide policy.

Base salaries for the whole Group are operated under broadly the same policy as for the Executive Directors. The key difference between the Executive Directors' policy and the wider Group's policy is that the Executive Directors' packages (and the senior management team to a lesser extent) are weighted more to variable pay. Performance Share awards are reserved for those identified as having the greatest potential to influence Group level performance which, given the cost of operating such a plan, the Committee considers is the right approach and in the best interests of the Company and its shareholders.

## Pay ratios

In formulating the Directors' Remuneration Policy, the Remuneration Committee has been cognisant of the relative pay levels of the Executive Directors, the rest of the management team and the Group employees. The Dutch Corporate Governance Code recommends that from the financial year 2019, the UK Directors' Reporting Regulations will require the Committee to consider and report pay ratios including changes from the prior year as part of its determination of executive pay.

RHI Magnesita was formed on 20 June 2017 and admitted to trading on 27 October 2017. There is therefore no prior year comparator information for this year's reporting. Given the complexities of the recent merger of two large groups providing data for a large reference group is challenging. The pay ratio of the CEO to the average employee for the period 27 October 2017 to 31 December 2017 is 50:1. This is arrived at using the CEO's Single Total Figure of remuneration shown on page 83 and the total employee remuneration figure (for the entire RHI Magnesita Group) shown in the accounts on page 33 and apportioned for the period 27 October 2017 to 31 December 2017. The total employee remuneration figure is for all employees in all Group companies and includes countries with significantly lower levels of pay than Europe and the United States. The Committee will consider over the course of 2018 what further information can be provided to shareholders in future years taking into account the Dutch and the new UK requirements (details of which should be available later this year) including what elements of pay should be covered and what an appropriate representative reference group might be.

## Remuneration scenarios for Executive Directors

The Executive Director remuneration policy provides that a significant proportion of remuneration is determined by Group performance. The graph below illustrates how the total pay opportunities vary under three different performance scenarios: minimum, target and maximum. The graph has been prepared on the basis of implementation of the policy in 2018 and ignores the impact of future share price growth and the payment of dividend equivalents.

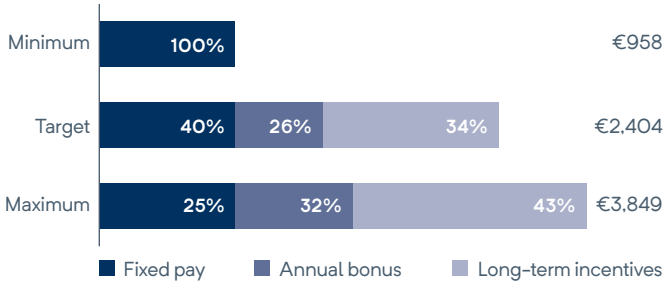
### Assumptions

Minimum: Fixed pay only (base salary, pension and benefits).
Target: Fixed pay plus 50% of 2018 maximum annual bonus opportunity for the CEO and 83.3% for the CFO with 50% vesting of the 2018 Performance Share award for the CEO. There is no 2018 Performance Share award for the CFO.
Maximum: Fixed pay plus maximum annual bonus opportunity and 100% vesting of 2018 Performance Share award.

As required under the Dutch Corporate Code, scenario analyses have been carried out as part of the formulation of the policy and to establish that the policy results in appropriate and fair levels of remuneration including that the level and ratio of fixed to variable pay does not encourage inappropriate risk taking or over-reliance on variable pay while ensuring there is sufficient alignment to investors and the long-term performance of the Company and development of the market value of the shares of the Company.

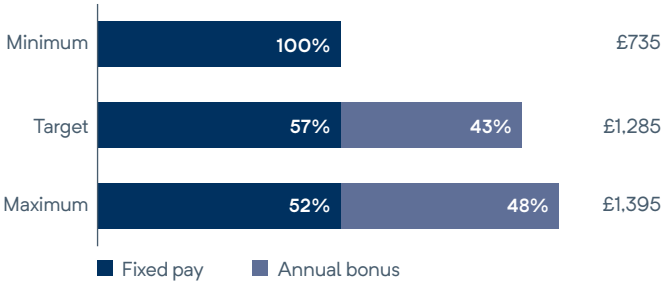
### Chief Executive Officer

€'000




### Chief Financial Officer

£'000



# Annual Report on Remuneration

## As a Dutch incorporated and registered and UK listed company RHI Magnesita is required to comply with both UK and Dutch reporting requirements including the UK and Dutch Corporate Governance Codes.

The Board has also determined to provide certain additional voluntary disclosures recognising the importance of best practice and transparency of reporting. This Annual Report is compiled on this basis.

The remuneration arrangements for the Executive Directors contribute to long-term value creation:

- By providing a fair and appropriate level of fixed remuneration that does not result in over-reliance on variable pay and undue risk taking, thereby encouraging the executives to focus on sustained long-term value creation.
- By providing a balance of short- and long-term incentives to ensure there is focus on short term objectives that will over time build to create long-term value creation as well as long-term goals.
- By requiring executives to acquire and retain shares in the Company.
- By offering long-term incentives where the reward is delivered in shares which aligns executives to shareholder interests and value as well as the performance of the Company over the longer term.
- By requiring performance measures in our long-term incentive to be measured over the longer term and for shares to be held post vesting for a further two-year period.
- By incorporating metrics focused on long-term shareholder value, such as total shareholder return.

A scenario analysis has been carried out as part of the formulation and implementation of the policy and is referred to in more detail in the policy section of this report. The Committee typically reviews, on at least an annual basis, the impact of different performance scenarios on the potential opportunity and payouts to be received by Executive Directors and the alignment of these with the returns that might be received by shareholders.

The pay ratio of the CEO to the average employee within the Company is provided in the policy section of this report.

The following section provides details of how the Company's Directors were paid during the financial year to 31 December 2017.

### Remuneration Committee membership

Celia Baxter is the Chairman of the Committee and James Leng and Karl Sevelda members of the Committee. They are all Independent Non-Executive Directors within the meaning of the UK and Dutch Corporate Governance Codes. The Company Secretary is the Secretary to the Committee.

Other individuals, such as the Chief Executive Officer, the Human Resources Director and external professional advisers may be invited to attend for all or part of any meeting as and when appropriate and necessary. No individual is present when their own remuneration is discussed.

The Committee meets at least twice a year and at such other times as the Chairman of the Committee shall require or as the Board may direct. The Committee has formal terms of reference that can be viewed on the Company's website.

### Advisers

Korn Ferry Hay Group (KF), signatories to the UK Remuneration Consultants Group's Code of Conduct, was appointed by the Committee following Admission. KF provides advice to the Committee on matters relating to executive remuneration. KF provided no other services to the Company and the Committee was satisfied that the advice provided by KF was objective and independent. KF's fees in respect of the 2017 financial year were £28,400. KF's fees were charged on the basis of the firm's standard terms of business for advice provided.

### Remuneration arrangements for the Executive Directors during the period 27 October 2017 and 31 December 2017

As a short-term measure, the Directors' remuneration arrangements in place at the time of Admission were adopted as the Directors' Remuneration Policy, which enabled the Executive Directors' remuneration packages to continue post Admission. The structure of those remuneration packages for the financial year 2017 is:

- Base salary, benefits and a retirement allowance as described below.
- An annual bonus maximum opportunity of 120% of salary for both Stefan Borgas and Octavio Lopes in respect of the performance of the RHI and Magnesita businesses respectively for the year ended 31 December 2017.
- For Stefan Borgas a one-off cash bonus of 100% of salary payable in October 2017 in respect of the Acquisition of Control.
- For Stefan Borgas a phantom share award with potential downward adjustment if the annual bonus does not pay out at target payable in cash of 50% of salary and vesting one-third annually.
- As part of his 2016 remuneration arrangements Octavio Lopes received a one-off cash retention bonus of 200% of salary with half payable in October 2017 and half payable in October 2018, both payments subject to his continued employment.

The intention of the newly appointed Remuneration Committee was to develop a new Remuneration Policy for 2018, which complied with UK and Dutch governance. The proposed Remuneration Policy to be adopted from 1 January 2018 is detailed on pages 73 to 81.

## Single total figure table (audited)

The remuneration for the Executive and Non-Executive Directors of the Company who performed qualifying services during the period from the date of Admission 27 October to 31 December 2017 being 66 days is detailed below.

| Director[1,2] | Year | Salary[3] | Taxable benefits[4] | Bonus[5] | Long-term incentives | Pension | Legacy incentive payments[6] | Total remuneration |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| Stefan Borgas | 2017 | €171,780 | €1,539 | €171,437 | — | — | €132,225 | €476,981 |
| Octavio Lopes | 2017 | £99,452 | £3,696 | £100,447 | — | £29,836 | — | £233,431 |
| **Non-Executive Directors** | | | | | | | | |
| Herbert Cordt | 2017 | £39,781 | — | — | — | — | | £39,781 |
| Celia Baxter | 2017 | £14,918 | — | — | — | — | | £14,918 |
| Andrew Hosty | 2017 | £14,014 | — | — | — | — | | £14,014 |
| Fersen Lambranho | 2017 | £11,753 | — | — | — | — | | £11,753 |
| James Leng | 2017 | £18,534 | — | — | — | — | | £18,534 |
| Stanislaus Prinz zu Sayn-Wittgenstein | 2017 | £12,658 | — | — | — | — | | £12,658 |
| John Ramsay | 2017 | £14,014 | — | — | — | — | | £14,014 |
| Wolfgang Ruttenstorfer | 2017 | £13,110 | — | — | — | — | | £13,110 |
| David A. Schlaff | 2017 | £11,753 | — | — | — | — | | £11,753 |
| Karl Sevelda | 2017 | £13,110 | — | — | — | — | | £13,110 |

1 Employee representatives attending Board meetings do not receive remuneration for that role and are not Directors of the Company.
2 All amounts detailed in the table above are in respect of the period from Admission on 27 October 2017 to 31 December 2017. Amounts payable in respect of the entire financial year 2017 have therefore been apportioned. All amounts are disclosed in the currencies in which the relevant elements of pay are set. Actual payment may be made in the currency where the recipient resides using the exchange rate at the time of payment.
3 The annual base salary for Stefan Borgas was €950,000 and for Octavio Lopes was £550,000.
4 Benefits comprise for Stefan Borgas a car benefit of €8,500 for the year and for Octavio Lopes a package of standard insured benefits being private medical and life insurance with an annual value of £20,440.
5 Stefan Borgas and Octavio Lopes received annual bonus payments determined by performance for the year ended 31 December 2017 against targets set at the beginning of the year for the RHI and Magnesita businesses respectively. The amounts shown in the table are the pro-rating for the period 27 October to 31 December 2017 of the total amounts payable.
6 Legacy incentive payments: This comprises the phantom share award for the CEO which was subject to a potential downward adjustment determined by performance for the year ended 31 December 2017. The total value of the phantom shares is €731.247 and is payable in three equal annual instalments in 2018, 2019 and 2020. The amount shown in the table is the pro-rating for the period 27 October to 31 December 2017 of the total amount payable. The bonus payments to Stefan Borgas in connection with the Acquisition of Control and the retention bonus for Octavio Lopes of 100% of salary each, paid in October 2017 are not included in the table above as they were paid and related to a period prior to Admission.

No loans, advances or guarantees have been provided to any Director.

# Annual Report on Remuneration
continued

## 2017 Annual bonus (audited)

The targets for the annual bonus for the CEO and CFO were set at the beginning of 2017 by the remuneration committee of RHI for the CEO and the remuneration committee of Magnesita for the CFO. The bonus for the CEO is determined by the performance of RHI and for the CFO by the performance of Magnesita. The targets and performance against them for both the CEO and CFO have been subject to an independent audit and are set out in the tables below.

The annual bonus for Stefan Borgas was determined following assessment of achievement of qualitative and quantitative targets as set out below.

| Measure and weighting | Performance target for threshold vesting of 0% of salary | Performance target for target vesting of 100% of salary | Performance target for maximum vesting of 120% of salary | Actual performance | Payment (% of salary) | Cash bonus based on salary of €171,780 (for period 27 October 2017 to 31 December 2017) |
|---|---|---|---|---|---|---|
| Operating EBIT (35%) | €100.0 million | €133.4 million | €160.0 million | €145.2 million | 38.2% | |
| Operating ROACE (35%) | 6.5% | 8.7% | 10.4% | 10.4% | 41.8% | |
| Reduction of Net Debt (15%) | €325.0 million | €311.0 million | €300.0 million | €320.3 million | 4.8% | |
| Personal/strategic objectives (15%)* | Not achieved | Achieved | Over achieved | Achieved | 15.0% | |
| Total as % salary | | | | | 99.8% | €171,437 |

*The objectives set for the CEO were to ensure that the people, systems, processes and organisational structures were in place to ensure a smooth and successful merger of the Austrian and Brazilian businesses and London Stock Exchange Listing as well as formulating a detailed plan to achieve the requisite merger synergies. The Committee, assisted by the Chairman of the Board, conducted a review and assessment to evaluate performance against the objectives set. The period of review included four months post Listing to the end of February 2018, which enabled the Committee to take into account the internal operation of the merged organisation post Listing in terms of the objectives set. The Committee concluded that the objectives had been achieved taking into account that key personnel, systems, processes and organisational structures were in place for the Listing and that the operation of the merged business and Listing had proceeded smoothly and as expected. Additionally, the detailed plan of merger synergies is fully incorporated into the Group's operations and business plan.

The annual bonus for Octavio Lopes was determined following assessment of achievement of qualitative and quantitative targets as set out below.

| Measure and weighting | Performance target for threshold vesting of 80% of salary score 7 | Performance target for target vesting of 100% of salary score 10 | Performance target for maximum vesting of 120% of salary score 13 | Actual performance | Weighted score | Cash bonus based on salary of £99,452 (for period 27 October 2017 to 31 December 2017) |
|---|---|---|---|---|---|---|
| Economic Profit (55% of Scorecard) | US$18.9 million | US$49.0 million | US$79.7 million | US$62.2 million (score 11.3) | 6.2 | |
| Operating Cash Flow (35% of Scorecard) | US$43.4 million | US$56.0 million | US$70.0 million | US$48.2 million (score 8.2) | 2.9 | |
| Safety KPIs (10% of scorecard) | | | | | | |
| • LTIR | 0.26 | 0.13 | 0.00 | 0.10 | | |
| • RR | 1.15 | 0.86 | 0.53 | 0.88 (score 10.4) | 1.0 | |
| Total | | | | | 10.1 | £100,447 |

Notes:
(a) Economic Profit (excl. Factoring) = Net Operating Profit after Tax (NOPAT) — Capital Charge. NOPAT = EBIT*(1-tax)
Capital Charge WACC* (Receivables (excl. Factoring) + Inventory — Payables + Other Working Capital + Net Tax Liabilities + PP&E + Other Net Assets)
(b) Operating Cash Flow = EBITDA — Cash tax — Δ (Receivables (excl. Factoring) + Inventory — Payables + Other Working Capital) — Capex
(c) Safety KPIs = 60% LTIR + 40% RR
LTIR = Lost Time Injury Rate = (# of lost time incidents * 200k) / worked hours
RR = Recordable Rate = ((# of lost time incidents + # non-lost time incidents) *200k)/ worked hours
The performance targets for EP and OCF are based on the adjusted budget, which is Magnesita's budget for the year of 2017 adjusted for externalities (actual steel market production output in Magnesita's established markets and actual foreign exchange rates)

This performance resulted in recommended annual bonuses of €171,437 being 99.8% of salary for Stefan Borgas and £100,447 being 101.0% of salary for Octavio Lopes for the period 27 October to 31 December 2017.

No bonuses were awarded to Non-Executive Directors.

# Annual Report on Remuneration
continued

### Share awards where vesting is based on performance periods ending during the period 27 October to 31 December 2017 (unaudited)

There were no share awards where vesting is determined based on performance periods ending during the period 27 October to 31 December 2017.

### Share awards awarded during the period 27 October to 31 December 2017 (unaudited)

No share awards were awarded to the Directors during the period 27 October to 31 December 2017, nor were there any rights exercised during this period.

### Statement of Directors' shareholding and share interests (unaudited)

For each Director, the total number of Directors' interests in shares at 31 December 2017 was as follows:

| | Number of ordinary shares held |
|---|---|
| **Executive Directors** | |
| Stefan Borgas | 4,300 |
| Octavio Lopes[1] | 127,894 |
| **Non-Executive Directors** | |
| Herbert Cordt | — |
| Celia Baxter | 1,002 |
| Andrew Hosty | 379 |
| Fersen Lambranho[1] | — |
| James Leng | — |
| Stanislaus Prinz zu Sayn-Wittgenstein[2] | — |
| John Ramsay | 2,130 |
| Franz Reiter | — |
| Wolfgang Ruttenstorfer | — |
| David A. Schlaff[3] | 11,347,058 |
| Michael Schwarz | — |
| Karl Sevelda | — |

1 As detailed on page 65, 4,258,905 ordinary shares are held by Alumina Holdings LLC, a corporate controlled by funds managed by GP Investments, which is itself controlled, indirectly, by persons including Fersen Lambranho and in which Octavio Lopes has a minority interest.
2 Mr. Stanislaus Prinz zu Sayn-Wittgenstein has a family relationship with persons who control Chestnut and Silver, each of which holds 2,058,461 ordinary shares , as detailed on page 65
3 Mr David A. Schlaff is the son of Mag. Martin Schlaff, the founder of MSP Stiftung, which holds 11,347,058 ordinary shares.

There were no changes in the Directors' interests in shares between 31 December 2017 and 19 March 2018.

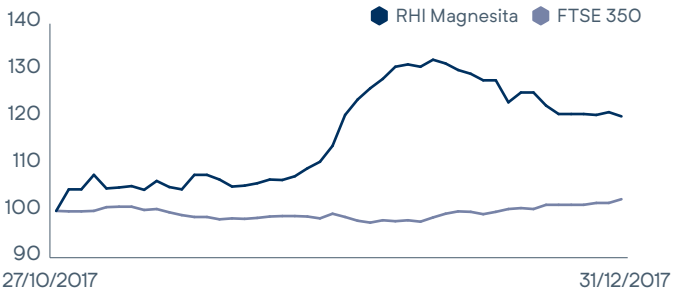
Under the share ownership requirements set out in the Directors' Remuneration Policy, the Executive Directors are required to build normally over five years and maintain a shareholding equivalent to at least 200% of salary. At the 2017 year-end, the Executive Directors each held shares in the Company as detailed in the adjacent table. Stefan Borgas holds 20% of annual salary in shares and Octavio Lopes holds 908% of annual salary in shares (based on the share price of £39.05 (€44.02) on 31 December 2017).

There were no outstanding share awards held by the Executive Directors as at 31 December 2017.

### Review of past performance and CEO remuneration table (unaudited)

The graph below shows the TSR of the Company and the FTSE 350 Index over the period from Admission to 31 December 2017. This is considered an appropriate comparator for RHI Magnesita, and aligns with the use of the FTSE 350 in the TSR performance measure for the Performance Share awards.

**RHI Magnesita TSR vs FTSE 350 since admission**
Percentage increase/decrease since 27/10/2017




Source: Datastream (Thompson Reuters)

The information below is only in respect of the period 27 October to 31 December 2017.

| | Single figure of total remuneration[1] | Annual bonus pay-out as % of maximum | Long-term incentive vesting rates as % of maximum[2] |
|---|---|---|---|
| 2017 | €476,981 | 83.16% | N/A |

1 This figure relates to the period 27 October to 31 December 2017 only.
2 There was no long-term incentive subject to performance conditions where the performance period ended during the period 27 October to 31 December 2017.

## Percentage change in remuneration of the CEO (unaudited)

Because the Company was established on 20 June 2017 and admitted to trading on 27 October 2017 there is no prior year information to provide the disclosure required for the year-on-year percentage change in remuneration received by the CEO, compared with the change in remuneration received by all RHI Magnesita employees.

## Relative importance of spend on pay (unaudited)

Because the Company was established on 20 June 2017 and admitted to trading on 27 October 2017 there is no prior year information to provide the disclosure required on the change in total staff pay compared with distributions to shareholders by way of dividends, share buy-backs or any other significant distributions or payments or other uses of profit or cash flow between financial years 2016 and 2017.

| | % change | 27 October to 31 December 2017 € million |
|---|---|---|
| Total gross employee pay | No prior year information | 82.2 |
| Dividends | No prior year information | 33.6* |

* Dividend is subject to AGM approval and is not time apportioned.

## Payments to past Directors (unaudited)

There were no payments to past Directors in the period 27 October to 31 December 2017.

## Payments for loss of office (unaudited)

No payments were made to any Director in respect of loss of office in the period 27 October to 31 December 2017.

## Implementation of Policy for 2018 (unaudited information)

An explanation of how the Directors' Remuneration Policy will be applied during the financial year 2018 is set out below.

In determining the new Remuneration Policy and implementation of that Policy for 2018, the Committee has taken into account the existing contractual entitlements and target remuneration levels of the Executive Directors as well as the Remuneration Policy in operation at the time of Admission. The CEO was historically part of the RHI business and the CFO part of the Magnesita business.

One of the matters the Committee has had to address is how to arrive at a policy that can be applied to both Directors over the first policy period and that provides a remuneration package commensurate to that which they received at their respective companies but which is aligned as far as possible to UK market practice and which supports the strategy of the new merged Group.

The Committee has, where possible, within the parametres of the CEO's existing contract and remuneration arrangements, provided a remuneration package that retains his target remuneration level but is aligned as far as possible in terms of structure to the new remuneration strategy. The CFO retains his legacy 2017 remuneration package for 2018 and the Committee will explore with him during the course of 2018 how his package for 2019 can be aligned to the new forward-looking policy and remuneration strategy.

# Annual Report on Remuneration
continued

## Implementation of the remuneration policy for the financial year ending 31 December 2018

At a Glance: the application set out below is dependent on the new policy being approved by shareholders at the 2018 AGM.

| Policy element | S Borgas (CEO) | O Lopes (CFO) |
|---|---|---|
| Base salary from 1 January 2018 | €826,000 | £550,000 |
| % increase from prior year | -13% (note 1) | 0% |
| Retirement allowance | Allowance of 15% of base salary | Allowance of 30% of base salary |
| Annual bonus | Up to 150% of base salary | Up to 120% of base salary |
| Annual bonus metrics | 75% of the annual bonus to be determined by Group financial targets and 25% by strategic targets as follows: 35% Operating EBIT measured on a constant currency basis; 25% Free Cash Flow; 15% Synergy targets and 25% strategic targets focusing on key strategic priorities of the business which are critical to the future profitability of the Group. Payment under this element is subject to the threshold EBIT target being met. | |
| Amount paid for threshold performance | 0% | 80% of salary (66.6% of max) based on 2017 legacy package |
| Amount paid for target performance | 75% of salary (50% of max. annual bonus) | 100% of salary (83.3% of max. annual bonus) based on 2017 legacy package to apply for 2018 |
| Payment of bonus in shares | 50% of annual bonus in excess of target after tax is used by the executive to acquire shares that are held for a minimum of three years | No requirement to purchase shares for 2018 |
| Performance Share Award | 200% of base salary | No award for 2018 |
| Performance Share Award metrics | 33.3% of the award: relative TSR vs FTSE 350 Index | |
| | 33.3% of the award: Reported EBIT | |
| | 33.3% of the award: Adjusted EPS | |
| Payment for threshold performance | 25% | N/A |
| Malus and clawback | Malus applies to the period prior to vesting for performance share awards and payment of the annual bonus | |
| | Clawback applies to cash bonus and Performance Share awards for a period of three years following the date of vesting and three years following any cash payment | |
| Dividends on vested awards | Participants are eligible for dividend equivalents on Performance Shares awarded | |
| Shareholding requirement | 200% of base salary to be met within five years | |
| Shareholding as % of salary at 2017 year-end | 20% | 908% |

| Non-Executive fees: | Annual fee |
|---|---|
| Chairman (inclusive of all Committee fees) | £220,000 |
| Other Non-Executive Directors | £65,000 |
| Deputy Chair/ Senior Independent Director | £25,000 |
| Chairs of the Audit and Compliance, and Remuneration Committees | £12,500 |
| Membership of the Audit and Compliance, and Remuneration Committees | £7,500 |
| Chair of Nomination Committee (unless filled by the Chairman) and Corporate Responsibility Committee | £10,000 |
| Membership of the Nomination and Corporate Responsibility Committee | £5,000 |

Note 1: Base salary reduced by 13% with the 13% reduction provided as a retirement allowance.

## Summary of 2017 and 2018 structure of remuneration packages

The summary below sets out how the Policy will be implemented in 2018 if shareholders approve it at the 2018 AGM. The CFO retains his 2017 legacy remuneration package for 2018 as set out below.

| Element of package | 2017 structure | | 2018 structure | |
|---|---|---|---|---|
| | CEO | CFO | CEO | CFO |
| Salary | €950,000 | £550,000 | €826,000 | £550,000 |
| Benefits | Company car | Standard insured benefits and relocation as applicable | Company car | Standard insured benefits and relocation as applicable |
| Pension | Nil | 30% salary | 15% salary | 30% salary |
| Performance based annual bonus | Max. opportunity 120% salary | Max. opportunity 120% salary | Max. opportunity 150% salary | Max. opportunity 120% salary |
| Fixed bonus | 100% of salary payable October 2017 | Nil | Nil | Nil |
| Performance based long-term incentive | Nil | Nil | 200% of salary Performance Share award | Nil |
| Phantom share award | 50% of salary phantom share award, with vesting over three years. | Nil | Nil | Nil |

Note: As part of his 2016 remuneration arrangements the CFO received a retention bonus of 200% of salary payable half in October 2017 and half in October 2018 subject to him remaining employed.

### Base salary

There will be no salary increases for the Executive Directors in 2018.

The CEO's salary is reduced from €950,000 to €826,000 with effect from 1 January 2018 with the difference provided as a retirement allowance (see below).

The CFO's salary remains at £550,000.

### Retirement allowance

The CEO did not have a retirement allowance at the time of Admission. As part of the implementation of the new policy the CEO's salary is reduced as detailed above and he is provided from the same date with a retirement allowance paid in cash of 15% of salary to make good the reduction in salary.

The CFO retains his current cash retirement allowance of 30% of salary.

### Benefits

Benefits will be paid in line with the Directors' Remuneration Policy. The CEO and CFO retain the benefits that they were entitled to on Admission. Details of the benefits received are set out in the single figure table on page 83.

# Annual Report on Remuneration
continued

**Annual bonus**
The maximum potential annual bonus opportunity for the financial year ending 31 December 2018 will be 150% of salary for the CEO and 120% of salary for the CFO.

The target opportunity for the CEO is 75% of salary. Because the CFO remains on his legacy 2017 annual bonus arrangements his target opportunity for 2018 is 100% of salary.

75% of the annual bonus to be determined by Group financial targets and 25% by strategic targets as follows:

- 35% Operating EBIT measured on a constant currency basis;
- 25% Free Cash Flow;
- 15% Synergy targets;
- 25% strategic targets focusing on three key strategic priorities of the business, which are critical to the future profitability of the Group; and
- No bonus will be payable for strategic targets unless the Threshold target for EBIT is met.

The CEO is required to use 50% of any bonus earned in excess of target (net of tax) to acquire shares in the Company that will be held for a minimum of three years. This element of the forward-looking policy does not apply to the CFO for 2018.

Clawback and malus provisions apply.

In addition, as set out in the policy table, bonus payments will be subject to the Committee agreeing that the proposed bonus amounts, calculated by reference to performance against the targets, appropriately reflect the Company's overall performance and shareholders' experience. If the Committee does not believe this to be the case, it may adjust the bonus outturn accordingly.

The specific targets relating to the bonus have not been disclosed at this stage as they are considered by the Committee to be commercially sensitive and it is not considered in the interests of shareholders to disclose further details on a prospective basis. Details will be provided on a retrospective basis in next year's Annual Report on Remuneration.

**Performance Share award**
The Committee intends to make Performance Share awards following the 2018 AGM provided that, the new policy and long-term incentive plan are approved by shareholders at that time.

The CEO will be awarded a Performance Share award over shares with a face value at the date of award of 200% of salary. Because the CFO remains on his legacy 2017 remuneration arrangements for 2018 he will not receive a Performance Share award.

The extent to which any Performance Share award will vest will be determined by relative Total Shareholder Return (TSR) targets for 33.3% of the award, 33.3% reported EBIT targets and the remaining 33.3% adjusted EPS. The TSR targets are detailed below. The EBIT and EPS targets will be disclosed at the time awards are made in the announcement to the market.

**Terminology for Performance Share awards**
The RHI Magnesita long-term incentive plan (the Plan) is subject to approval at the AGM and provided approval is given, Performance Share awards will be **granted** under the Plan following the AGM. The **grant** of an award is when participants are told they will receive shares provided **performance targets** are met. Participants do not receive shares at the time an award is granted. **Performance targets** are set at the time the award is **granted** and measured over a **performance period** of three financial years. At the end of the **performance period** the **performance targets** are tested against performance. An award will **vest** if the **performance targets** are met. If the **performance targets** are only met in part then only part of the award will **vest**. When the award **vests** the participant receives shares in the Company.
If therefore a participant is **granted** an award over 100 shares but the **performance targets** are only met in part and only 50% of the award vests, the participant will receive 50 shares. Once an award vests the Executive Directors must retain the vested shares for a further two years ( subject to the sale of sufficient shares to meet any tax payable on vesting).

| | Measure: TSR vs FTSE 350 All Share Index — 33.3% of the total award |
|---|---|
| % of award vesting | Target |
| nil | Less than matching Index |
| 25% | Matching Index |
| Straight-line vesting | From Index to Index plus 25%[1] |
| 100% | Index plus 25% or above[1] |

1 For example, if Index TSR is 23% over three years then the vesting range is TSR of 23% to 48%.

Shares resulting from the exercise of a Performance Share award cannot be sold until five years have elapsed from the date of award, other than to pay tax. Awards will be subject to clawback and malus provisions.

**Fees for Chairman and Non-Executive Directors**
The Company's approach to the remuneration for the Chairman and Non-Executive Directors, set by the Board, was reviewed on Admission. The table entitled At a Glance on page 88 provides full details of the fee levels for 2018.

This Report was reviewed and approved by the Board on 20 March 2018 and signed on its behalf by order of the Board.

**CELIA BAXTER**
CHAIRMAN OF THE REMUNERATION COMMITTEE

# Financial Statements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# Independent auditor's report

To: the general meeting and the board of directors of RHI Magnesita N.V.

## Report on the financial statements 2017

### Our opinion

In our opinion:

- RHI Magnesita N.V.'s consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- RHI Magnesita N.V.'s company financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

### What we have audited

We have audited the accompanying financial statements 2017 of RHI Magnesita N.V., Arnhem ('the Company'). The financial statements include the consolidated financial statements of RHI Magnesita N.V. and its subsidiaries (together: 'the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the following statements for 2017: the consolidated statement of profit or loss and the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at 31 December 2017;
- the company statement of profit or loss for the year then ended;
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

### The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

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

### Independence

We are independent of RHI Magnesita N.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO — Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA — Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

### Our audit approach

#### Overview and context

RHI Magnesita N.V. is a worldwide producer of refractory products. Refractory products are used in all the world's high-temperature industrial processes. The group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

The financial year 2017 was characterised by the acquisition of Magnesita Refratários S.A. by subsidiary of RHI AG. This acquisition had a major impact on the consolidated financial statements of the company. This affected the determination of materiality, the scope of our group audit and our audit procedures as described in the sections 'Materiality', 'The scope of our audit' and 'Key audit matters'. Immediately before acquisition, RHI AG merged with and into RHI Magnesita N.V.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made important judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In note 10 of the financial statements the company describes the areas of judgment in applying accounting policies

and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the recoverability of deferred tax assets, accounting of the Magnesita acquisition, valuation of goodwill and other intangible assets and accounting of restructuring, we considered these to be key audit matters as set out in the section 'Key audit matters' of this report.

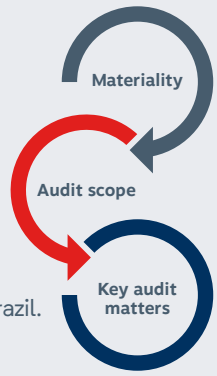
Besides the key audit matters, other areas of focus were the disclosures concerning the transition to new accounting standard IAS 18 — 'Revenue' to IFRS 15 'Revenue from contracts with customers' the transition from IAS 39 — 'Financial instruments' to IFRS 9 — 'Financial instruments' issued but not yet effective, and the effects of tax reform in the United States of America. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that may represent a risk of material misstatement due to fraud.

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of an international industrial products company. We therefore included specialists in the areas of valuations, actuarial expertise, IT specialists and tax specialists.

The outline of our audit approach was as follows:

**Materiality**
- Overall materiality: €8.0 million.

**Audit scope**
- We conducted audit work in 35 locations. We paid particular attention to the acquisition of Magnesita Refratários S.A. that took place in 2017.
- Site visits were conducted to 3 countries — Germany, Austria and Brazil.
- Audit coverage: 90% of consolidated revenue, 89% of consolidated total assets, 80% of consolidated profit before tax and 82% of consolidated EBITDA.




**Key audit matters**
- Recoverability of deferred income tax assets;
- Initial purchase price allocation acquisition Magnesita Refratários S.A.;
- Valuation of goodwill and other intangible assets;
- Accounting for restructuring.

**First year audit consideration**
The Company established RHI Magnesita N.V. in June 2017, became the ultimate parent of the group in October 2017 and subsequently listed their shares on the London Stock Exchange per October 27, 2017. As a consequence PricewaterhouseCoopers Accountants N.V. was appointed the statutory auditor of the listed entity on October 4, 2017. Prior to that date, other auditors organisations were the statutory auditors of the consolidated financial information of the Magnesita group and of the consolidated financial information of the RHI group. We reviewed the auditor's files of the predecessor auditors PwC Austria and PwC Brazil and discussed the outcome thereof to confirm our understanding of the opening balances, comparative figures and internal controls within the Group. Based on these procedures, we have prepared our risk assessment and audit strategy and prepared our audit plan which has been discussed with the board of directors.

**Materiality**
The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

| | |
|---|---|
| **Overall group materiality** | €8.0 million. |
| **Basis for determining materiality** | We used our professional judgment to determine overall materiality. As a basis for our judgment we used approximately 2,5 % of earnings before interest, taxes, depreciation and amortization (EBITDA). |
| **Rationale for benchmark applied** | We used approximately 2.5% of earnings before interest, taxes, depreciation and amortization (EBITDA) as the primary benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis we believe that EBITDA is an important metric for the financial performance of the company. |
| **Component materiality** | To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was between €0.6 million and €5.7 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality. |

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the directors that we would report to them misstatements identified during our audit above €0.4 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

# Independent auditor's report
continued

**The scope of our group audit**
RHI Magnesita N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of RHI Magnesita N.V.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at the component level by the group engagement team and by each component auditor.

The group audit primarily focussed on the significant components:

- RHI Magnesita N.V., Netherlands
- RHI Feuerfest GmbH, Austria
- Didier-Werke Aktiengesellschaft, Germany
- Veitsch-Radex GmbH & Co OG, Austria
- RHI Urmitz AG & Co, Austria
- Magnesit Anonim Sirekti, Turkey
- Magnesita Refratários S.A., Brazil
- Magnesita Mineracao S.A., Brazil
- Magnesita Refractories Company, USA
- Magnesita Refractories GmbH, Germany
- Stopinc Aktiengesellschaft, Switzerland
- RHI Dinaris GmbH, Germany
- Liaoning RHI Jinding Magnesia Co., Ltd, China
- RHI Refratários SA, Brazil
- Orient Refractories Limited, India
- RHI Glas GmbH, Germany
- Producción RHI México S. de R.L. de C.V., Mexico

17 components were subject to audits of their complete financial information as those components are individually financially significant to the group. In addition, 18 components were subjected to specific risk-focussed audit procedures as they include significant or higher risk areas. Additionally, 6 components were selected for audit procedures to achieve appropriate coverage on financial line items in the consolidated financial statements.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

| | |
|---|---|
| Revenue | 90% |
| Total assets | 89% |
| Profit before tax | 80% |
| EBITDA | 82% |

None of the remaining components represented more than 2% of total group revenue or total group assets. For those remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

For group entities RHI Magnesita N.V., RHI Feuerfest GmbH, Austria, Veitsch-Radex GmbH & Co OG, Austria, RHI Refractories Raw Material GmbH, Austria, Lokalbahn Mixnitz-St. Erhard Aktien-Gesellschaft, Austria, Veitsch-Radex Vertriebsgesellschaft mbH, Austria and Refractory Intellectual Porperty GmbH & Co KG, Austria, the group engagement team performed the audit work. For all other components we used component auditors who are familiar with the local laws and regulations to perform the audit work.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

The group engagement team visits the component teams on a rotational basis. In the current year the group audit team visited the Magnesita finance function in Brazil given the importance of the judgements involved in the initial purchase price allocation resulting from the acquisition of Magnesita, as well as visited the Austrian and German operating locations.

The group consolidation, financial statement disclosures and a number of complex items are audited by the group engagement team at the head office. These include, acquisition accounting, impairment testing and valuation of deferred tax assets and restructuring provisions.

By performing the procedures above at components, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the directors. The key audit matters are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we make on the results of our procedures should be read in this context.

| Key audit matter | How our audit addressed the matter |
|---|---|
| **Recoverability of deferred income tax assets**<br>**Refer to note 8, 10, 17 and 44 of the consolidated financial statements**<br>The Group capitalized deferred tax assets on tax loss carry-forwards in the amount of €134.6 million and deductible temporary differences arising on provisions for employee benefits in the amount of €70.2 million. Reference is made to Note 17 of the financial statements.<br><br>Deferred tax assets are capitalized based on the assumption that sufficient taxable income will be generated against which loss carry-forwards and other deductible temporary differences can be offset. This assumption is based on estimates of the current and the planned taxable results, and any future measures implemented by the company in several jurisdictions concerned that will have an effect on income tax.<br><br>Due to the inherent level of uncertainty, the potential limitations in the recoverability of deferred income tax assets and the significant judgement involved, we considered the recoverability of deferred income tax assets to be a key audit matter for our audit. | We have requested and obtained confirmation letters from tax advisors to confirm both the existence, accuracy and valuation of the tax loss carry-forwards, taking into account the expiration dates per jurisdiction. In addition we have assessed per tax jurisdiction the level of potential offsetting deferred tax liabilities.<br><br>Furthermore, we have challenged the underlying assumptions of the forecasted taxable income through agreeing the forecasted future taxable profits with approved business plans per entity/for the entities in a tax jurisdiction. We also assessed the past performance against the expected future tax profits in the business plans used by the company. In addition, we have considered the local expiry periods together with any applicable restrictions in recovery for each individual jurisdiction.<br><br>We assessed and corroborated the adequacy and appropriateness of the disclosure made in the consolidated financial statements.<br><br>The above procedures did not result in material audit findings. |
| **Initial purchase price allocation acquisition Magnesita Refratários S.A.**<br>**Refer to note 5 of the consolidated financial statements**<br>During the fiscal year 2017 RHI Magnesita Group acquired the Magnesita Group. IFRS 3, Business Combinations, requires to recognize the identifiable assets and liabilities at fair value at the date of the acquisition, with the excess of the acquisition cost over the identified fair value of recognized assets, and liabilities as goodwill even if the purchase price allocation ("PPA") exercise was not completed at the balance sheet date. This was considered a significant purchase to the whole group.<br><br>Management has engaged an independent valuator to issue a report on the initial PPA, calculating fair values of the identified assets and liabilities at the respective acquisition date through, among other things, assessments of future cash flows and assessing appropriate discount rates. The PPA exercise for Magnesita was in an initial stage at the balance sheet date. Goodwill, amounting to €171.7 million at the acquisition date was initially recognized (see Note (5) Group of consolidated companies).<br><br>We focused on this area as a key audit matter as the accounting for the transaction was complex, the magnitude of the transaction and the significant judgment involved in in determining the fair value of acquired identifiable assets and liabilities, in particular determining the allocation of purchase consideration to separately identifiable intangible assets and contingent liabilities. | We compared the Group's accounting policies over business combinations with requirements in EU-IFRS and evaluated the competence, capabilities and objectivity of the independent valuator and evaluated the work done thus far. We engaged valuation specialists to compare the draft valuation assumptions with external benchmarks (including a peer group analysis to assess the discount rates) and to assess assumptions underlying future cash flows based on our knowledge of the Group and its subsidiaries.<br><br>We assessed the Group's determination of the (initial) fair values of the remaining assets and liabilities having regard to the completeness of assets and liabilities identified and the reasonableness of any underlying assumptions in their respective valuation that would also include the assessment on the reasonableness of the useful lives of the tangible and intangible assets and the consideration given.<br><br>We assessed and corroborated the adequacy and appropriateness of the disclosure made in the consolidated financial statements.<br><br>We have established that, in accordance with IFRS 3, it is appropriate to account for the purchase price on a provisional basis. |

# Independent auditor's report
continued

| Key audit matter | How our audit addressed the matter |
|---|---|
| **Valuation of goodwill and other intangible assets**<br>**Refer to note 8, 10, 12, 13 and 40 of the consolidated financial statements**<br>The Group capitalized goodwill in the amount of EUR 210.4 million of which €171.7 million relates to the acquisition of Magnesita, the remainder mainly relates to goodwill from the Steel divisions Lining and Flow control. In addition, the company capitalized intangible assets in the amount of €217.6 million of which €161.4 million relates to the Magnesita acquisition. These assets form part of 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 recoverable amount is assessed. 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.<br><br>We identified the impairment assessment as a key audit matter due to significant judgement and assumptions about the discount rate, profitability as well as growth rates. | Goodwill and intangibles assets were identified as part of the initial purchase price allocation (PPA) from the Magnesita acquisition. Procedures performed on the preliminary PPA are described in the key audit matter above.<br><br>As part of our audit procedures, we have evaluated and challenged the composition of management's future cash flow forecasts and the process applied to identify and define cash-generating units, calculate the recoverable amount, test for impairment, calculate the capital cost rate and the growth rate, as well as the calculation model.<br><br>We have reconciled the assumed future cash flows used in the budget planning with the information included in the forecast made by the management board.<br><br>With the support of our valuation specialists, we have evaluated management's assumptions such as revenue and margin, the discount rate, terminal value, operational and capital expenditure and number of employees. We have obtained corroborative evidence for these assumptions. We performed analyses to assess the reasonableness of forecasted revenues, margins and expenditures in line with the level of activity forecasted and corroboration to contracted revenue for the coming years and price trends, and obtained further explanations when considered necessary. We compared the long term growth rates used in determining the terminal value, with economic and industry forecasts. We have re-performed calculations, compared the methodology applied with generally accepted valuation techniques, assessed appropriateness of the cost of capital for the company and comparable assets, as well as considered territory specific factors and assessed appropriateness of disclosure of the key assumptions and sensitivities underlying the tests.<br><br>We found the assumptions to be consistent and supported by the available evidence. |

| Key audit matter | How our audit addressed the matter |
|---|---|
| **Accounting for restructuring**<br>**Refer to note 34 and 40 of the consolidated financial statements**<br>The integration of the newly acquired subsidiaries led to a consolidation of entities to achieve appropriate synergies for the whole RHI Magnesita Group, leading to restructuring expenses amounting to €62.7 million and restructuring provisions amounting to €37.6 million per 31 December 2017.<br><br>The Group initiated a number of restructuring initiatives that commenced in fiscal year 2017, and will continue in the next years, reducing the company's workforce and closure of locations, requiring additional provisions once the IAS 37 criteria for recognising those are met (e.g. there is a detailed formal plan approved and announcements are made).<br><br>Given that the restructuring provision resulted from the acquisition and subsequent merger of RHI and Magnesita, the inherent risk involved in timeliness and assessment of expenditures related to restructurings, and the amount involved, we consider this a key audit matter. | We assessed appropriateness of the restructuring expenses that resulted from<br><br>1. a loss of closure of the plant in Aken, Germany and;<br>2. the expenses provided for the closure of the Hilden office in Germany planned for June 2018 as well as for;<br>3. the planned restructuring of the workforce,<br><br>through corroborating to (the timing of) announcements and management's decisions for restructuring. We reconciled the provision with approved restructuring plans.<br><br>We have assessed and corroborated the adequacy and appropriateness of the disclosure made in the consolidated financial statements.<br><br>The above procedures did not reveal any material exceptions. |

# Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the section strategic report;
- the section governance;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The directors are responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

# Report on other legal and regulatory requirements

### Our appointment

We were appointed as auditors of RHI Magnesita N.V. following the passing of a resolution by the shareholders at the annual meeting held on 4 October 2017.

### No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

### Services rendered

The services, in addition to the audit, that we have provided to the company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 61 to the consolidated financial statements.

# Independent auditor's report
continued

## Responsibilities for the financial statements and the audit

**Responsibilities of the directors for the financial statements**
The directors are responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the directors should prepare the financial statements using the going-concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so. The directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The board of directors is responsible for overseeing the company's financial reporting process.

**Our responsibilities for the audit of the financial statements**
Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Rotterdam, 20 March 2018
PricewaterhouseCoopers Accountants N.V.

Original has been signed by E.M.W.H. van der Vleuten RA MSc

# Appendix to our auditor's report on the financial statements 2017 of RHI Magnesita N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

### The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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 intentional override of internal control.
- Obtaining 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 company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Concluding on the appropriateness of the directors' use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company'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 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 and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the directors 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. In this respect we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the directors 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 the directors, we determine those matters that were of most significance in the audit of the 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, not communicating the matter is in the public interest.

# Consolidated Statement of Financial Position

as of 31.12.2017

| in € million | Notes | 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | (11) | 901.3 | 521.8 |
| Goodwill | (12) | 210.4 | 37.8 |
| Other intangible assets | (13) | 217.6 | 71.1 |
| Investments in joint ventures and associates | (14) | 30.5 | 20.5 |
| Other non-current financial assets | (15) | 25.1 | 18.9 |
| Other non-current assets | (16) | 24.2 | 17.7 |
| Deferred tax assets | (17) | 180.4 | 144.8 |
| | | **1,589.5** | **832.6** |
| **Current assets** | | | |
| Inventories | (18) | 676.6 | 365.3 |
| Trade and other current receivables | (19) | 530.0 | 399.1 |
| Income tax receivables | (20) | 13.5 | 9.3 |
| Other current financial assets | (21) | 34.1 | 3.0 |
| Cash and cash equivalents | (22) | 442.4 | 182.9 |
| | | **1,696.6** | **959.6** |
| | | **3,286.1** | **1,792.2** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | (23) | 44.8 | 289.4 |
| Group reserves | (24) | 576.2 | 219.3 |
| Equity attributable to shareholders of RHI Magnesita N.V. | | 621.0 | 508.7 |
| Non-controlling interests | (25) | 138.7 | 15.3 |
| | | **759.7** | **524.0** |
| **Non-current liabilities** | | | |
| Non-current financial liabilities | (26) | 983.8 | 327.2 |
| Other non-current financial liabilities | (27) | 55.5 | 66.9 |
| Deferred tax liabilities | (17) | 11.7 | 13.5 |
| Provisions for pensions | (28) | 308.7 | 236.8 |
| Other personnel provisions | (29) | 82.5 | 80.6 |
| Other non-current provisions | (30) | 53.8 | 4.5 |
| Other non-current liabilities | (31) | 9.0 | 6.9 |
| | | **1,505.0** | **736.4** |
| **Current liabilities** | | | |
| Current financial liabilities | (26) | 241.8 | 156.0 |
| Other current financial liabilities | (27) | 17.4 | 15.6 |
| Trade payables and other current liabilities | (32) | 671.4 | 312.7 |
| Income tax liabilities | (33) | 16.1 | 18.4 |
| Current provisions | (34) | 74.7 | 29.1 |
| | | **1,021.4** | **531.8** |
| | | **3,286.1** | **1,792.2** |

# Consolidated Statement of Profit or Loss

from 01.01.2017 to 31.12.2017

| in € million | Notes | 2017 | 2016 |
|---|---|---|---|
| Revenue | (35) | 1,946.1 | 1,651.2 |
| Cost of sales | (36) | (1,485.6) | (1,294.8) |
| **Gross profit** | | **460.5** | **356.4** |
| Selling and marketing expenses | (37) | (125.0) | (105.2) |
| General and administrative expenses | (38) | (167.5) | (134.5) |
| Other income | (39) | 91.2 | 102.7 |
| Other expenses | (40) | (216.1) | (103.3) |
| **EBIT** | | **43.1** | **116.1** |
| Interest income | (41) | 5.6 | 4.1 |
| Interest expenses | (42) | (27.1) | (17.5) |
| Other net financial expenses | (43) | (9.1) | (7.8) |
| **Net finance costs** | | **(30.6)** | **(21.2)** |
| Share of profit of joint ventures and associates | (14) | 11.0 | 10.9 |
| **Profit before income tax** | | **23.5** | **105.8** |
| Income tax | (44) | (36.4) | (29.9) |
| **Profit after income tax** | | **(12.9)** | **75.9** |
| attributable to shareholders of RHI Magnesita N.V. | | (18.4) | 74.0 |
| attributable to non-controlling interests | (25) | 5.5 | 1.9 |
| | | | |
| in € | | | |
| Earnings per share (basic and diluted) | (53) | (0.45) | 1.86 |

# Consolidated Statement of Comprehensive Income

from 01.01.2017 to 31.12.2017

| in € million | Notes | 2017 | 2016 |
|---|---|---|---|
| **Profit after income tax** | | **(12.9)** | **75.9** |
| | | | |
| Currency translation differences | | | |
| Unrealised results from currency translation | (7) | (44.3) | (1.9) |
| Deferred taxes thereon | (44) | 1.7 | (0.6) |
| Current taxes thereon | | (0.4) | (1.9) |
| Reclassification reserves to profit or loss | (7) | 40.7 | (2.0) |
| Deferred taxes thereon | (44) | (5.7) | (0.1) |
| Current taxes thereon | | (0.5) | (0.4) |
| Cash flow hedges | | | |
| Unrealised results from fair value change | (56) | 0.6 | 0.4 |
| Deferred taxes thereon | (44) | (0.1) | (0.2) |
| Reclassification reserves to profit or loss | (56) | 0.5 | 0.0 |
| Deferred taxes thereon | (44) | (0.1) | 0.0 |
| Fair value changes of available-for-sale financial instruments | | | |
| Unrealised results from fair value change | (55) | 0.0 | 0.1 |
| Reclassification reserves to profit or loss | (55) | 0.0 | (0.1) |
| **Items that will be reclassified subsequently to profit or loss, if necessary** | | **(7.6)** | **(6.7)** |
| | | | |
| Remeasurement of defined benefit plans | | | |
| Remeasurement of defined benefit plans | (28) | (11.3) | (10.2) |
| Deferred taxes thereon | (44) | 2.9 | 3.8 |
| Share of other comprehensive income of joint ventures | (14) | (0.1) | (0.1) |
| **Items that will not be reclassified to profit or loss** | | **(8.5)** | **(6.5)** |
| | | | |
| **Other comprehensive income after income tax** | | **(16.1)** | **(13.2)** |
| | | | |
| **Total comprehensive income** | | **(29.0)** | **62.7** |
| attributable to shareholders of RHI Magnesita N.V | | (28.5) | 60.5 |
| attributable to non-controlling interests | (25) | (0.5) | 2.2 |

# Consolidated Statement of Cash Flows

from 01.01.2017 to 31.12.2017

| in € million | Notes | 2017 | 2016 |
|---|---|---|---|
| Profit after income tax | | (12.9) | 75.9 |
| Adjustments for | | | |
| income tax | | 36.4 | 29.9 |
| depreciation and amortisation charges | | 72.7 | 65.1 |
| impairment losses of property, plant and equipment and intangible assets | | 19.8 | 8.9 |
| income from the reversal of investment subsidies | | (1.2) | (1.0) |
| (reversals of impairment losses)/impairment losses on securities | | 1.9 | (0.5) |
| losses from the disposal of property, plant and equipment | | 1.5 | 0.3 |
| gains from the disposal of securities and shares | | 0.0 | (0.9) |
| losses from the disposal of subsidiaries | | 19.3 | 4.1 |
| interest result | | 21.5 | 13.4 |
| share of profit of joint ventures and associates | | (11.0) | (10.9) |
| other non-cash changes | | 82.6 | (8.9) |
| Changes in | | | |
| inventories | | (112.4) | 29.0 |
| trade receivables and receivables from long-term construction contracts | | 12.1 | 4.3 |
| other receivables and assets | | 7.6 | (10.0) |
| provisions | | (15.2) | (25.2) |
| trade payables | | 111.1 | 26.9 |
| prepayments received on orders | | 9.1 | 1.4 |
| other liabilities | | 20.6 | (1.5) |
| **Cash flow from operating activities** | | **263.5** | **200.3** |
| Income tax paid less refunds | | (41.9) | (37.6) |
| **Net cash flow from operating activities** | (47) | **221.6** | **162.7** |
| Investments in subsidiaries net of cash | | 45.1 | 0.0 |
| Cash flows from the sale of subsidiaries net of cash | | 30.6 | (4.6) |
| Investments in property, plant and equipment and intangible assets | | (72.0) | (70.8) |
| Cash inflows from the sale of property, plant and equipment | | 2.7 | 3.5 |
| Investments in/ cash inflows from non-current receivables | | (0.2) | 0.0 |
| Investments in securities | | (11.8) | 0.0 |
| Cash inflows from the sale of securities and shares | | 21.8 | 6.1 |
| Dividends received from joint ventures and associates | | 10.8 | 9.5 |
| Investment subsidies received | | 1.2 | 0.4 |
| Interest received | | 5.1 | 3.0 |
| **Net cash flow from investing activities** | (48) | **33.3** | **(52.9)** |
| Capital expenses for the issue of shares | | (3.0) | 0.0 |
| Payments to non-controlling interests | | (0.6) | 0.0 |
| Dividend payments to shareholders of the Group | | (29.9) | (29.9) |
| Dividend payments to non-controlling interests | | (1.1) | (0.6) |
| Proceeds from non-current borrowings and loans | | 459.8 | 1.6 |
| Repayments of non-current borrowings and loans | | (375.6) | (29.0) |
| Changes in current borrowings | | (8.3) | (5.8) |
| Interest payments | | (24.9) | (17.0) |
| **Net cash flow from financing activities** | (49) | **16.4** | **(80.7)** |
| **Total cash flow** | | **271.3** | **29.1** |
| **Change in cash and cash equivalents** | | **271.3** | **29.1** |
| Cash and cash equivalents at beginning of year | | 182.9 | 149.7 |
| Changes due to currency translation | | (11.8) | 4.1 |
| Cash and cash equivalents at year-end | (51) | 442.4 | 182.9 |
| Total interest paid | (50) | 25.6 | 17.5 |
| Total interest received | (50) | 5.1 | 3.2 |

# Consolidated Statement of Changes in Equity

from 01.01.2017 to 31.12.2017

| in € million | Share capital | Additional paid-in capital | Mandatory reserves |
|---|---|---|---|
| Notes | (23) | (24) | (24) |
| **01.01.2017** | **289.4** | **38.3** | **-** |
| **Profit after income tax** | **-** | **-** | **-** |
| Currency translation differences | - | - | - |
| Cash flow hedges | - | - | - |
| Remeasurement of defined benefit plans | - | - | - |
| Share of other comprehensive income of joint ventures | - | - | - |
| **Other comprehensive income after income tax** | **-** | **-** | **-** |
| **Total comprehensive income** | **-** | **-** | **-** |
| Dividends | - | - | - |
| Issue of ordinary shares related to business combinations | 5.0 | 174.5 | - |
| Costs for the issue of shares net of tax | - | (8.8) | - |
| Change in non-controlling interests due to addition to consolidated companies | - | - | - |
| **Transactions with shareholders** | **5.0** | **165.7** | **-** |
| Disposal of defined benefit plans | - | - | - |
| Downstream merger from RHI AG to RHI Magnesita N.V. | (249.6) | (38.3) | 288.7 |
| **Reclassifications** | **(249.6)** | **(38.3)** | **288.7** |
| **31.12.2017** | **44.8** | **165.7** | **288.7** |

| in € million | Share capital | Additional paid-in capital | Mandatory reserves |
|---|---|---|---|
| Notes | (23) | (24) | (24) |
| **01.01.2016** | **289.4** | **38.3** | **-** |
| **Profit after income tax** | **-** | **-** | **-** |
| Currency translation differences | - | - | - |
| Cash flow hedges | - | - | - |
| Remeasurement of defined benefit plans | - | - | - |
| Share of other comprehensive income of joint ventures | - | - | - |
| **Other comprehensive income after income tax** | **-** | **-** | **-** |
| **Total comprehensive income** | **-** | **-** | **-** |
| Dividends | - | - | - |
| Other changes in equity | - | - | - |
| **Transactions with shareholders** | **-** | **-** | **-** |
| **Reclassification due to disposal of defined benefit plans** | **-** | **-** | **-** |
| **31.12.2016** | **289.4** | **38.3** | **0.0** |

| | Group reserves | | | | | |
|---|---|---|---|---|---|---|
| | Accumulated other comprehensive income | | | | | |
| Retained earnings | Cash flow hedges | Defined benefit plans | Currency translation | Equity attributable to shareholders of RHI Magnesita N.V. | Non-controlling interests | Total equity |
| (24) | (24) | (24) | (24) | | (25) | |
| **331.0** | **(0.7)** | **(100.3)** | **(49.0)** | **508.7** | **15.3** | **524.0** |
| **(18.4)** | **-** | **-** | **-** | **(18.4)** | **5.5** | **(12.9)** |
| - | - | - | (2.5) | **(2.5)** | **(6.0)** | **(8.5)** |
| - | 0.8 | - | | **0.8** | **0.1** | **0.9** |
| - | - | (8.3) | - | **(8.3)** | **(0.1)** | **(8.4)** |
| - | - | (0.1) | - | **(0.1)** | **-** | **(0.1)** |
| **-** | **0.8** | **(8.4)** | **(2.5)** | **(10.1)** | **(6.0)** | **(16.1)** |
| **(18.4)** | **0.8** | **(8.4)** | **(2.5)** | **(28.5)** | **(0.5)** | **(29.0)** |
| (29.9) | - | - | - | **(29.9)** | **(1.2)** | **(31.1)** |
| - | - | - | - | **179.5** | **-** | **179.5** |
| - | - | - | - | **(8.8)** | **-** | **(8.8)** |
| - | - | - | - | **0.0** | **125.1** | **125.1** |
| **(29.9)** | **-** | **-** | **-** | **140.8** | **123.9** | **264.7** |
| (1.0) | - | 1.0 | - | **-** | **-** | **-** |
| (0.8) | - | - | - | **-** | **-** | **-** |
| **(1.8)** | **-** | **1.0** | **-** | **-** | **-** | **-** |
| **280.9** | **0.1** | **(107.7)** | **(51.5)** | **621.0** | **138.7** | **759.7** |

| | Group reserves | | | | | |
|---|---|---|---|---|---|---|
| | Accumulated other comprehensive income | | | | | |
| Retained earnings | Cash flow hedges | Defined benefit plans | Currency translation | Equity attributable to shareholders of RHI AG | Non-controlling interests | Total equity |
| (24) | (24) | (24) | (24) | | (25) | |
| **284.5** | **(0.9)** | **(91.9)** | **(41.8)** | **477.6** | **13.8** | **491.4** |
| **74.0** | **-** | **-** | **-** | **74.0** | **1.9** | **75.9** |
| - | - | - | (7.2) | **(7.2)** | **0.3** | **(6.9)** |
| - | 0.2 | - | - | **0.2** | **-** | **0.2** |
| - | - | (6.4) | - | **(6.4)** | **-** | **(6.4)** |
| - | - | (0.1) | - | **(0.1)** | **-** | **(0.1)** |
| **-** | **0.2** | **(6.5)** | **(7.2)** | **(13.5)** | **0.3** | **(13.2)** |
| **74.0** | **0.2** | **(6.5)** | **(7.2)** | **60.5** | **2.2** | **62.7** |
| (29.9) | - | - | - | **(29.9)** | **(0.7)** | **(30.6)** |
| 0.5 | - | - | - | **0.5** | **-** | **0.5** |
| **(29.4)** | **-** | **-** | **-** | **(29.4)** | **(0.7)** | **(30.1)** |
| **1.9** | **-** | **(1.9)** | **-** | **-** | **-** | **-** |
| **331.0** | **(0.7)** | **(100.3)** | **(49.0)** | **508.7** | **15.3** | **524.0** |

# Notes

to the Consolidated Financial Statements 2017

## PRINCIPLES AND METHODS

### (1) General

RHI Magnesita is a globally operating industrial group. The core activities of the RHI Magnesita 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 Magnesita supplies customers in the steel, cement, lime, glass and nonferrous metals industries. In addition, RHI Magnesita products are employed in the environment (waste incineration), energy (refractory construction) and chemicals (petrochemicals) sectors.

The ultimate parent undertaking of the Group is RHI Magnesita N.V., a public company with limited liability under Dutch law. The company is registered with the Dutch Trade Register of the Chamber of Commerce under the number 68991665 and has its corporate seat in Arnhem, Netherlands. The administrative seat and registered office is located at Wienerbergstraße 9, 1100 Vienna, Austria.

The shares of RHI Magnesita N.V. are listed on the Main Market of the London Stock Exchange and are included in the FTSE 250 index.

RHI Magnesita N.V. was established on 20 June 2017 and became the ultimate parent of the RHI Magnesita Group as of 26 October 2017, after completing the corporate restructuring of RHI AG. Until then, RHI AG was the ultimate parent of the group. This restructuring represented a common control transaction that had no impact on the Consolidated Financial Statements, except for the reclassification of individual equity components.

The Consolidated Financial Statements are prepared as of the reporting date of the Annual Financial Statements of RHI Magnesita N.V.. The financial year of RHI Magnesita N.V. 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 Magnesita N.V. on 31 December 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 31 March.

The Consolidated Financial Statements for the period from 1 January to 31 December 2017 were drawn up 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.

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 recognised 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 based on experience from comparable transactions, the actual values recognised at a later date may differ from these estimates.

All amounts in the notes and tables are shown in € million, unless indicated otherwise. For computational reasons, rounding differences may occur.

The Annual Report was prepared by the Board of Directors and authorized for issue on 20 March 2018 and is subject to adoption at the Annual General Meeting of Shareholders on 7 June 2018.

## (2) Initial application of new financial reporting standards

In the financial year 2017, the following revised financial reporting standards including the changes in other standards, which are also adopted by the EU, were applied for the first time:

| Standard | Title | Publication (EU endorsement)[1] | Mandatory application for RHI Magnesita | Effects on RHI Magnesita Consolidated Financial Statements |
|---|---|---|---|---|
| **Amendments of standards** | | | | |
| Various | Annual Improvements to IFRSs 2014-2016 Cycle | 08.12.2016 (07.02.2018) | 01.01.2017/ 01.01.2018 | No effect |
| IAS 7 | Disclosure Initiative | 29.01.2016 (06.11.2017) | 01.01.2017 | Additional notes disclosures |
| IAS 12 | Recognition of Deferred Tax Assets for Unrealized Losses | 19.01.2016 (06.11.2017) | 01.01.2017 | No effect |

1) according to EU Endorsement Status Report of 27.02.2018

**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, additional information is presented in Note (49).

## (3) Other changes in comparative information

In order to improve the informative value of the Consolidated Financial Statements as of 31 December 2017, the following changes in presentation were made compared to the previously published Financial Statements:

The line item operating EBIT was eliminated from the Consolidated Statement of Profit or Loss because in the newly formed RHI Magnesita Group this represents no longer a key figure for measuring performance. Consequently, the former separately presented items result from derivatives from supply contracts, impairment losses, income from restructuring and restructuring expenses are now presented as other income and other expenses (see Notes (39) and (40)).

Liabilities to fixed-term or puttable non-controlling interests of €32.0 million (31.12.2016: €32.5 million), which were previously included in financial liabilities (Note (26)), were reclassified to other financial liabilities (Note (27)) as this presentation is more appropriate.

Personnel provisions in the Consolidated Statement of Financial Position are reported separately as provisions for pensions (Note (28)) and other personnel provisions (Note (29)).

The information for the previous year was adjusted accordingly for all the above-mentioned changes in presentation.

## (4) 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 Magnesita Consolidated Financial Statements:

| Standard | Title | Publication (EU endorsement)[1] | Mandatory application for RHI Magnesita | Expected effects on RHI Magnesita Consolidated Financial Statements |
|---|---|---|---|---|
| **New standards** | | | | |
| IFRS 2 | Classification and Measurement of Share-based Payment Transactions | 20.06.2016 (26.02.2018) | 01.01.2018 | No effect |
| IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts | 12.09.2016 (03.11.2017) | 01.01.2018 | Not relevant |
| IFRS 9 | Financial Instruments | 24.07.2014 (22.11.2016) | 01.01.2018 | No material effects |
| IFRS 15 | Revenue from Contracts with Customers | 28.05.2014 (11.09.2015)/ (22.09.2016) | 01.01.2018 | Timing differences in revenue recognition |
| IFRS 15 | Clarifications to IFRS 15 Revenue from Contracts with Customers | 12.04.2016 (31.10.2017) | 01.01.2018 | Timing differences in revenue recognition |
| IFRS 16 | Leases | 13.01.2016 (31.10.2017) | 01.01.2019 | Material effects expected |
| Various | Annual Improvements to IFRSs 2014-2016 Cycle | 08.12.2016 (07.02.2018) | 01.01.2017/ 01.01.2018 | No effect |

1) according to EU Endorsement Status Report of 27.02.2018

**IFRS 9 "Financial Instruments"**
IFRS 9 was published in July 2014 and subsequently endorsed by the European Union on 22 November 2016. IFRS 9 includes revised guidance on classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. The standard replaces existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. RHI Magnesita will implement IFRS 9 per 1 January 2018 using the modified retrospective approach, meaning that the 2017 comparative numbers in the 2018 Financial Statements will not be restated. Any impact of IFRS 9 as of 1 January 2018 will be recognised directly in equity.

RHI Magnesita has reviewed the impact of this new standard and has concluded that the impact is limited to the following:

With regard to the revised classification and measurement principles, IFRS 9 contains three classification categories: "measured at amortised cost", "fair value through other comprehensive income" and "fair value through profit or loss". The standard eliminates the existing IAS 39 categories: "loans and receivables", "held to maturity" and "available-for-sale". For RHI Magnesita Group this new classification only means that the assets currently classified as "available-for-sale" or "financial assets at cost" will be classified as "fair value through other comprehensive income" or "fair value through profit or loss", whereas all assets in the category "loans and receivables" will be recorded at "amortised cost". Receivables that are part of factoring agreements will be classified as "fair value through profit or loss". The resulting effect on the measurement of the financial assets will be immaterial for RHI Magnesita Group.

With regard to the impact of the expected loss model on trade and other current receivables RHI Magnesita concluded that the impact is immaterial.

**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 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 has to be identified. Then the transaction price must be determined and allocated to the identified performance obligations. Revenue must then be recognised 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 1 January 2018. The RHI Magnesita Group will apply the modified retrospective method. Under this method, IFRS 15 is applied to those contracts that are not yet complete as of 1 January 2018. The cumulative effect of the initial application will be recognised as an adjustment of the opening balance of group reserves in the item retained earnings as of 1 January 2018.

In an implementation project, RHI Magnesita analysed its business models in respect of the new regulations. Based on the analyses performed the effects of the initial application of IFRS 15 on the Consolidated Financial Statements are as follows:

If contracts with customers include the delivery of products, revenue is recognised at the time when control over the products is passed to the customer in accordance with IFRS 15. Based on the individual Incoterms rule agreed in the customer contract, time of transfer of control over the products is determined. The Incoterms rules describe mainly the tasks, costs and risks involved in delivery of goods from the seller to the buyer. For the Incoterms rules CPT (Carriage paid to), CIP (Carriage and Insurance paid to) as well as for CFR (Cost and Freight) and CIF (Cost, Insurance and Freight) it was determined, that the time of passing control deviates from the time of transfer of significant risks and rewards. As a result revenue will be recognised at a later point in time. Therefore, the estimated effect from the initial application of IFRS 15 will result in a reduction of retained earnings as at 1 January 2018 in the amount of about €6.2 million.

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. The impact on revenue recognition is of minor importance.

In addition to delivering products, the RHI Magnesita 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. The impact on revenue recognition is of minor importance.

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 those refractory products is recognised 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 recognised 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 recognised earlier in accordance with IFRS 15. In the Consolidated Statement of Financial Position, receivables from customer contracts that have not been invoiced yet lead to the recognition of a contract asset. Most of the products supplied to the customers in this business model are consumables with very high turnover. Consequently, RHI Magnesita Group determined that revenue will only be recognised earlier

and thus will have an effect on the Consolidated Financial Statements for those customer aggregates in which refractories with long durability 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. However, no material changes in revenue recognition are expected for such contracts with variable payment arrangements.

**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 1 January 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 future, most leases will have to be recognised 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 recognises 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 Magnesita 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. RHI Magnesita currently intends to initially apply IFRS 16 as of 1 January 2019. At present it is still undecided which transition method the Group will choose and whether the exemption options will be used.

RHI Magnesita 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 €56.9 million exist in the RHI Magnesita Group as of 31 December 2017 (31.12.2016: €66.7 million) (see Note (60)), RHI Magnesita 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.

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 Magnesita Consolidated Financial Statements:

| Standard | Title | Publication[1)] | Mandatory application for RHI Magnesita | Expected effects on RHI Magnesita Consolidated Financial Statements |
|---|---|---|---|---|
| **New standards and interpretations** | | | | |
| IFRS 14 | Regulatory Deferral Accounts | 30.01.2014 | No EU endorsement | Not relevant |
| IFRS 17 | Insurance Contracts | 18.05.2017 | 01.01.2021 | No effect |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration | 08.12.2016 | 01.01.2018 | No effect |
| IFRIC 23 | Uncertainty over Income Tax Treatments | 07.06.2017 | 01.01.2019 | No effect |
| **Amendments of standards** | | | | |
| IAS 28 | Long-term Interests in Associates and Joint Ventures | 12.10.2017 | 01.01.2019 | No effect |
| IAS 40 | Transfers of Investment Properties | 08.12.2016 | 01.01.2018 | No effect |
| IFRS 9 | Prepayment Features with Negative Compensation | 12.10.2017 | 01.01.2019 | No effect |
| IFRS 10, IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 11.09.2014 | Postponed by EU | No effect |
| Various | Annual Improvements to IFRSs 2015-2017 Cycle | 12.12.2017 | 01.01.2019 | No effect |

1) according to EU Endorsement Status Report of 27.02.2018

## (5) Group of consolidated companies

In addition to RHI Magnesita N.V. as the parent company, the RHI Magnesita Consolidated Financial Statements include the Financial Statements of 112 subsidiaries (31.12.2016: 77) and of the RHISA Employee Trust, Sandton, South Africa.

In 2017 two joint ventures and two associates are accounted for under the equity method. In the previous year, the Group held only one investment in a joint venture. 19 (31.12.2016: three) subsidiaries and three (31.12.2016: three) other investments which are considered to be immaterial for the financial position and performance of the RHI Magnesita 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:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Number of consolidated companies | Full consolidation | Equity method | Full consolidation | Equity method |
| **Balance at beginning of year** | **78** | **1** | **78** | **1** |
| Additions | 43 | 3 | 2 | 0 |
| Retirements and disposals | (7) | 0 | (2) | 0 |
| **Balance at year-end** | **114** | **4** | **78** | **1** |

**Changes in the group of consolidated companies in the reporting year 2017**

Acquisition of Magnesita

On 26 October 2017 RHI Magnesita N.V. via its indirect, wholly-owned subsidiary Dutch Brasil Holding B.V. obtained control in Magnesita Refratários S.A. and its subsidiaries (Magnesita) after acquiring 50% plus one share and corresponding voting rights in Magnesita Refratários S.A.. Magnesita is a global group dedicated to the production and sale of an extensive line of refractory materials and industrial minerals, and distinguishes itself through its vertically integrated operations. Shares of Magnesita are listed on the Novo Mercado segment of the Brazilian Stock Exchange in São Paulo ("Novo Mercado"). The strategic rationale for the acquisition is to create a global, leading refractory company and become a more competitive, vertically integrated global provider of products, systems and services in the refractory industry.

The purchase price amounts to €296.8 million and was paid in the form of 5,000,000 newly issued ordinary shares of RHI Magnesita N.V. and €117.3 million in cash. The closing price of EUR 35.9 per share was used as a basis for determining the fair value of the issued ordinary shares.

The preliminary fair values of the acquired assets and liabilities according to IFRS at the acquisition date are presented as follows:

| in € million | 26.10.2017 |
|---|---|
| Property, plant and equipment | 439.0 |
| Other intangible assets | 161.4 |
| thereof customer relations | 122.0 |
| Investments in joint ventures and associates | 9.9 |
| Other non-current financial assets | 4.3 |
| Other non-current assets | 16.3 |
| Deferred tax assets | 49.9 |
| Inventories | 244.7 |
| Trade and other current receivables | 175.6 |
| Income tax receivables | 9.2 |
| Other current financial assets | 42.7 |
| Cash and cash equivalents | 166.2 |
| Assets held for sale | 33.6 |
| Non-current financial liabilities | (550.8) |
| Deferred tax liabilities | (0.3) |
| Provisions for pensions | (81.0) |
| Other personnel provisions | (1.5) |
| Other non-current provisions | (51.7) |
| Other non-current liabilities | (2.0) |
| Current financial liabilities | (131.4) |
| Current derivative financial liabilities | (0.2) |
| Trade and other current liabilities | (238.4) |
| Income tax liabilities | (10.1) |
| Current provisions | (25.8) |
| Liabilities relating to assets held for sale | (9.4) |
| **Net assets** | **250.2** |
| Non-controlling interest | (125.1) |
| **Proportional share of net assets acquired** | **125.1** |
| Goodwill | 171.7 |
| **Purchase price** | **296.8** |

The purchase price allocation has not been finalized yet, as the valuations of the acquired assets and liabilities assumed have not been completely finalized. From today's perspective the Group expects further fair value adjustments mainly on property, plant and equipment, intangible assets, inventories, provisions and deferred taxes.

The remaining preliminary goodwill of €171.7 million essentially reflects expected synergies achieved by optimizing production capacities and cost structure as well as new business of the enlarged Group. Goodwill is not deductible for tax purposes.

Non-controlling interests have been measured at their proportionate share of Magnesita's identifiable net assets.

Trade receivables comprise gross contractual receivables amounting to €145.0 million, of which €14.3 million are estimated as presumably irrecoverable, resulting in a fair value of €130.7 million. In case of receivables from joint ventures and associates of €17.8 million as well as other receivables amounting to €27.1 million the fair value corresponds to the gross amount. Due to the short-term nature of receivables, the Group assumes that the future cash flows correspond to the fair value.

The acquisition-related costs reported under administrative expenses in the consolidated income statement amount to €24.4 million for the current financial year and €12 million in the previous year. In addition, the Group recognised €9.1 million issue costs, less income tax amounting to €0.3 million, directly in equity.

In the period from November to December 2017, Magnesita generated revenue of €172.2 million and profit after income tax of €6.3 million. If the acquisition had been carried out at 1 January 2017, consolidated revenue would have amounted to €2,677.2 million and profit after income tax to €118.4 million. The pro-forma annual revenue and profit after income tax were determined under the assumption that the fair value adjustments and merger control divestments would have also been made as of 1 January 2017.

The Group is required – in accordance with the share purchase agreement (SPA) and Brazilian laws and regulations – to make a mandatory public offer in Brazil which must be addressed to all remaining Magnesita shareholders and must 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. The Group decided to combine the mandatory offer with a so-called "delisting tender offer" in an Integrated Tender Offer and has filed with the Brazilian Securities Commission the respective request.
According to the original and subsequent filings, shareholders of Magnesita will have the option of selling each Magnesita share in exchange of

(i) R$17.81, adjusted by SELIC (the Brazilian benchmark interest rate) from 26 October 2017 until the date of the settlement of the auction of the Integrated Tender Offer, plus 0.1998 RHI Magnesita shares or
(ii) a cash-only alternative consideration.

The consideration of the cash-only alternative offer will be the higher of:

(i) R$31.09, adjusted by SELIC from 26 October 2017 until the date of the settlement of the auction of the Integrated Tender Offer, and
(ii) R$35.56, not adjusted by SELIC.

Since the cash plus shares option was equivalent to R$57.73 on 28 February 2018, in light of the RHI Magnesita share price and the exchange rate prevailing on that date, the Group expects substantially all of Magnesita's minority shareholders to tender their shares and opt for the cash plus shares consideration. If 100% of Magnesita's minority shareholders tender their shares and opt for the cash plus shares consideration, the Group will disburse R$455.6 million, adjusted by SELIC from 26 October 2017 until the date of the settlement of the auction of the Integrated Tender Offer, and issue an additional 5,000,000 shares.

The Integrated Tender Offer is expected to be completed during 2018. The difference between the amount paid in the Integrated Tender Offer and the book value of non-controlling interest acquired will be recognised directly in equity.

Acquisition of Agellis

On 13 October 2017, RHI Magnesita acquired 100% of the shares of Agellis Group AB (Agellis), located in Lund, Sweden. Agellis provides products optimizing the molten metal processing, aimed at increasing quality, reducing maintenance and assisting safety. This technical know-how was the main reason for the acquisition. The purchase price amounts to €5.6 million whereof €5.0 million were paid in cash and €0.6 million represent the recorded liability for an earn-out agreement. The earn-out is based on the revenue outcome of the financial year 2020 and will be paid in July 2021. The estimated earn-out corresponds to 52% of the maximum earn-out and has been discounted with the transaction internal rate of return.

The fair values of the acquired assets and liabilities according to IFRS at the acquisition date are presented as follows:

| in € million | 13.10.2017 |
|---|---|
| Property, plant and equipment | 0.1 |
| Other intangible assets | 2.1 |
| Other non-current financial assets | 0.1 |
| Deferred tax assets | 0.9 |
| Inventories | 0.3 |
| Trade and other current receivables | 0.7 |
| Trade and other current liabilities | (1.0) |
| **Net assets** | **3.2** |
| Goodwill | 2.4 |
| **Purchase Price** | **5.6** |

Goodwill amounting to €2.4 million primarily refers to the value of potential new customers and, to a limited extent, the assembled workforce. Goodwill is not deductible for tax purposes.

Other additions

Additions are related to the establishment of the RHISA Employee Trust, Sandton, in South Africa with effect from 13 March 2017. The operating activities of the RHI Magnesita Group in South Africa are subject to the Black Economic Empowerment legislation. Based on this, the RHI Magnesita 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 Consolidated Financial Statements since the RHI Magnesita Group can exercise a controlling influence on the trust due to the contractual terms and conditions.

In addition, RHI Feuerfest GmbH, Vienna, Austria, was included for the first time in the Consolidated Financial Statements with effect from 19 May 2017. This company took over the operating activities after the corporate restructuring of former RHI AG.

Furthermore, RHI Magnesita N.V. which is based in Arnhem, the Netherlands, and has its place of management in Austria, was established on 20 June 2017 and subsequently fully consolidated. As of 26 October 2017, after completing the corporate restructuring of RHI AG, the company became the ultimate parent of the RHI Magnesita Group.

Disposals

At the end of October 2017, all shares in the two entities REFEL S.p.A., San Vito al Tagliamento, Italy, and CJSC "RHI Podolsk Refractories", Moscow, Russia (together subsequently called Fused Cast) were sold.

In order to satisfy the conditions imposed by the European Commission to approve the acquisition of Magnesita, the Group sold its magnesia-carbon bricks business concentrated in Oberhausen, Germany, as well as its entire dolomite business in the European Economic Area, which consisted of 100% shares in Dolomite Franchi S.p.A., Brescia, Italy, and its production site in Lugones, Spain (together subsequently called merger control divestments) at the end of November.

The net assets disposed at the date of deconsolidation consist of the following items:

| Disposal groups in € million | Merger control | Fused Cast |
|---|---|---|
| Property, plant and equipment | 27.9 | 0.1 |
| Other non-current assets | 0.4 | 0.1 |
| Inventories | 24.5 | 11.2 |
| Trade and other current receivables | 44.7 | 2.1 |
| Income tax receivables | 1.6 | 0.5 |
| Cash and cash equivalents | 3.4 | 6.3 |
| Deferred tax liability | (2.2) | 0.0 |
| Provisions for pensions | (1.1) | 0.0 |
| Other personnel provisions | (2.7) | (1.1) |
| Trade payables and other current liabilities | (43.4) | (11.2) |
| Income tax liability | (0.4) | (0.1) |
| Current provision | (0.2) | 0.0 |
| **Net assets disposed** | **52.5** | **7.9** |

The result from deconsolidation is determined as follows:

| in € million | Merger control | Fused Cast |
|---|---|---|
| Proceeds from the sale | 42.6 | 0.3 |
| Net assets disposed | (52.5) | (7.9) |
| Reclassification currency translation differences | 0.0 | (1.8) |
| Investment reimbursement | (3.7) | 0 |
| **Result from deconsolidation** | **(13.6)** | **(9.4)** |

The loss was recognised in other expenses in the Consolidated Statement of Profit or Loss. The selling price for the merger control divestments of €42.6 million consists of €40.0 million paid in cash and €2.6 million deferred consideration that will be due on the second anniversary of the disposal. The loss from deconsolidation of the merger control divestments includes an investment reimbursement obligation of €3.7 million to the former subsidiary Dolomite Franchi S.p.A.. The selling price for fused cast amounted to €0.3 million and was paid in cash.

**Changes in the group of consolidated companies in the previous year**

On 4 March 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 1 September 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 12 May 2016 the subsidiary RHI Rückversicherungs AG (100%) based in Vaduz, Liechtenstein, was liquidated.

As of 6 June 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 recognised in other expenses in the Consolidated Statement of Profit or Loss. The selling price of US$1 was paid in cash.

**Companies of the RHI Magnesita Group**

The main operating companies of the RHI Magnesita Group pursue the following core business activities:

| Name and registered office of the company | Country of core activity | Core business activity |
|---|---|---|
| Didier-Werke Aktiengesellschaft, Germany | Germany | Production |
| Magnesit Anonim Sirketi, Turkey | Turkey | Mining, production, sales |
| Magnesita Mineração S.A., Brazil | Brazil | Mining |
| Magnesita Refractories Company, USA | USA | Mining, production, sales |
| Magnesita Refractories GmbH, Germany | Germany | Production, sales |
| Magnesita Refratários S.A., Brazil | International | Production, sales, |
| Orient Refractories Limited, India | India | Production, sales |
| RHI Canada Inc., Canada | Canada | Production, sales, provision of services |
| RHI Feuerfest GmbH, Austria | International | Sales, R&D, financing |
| 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 RHI Magnesita holds a share of at least 20% (with the exception of the RHISA Employee Trust):

| | | 31.12.2017 | | 31.12.2016 | |
|---|---|---|---|---|---|
| Ser. no. | Name and registered office of the company | Share-holder | Share in % | Share-holder | Share in % |
| 1. | RHI Magnesita N.V., Arnhem, Netherlands | | | - | - |
| 2. | RHI AG, Vienna, Austria | - | - | | |
| | **Fully consolidated subsidiaries** | | | | |
| 3. | Agellis Group AB, Sund, Sweden | 60. | 100.0 | - | - |
| 4. | Baker Refractories Holding Company, Las Vegas, USA | 47. | 100.0 | - | - |
| 5. | Baker Refractories I.C., Inc., Las Vegas, USA | 4. | 100.0 | - | - |
| 6. | Baker Refractories, Las Vegas, USA | 47. | 100.0 | - | - |
| 7. | Betriebs- und Baugesellschaft mit beschränkter Haftung, Wiesbaden, Germany | 12. | 100.0 | 12. | 100.0 |
| 8. | CJSC "RHI Podolsk Refractories", Moskau, Russia | - | - | 60.,114. | 100.0 |
| 9. | D.S.I.P.C.-Didier Société Industrielle de Production et de Constructions, Breuillet, France | 12. | 100.0 | 12. | 100.0 |
| 10. | Didier Belgium N.V., Evergem, Belgium | 77.,108. | 100.0 | 77.,108. | 100.0 |
| 11. | Didier Vertriebsgesellschaft mbH, Wiesbaden, Germany | 12. | 100.0 | 12. | 100.0 |
| 12. | Didier-Werke Aktiengesellschaft, Wiesbaden, Germany | 1.,60. | 100.0 | 2.,60. | 100.0 |
| 13. | Dolomite Franchi S.p.A., Brescia, Italy | - | - | 60. | 100.0 |
| 14. | Dutch Brasil Holding B.V., Arnhem, Netherlands | 114. | 100.0 | 114. | 100.0 |
| 15. | Dutch MAS B.V., Arnhem, Netherlands | 12. | 100.0 | 12. | 100.0 |
| 16. | Dutch US Holding B.V., Arnhem, Netherlands | 114. | 100.0 | 114. | 100.0 |
| 17. | FE "VERA", Dnepropetrovsk, Ukraine | 60. | 100.0 | 60. | 100.0 |
| 18. | Feuerfestwerk Bad Hönningen GmbH, Hilden, Germany | 119. | 100.0 | - | - |
| 19. | FireShark Refractories GmbH, Vienna, Austria | 75. | 100.0 | - | - |
| 20. | Full Line Supply Africa (Pty) Ltd., Sandton, South Africa | 86. | 100.0 | 86. | 100.0 |
| 21. | GIX International Limited, Newark, United Kingdom | 120. | 100.0 | 120. | 100.0 |
| 22. | INDRESCO U.K. Ltd., Newark, United Kingdom | 21. | 100.0 | 21. | 100.0 |
| 23. | INTERSTOP (Shanghai) Co., Ltd., Shanghai, PR China | 113. | 100.0 | 113. | 100.0 |
| 24. | Latino America Refractories ApS, Hellerup, Denmark | - | - | 120. | 100.0 |
| 25. | Liaoning RHI Jinding Magnesia Co., Ltd., Dashiqiao City, PR China1) | 60. | 83.3 | 60. | 83.3 |
| 26. | LLC "RHI Wostok Service", Moskau, Russia | 60.,75. | 100.0 | 2.,60. | 100.0 |
| 27. | LLC "RHI Wostok", Moskau, Russia | 60.,75. | 100.0 | 2.,60. | 100.0 |
| 28. | Lokalbahn Mixnitz-St. Erhard Aktien-Gesellschaft, Vienna, Austria | 100. | 100.0 | 100. | 100.0 |
| 29. | LWB Holding Company, Las Vegas, USA | 61. | 100.0 | - | - |
| 30. | LWB Refractories Belgium S.A., Liège, Belgium | 49.,119. | 100.0 | - | - |
| 31. | LWB Refractories Beteiligungs GmbH & Co. KG, Hilden, Germany | 39.,61. | 100.0 | - | - |
| 32. | LWB Refractories Hagen GmbH, Hagen, Germany | 119. | 100.0 | - | - |
| 33. | LWB Refractories Holding France S.A.S., Valenciennes, France | 119. | 100.0 | - | - |
| 34. | M.E. Refractories Company FZE i. l., Dubai, United Arab Emirates | 38. | 100.0 | - | - |
| 35. | Mag Data Participaçoes e Investimentos em Projetos de Mineração S.A., Contagem, Brazil | 54. | 100.0 | - | - |
| 36. | Magnesit Anonim Sirketi, Eskisehir, Turkey2) | 60. | 100.0 | 60. | 100.0 |
| 37. | Magnesita Asia Refractory Holding Ltd, Hong Kong, PR China | 33. | 100.0 | - | - |
| 38. | Magnesita Finance S.A., Luxembourg, Luxembourg | 54. | 100.0 | - | - |
| 39. | Magnesita Grundstücks-Beteiligungs GmbH, Hilden, Germany | 54. | 100.0 | - | - |
| 40. | Magnesita International Limited, London, United Kingdom | 54. | 100.0 | - | - |
| 41. | Magnesita Malta Finance Ltd., St. Julians, Malta | 42.,119. | 100.0 | - | - |

| Ser. no. | Name and registered office of the company | 31.12.2017 Share-holder | 31.12.2017 Share in % | 31.12.2016 Share-holder | 31.12.2016 Share in % |
|---|---|---|---|---|---|
| 42. | Magnesita Malta Holding Ltd., St. Julians, Malta | 49.,119. | 100.0 | - | - |
| 43. | Magnesita Mineração S.A., Brumado, Brazil | 38.,54., 126. | 100.0 | - | - |
| 44. | Magnesita NAM Insurance Company, Wilmington, USA | 29. | 100.0 | - | - |
| 45. | Magnesita Refractories (Canada) Inc., Montreal, Canada | 4. | 100.0 | - | - |
| 46. | Magnesita Refractories (Dalian) Co. Ltd., Dalian, PR China | 38. | 100.0 | - | - |
| 47. | Magnesita Refractories Company, York, USA | 29. | 100.0 | - | - |
| 48. | Magnesita Refractories de Mexico S.A. de C.V., Monterrey, Mexico | 4.,5. | 100.0 | - | - |
| 49. | Magnesita Refractories GmbH, Hilden, Germany | 119. | 100.0 | - | - |
| 50. | Magnesita Refractories Ltd., Dinnington, United Kingdom | 4. | 100.0 | - | - |
| 51. | Magnesita Refractories Middle East FZE, Dubai, United Arab Emirates | 38. | 100.0 | - | - |
| 52. | Magnesita Refractories S.C.S., Valenciennes, France | 33.,119. | 100.0 | - | - |
| 53. | Magnesita Refractories S.R.L., Trezzano Sul Naviglio, Italy | 119. | 100.0 | - | - |
| 54. | Magnesita Refratários S.A., Contagem, Brazil | 14. | 50.0 | - | - |
| 55. | Magnesita Resource (Anhui-Chizhou) Company. Ltd., Chizhou, PR China | 37. | 100.0 | - | - |
| 56. | Mezubag AG, Pfäffikon, Switzerland | 113. | 100.0 | 113. | 100.0 |
| 57. | Orient Refractories Limited, Neu Delhi, India | 16. | 69.6 | 16. | 69.6 |
| 58. | Premier Periclase Limited, Drogheda, Ireland | 16. | 100.0 | 16. | 100.0 |
| 59. | Producción RHI México, S. de R.L. de C.V., Ramos Arizpe, Mexico | 91.,120. | 100.0 | 91.,120. | 100.0 |
| 60. | Radex Vertriebsgesellschaft m.b.H., Leoben, Austria | 116. | 100.0 | 116. | 100.0 |
| 61. | Rearden G Holdings Eins GmbH, Hilden, Germany | 38. | 100.0 | - | - |
| 62. | REFEL S.p.A., San Vito al Tagliamento, Italy | - | - | 12. | 100.0 |
| 63. | Refractarios Argentinos S.A.I.C.M., Buenos Aires, Argentina | 54. | 100.0 | - | - |
| 64. | Refractarios Magnesita Chile S/A, Santiago, Chile | 63. | 100.0 | - | - |
| 65. | Refractarios Magnesita Colombia S/A, Sogamoso, Colombia | 54. | 100.0 | - | - |
| 66. | Refractarios Magnesita del Perú S.A.C., Lima, Peru | 54. | 100.0 | - | - |
| 67. | Refractory Intellectual Property GmbH & Co KG, Vienna, Austria | 68.,75. | 100.0 | 2.,68. | 100.0 |
| 68. | Refractory Intellectual Property GmbH, Vienna, Austria | 75. | 100.0 | 2. | 100.0 |
| 69. | Reframec Manutenção e Montagens de Refratários S.A., Matozinhos, Brazil | 54. | 100.0 | - | - |
| 70. | RHI Argentina S.R.L., San Nicolás, Argentina | 16.,120. | 100.0 | 16.,120. | 100.0 |
| 71. | RHI Canada Inc., Burlington, Canada | 120. | 100.0 | 120. | 100.0 |
| 72. | RHI Chile S.A., Santiago, Chile | 21.,120. | 100.0 | 21.,120. | 100.0 |
| 73. | RHI Clasil Private Limited, Hyderabad, India[1)] | 120. | 53.7 | 120. | 53.7 |
| 74. | RHI Dinaris GmbH, Wiesbaden, Germany | 108. | 100.0 | 108. | 100.0 |
| 75. | RHI Feuerfest GmbH, Vienna, Austria | 1. | 100.0 | - | - |
| 76. | RHI Finance A/S, Hellerup, Denmark | 75. | 100.0 | 2. | 100.0 |
| 77. | RHI GLAS GmbH, Wiesbaden, Germany | 108. | 100.0 | 108. | 100.0 |
| 78. | RHI India Private Limited, Navi Mumbai, India | 14.,120. | 100.0 | 14.,120. | 100.0 |
| 79. | RHI ITALIA S.R.L., Brescia, Italy | 75. | 100.0 | 2. | 100.0 |
| 80. | RHI Marvo Feuerungs- und Industriebau GmbH, Gerbstedt, Germany | 81. | 100.0 | 81. | 100.0 |
| 81. | RHI MARVO Feuerungs- und Industriebau GmbH, Kerpen, Germany | 12. | 100.0 | 12. | 100.0 |
| 82. | RHI MARVO S.R.L., Ploiesti, Romania | 60.,114. | 100.0 | 60.,114. | 100.0 |
| 83. | RHI Normag AS, Porsgrunn, Norway | 60. | 100.0 | 60. | 100.0 |
| 84. | RHI Refractories (Dalian) Co., Ltd., Dalian, PR China | 60. | 100.0 | 60. | 100.0 |
| 85. | RHI Refractories (Site Services) Ltd., Newark, United Kingdom | 22. | 100.0 | 22. | 100.0 |

| Ser. no. | Name and registered office of the company | 31.12.2017 Share-holder | 31.12.2017 Share in % | 31.12.2016 Share-holder | 31.12.2016 Share in % |
|---|---|---|---|---|---|
| 86. | RHI Refractories Africa (Pty) Ltd., Sandton, South Africa | 60.,111. | 100.0 | 60. | 100.0 |
| 87. | RHI Refractories Andino C.A., Puerto Ordaz, Venezuela | 120. | 100.0 | 120. | 100.0 |
| 88. | RHI Refractories Asia Ltd., Hongkong, PR China | - | - | 112. | 100.0 |
| 89. | RHI Refractories Asia Pacific Pte. Ltd., Singapore | 75. | 100.0 | 2. | 100.0 |
| 90. | RHI Refractories Egypt LLC., Cairo, Egypt | 60.,114. | 100.0 | 60.,114. | 100.0 |
| 91. | RHI Refractories España, S.L., Lugones, Spain | 12.,15. | 100.0 | 12.,15. | 100.0 |
| 92. | RHI Refractories France SA, Breuillet, France[3)] | 112. | 100.0 | 112. | 100.0 |
| 93. | RHI Refractories Holding Company, Wilmington, USA | 120. | 100.0 | 120. | 100.0 |
| 94. | RHI Refractories Ibérica, S.L., Lugones, Spain | 112. | 100.0 | 112. | 100.0 |
| 95. | RHI Refractories Italiana s.r.l., Brescia, Italy | 112. | 100.0 | 112. | 100.0 |
| 96. | RHI Refractories Liaoning Co., Ltd., Bayuquan, PR China[1)] | 60. | 66.0 | 60. | 66.0 |
| 97. | RHI Refractories Lugones, S.L., Lugones, Spain | - | - | - | - |
| 98. | RHI Refractories Mercosul Ltda., Sao Paulo, Brazil | 114.,120. | 100.0 | 114.,120. | 100.0 |
| 99. | RHI Refractories Nord AB, Stockholm, Sweden | 112. | 100.0 | 112. | 100.0 |
| 100. | RHI Refractories Raw Material GmbH, Vienna, Austria | 1.,60.,75. | 100.0 | 2.,60. | 100.0 |
| 101. | RHI Refractories Site Services GmbH, Wiesbaden, Germany | 12. | 100.0 | 12. | 100.0 |
| 102. | RHI Refractories UK Limited, Bonnybridge, United Kingdom | 12. | 100.0 | 12. | 100.0 |
| 103. | RHI Refratários Brasil Ltda, Belo Horizonte, Brazil | 14.,120. | 100.0 | 14.,120. | 100.0 |
| 104. | RHI Sales Europe West GmbH, Mülheim-Kärlich, Germany | 12.,112. | 100.0 | 12.,112. | 100.0 |
| 105. | RHI Trading (Dalian) Co., Ltd., Dalian, PR China | 60. | 100.0 | 60. | 100.0 |
| 106. | RHI United Offices America, S.A. de C.V., Monterrey, Mexico | 91.,107. | 100.0 | 91.,107. | 100.0 |
| 107. | RHI United Offices Europe, S.L., Lugones, Spain | 91. | 100.0 | 91. | 100.0 |
| 108. | RHI Urmitz AG & Co. KG, Mülheim-Kärlich, Germany | 11.,12. | 100.0 | 11.,12. | 100.0 |
| 109. | RHI US Ltd., Wilmington, USA | 16. | 100.0 | 16. | 100.0 |
| 110. | RHI-Refmex, S.A. de C.V., Ramos Arizpe, Mexico | 91.,120. | 100.0 | 91.,120. | 100.0 |
| 111. | RHISA Employee Trust, Sandton, South Africa[4)] | - | 0.0 | - | - |
| 112. | SAPREF AG für feuerfestes Material, Basel, Switzerland | 120. | 100.0 | 120. | 100.0 |
| 113. | Stopinc Aktiengesellschaft, Hünenberg, Switzerland | 12.,60. | 100.0 | 12.,60. | 100.0 |
| 114. | Veitscher Vertriebsgesellschaft m.b.H., Vienna, Austria | 75. | 100.0 | 2. | 100.0 |
| 115. | Veitsch-Radex America LLC., Wilmington, USA | 109. | 100.0 | 109. | 100.0 |
| 116. | Veitsch-Radex GmbH & Co OG, Vienna, Austria | 75.,117. | 100.0 | 2.,117. | 100.0 |
| 117. | Veitsch-Radex GmbH, Vienna, Austria | 75. | 100.0 | 2. | 100.0 |
| 118. | Veitsch-Radex Vertriebsgesellschaft m.b.H., Vienna, Austria | 75. | 100.0 | 2. | 100.0 |
| 119. | Vierte LWB Refractories Holding GmbH, Hilden, Germany | 31.,61. | 100.0 | - | - |
| 120. | VRD Americas B.V., Arnhem, Netherlands | 60.,75. | 100.0 | 2.,60. | 100.0 |
| 121. | Zimmermann & Jansen GmbH, Düren, Germany | 12. | 100.0 | 12. | 100.0 |
| | **Subsidiaries not consolidated due to minor significance** | | | | |
| 122. | Agellis Process AB, Lund, Sweden | 3. | 100.0 | - | - |
| 123. | Agellis Surface AB, Lund, Sweden | 3. | 100.0 | - | - |
| 124. | Araçuaí Holding S.A., São Paulo, Brazil | 135. | 100.0 | - | - |
| 125. | Dr.-Ing. Petri & Co. Unterstützungsgesellschaft m.b.H., Wiesbaden, Germany | 12. | 100.0 | 12. | 100.0 |
| 126. | Grayhill MDMM Holding Ltda., São Paulo, Brazil | 54. | 100.0 | - | - |
| 127. | INTERSTOP do Brasil Equipamentos Metalurgicos Ltda i. l., Barueri, Brazil | - | - | 113. | 100.0 |
| 128. | Magnesita Australia PTY Ltd. i. l., Australia | 37. | 100.0 | - | - |
| 129. | Magnesita Refractories A.B., Köping, Sweden | 119. | 100.0 | - | - |
| 130. | Magnesita Refractories PVT Ltd, Mumbai, India | 61.,119. | 100.0 | - | - |
| 131. | Magnesita Refractories S.A. (Pty) Ltd., Middleburg, South Africa | 49. | 100.0 | - | - |

| Ser. no. | Name and registered office of the company | 31.12.2017 Shareholder | 31.12.2017 Share in % | 31.12.2016 Shareholder | 31.12.2016 Share in % |
|---|---|---|---|---|---|
| 132. | MAG-Tec (MSA Service) Ltda., Contagem, Brazil | 54. | 98.7 | - | - |
| 133. | Metal Data Participações Ltda., Rio de Janeiro, Brazil | 54. | 61.0 | - | - |
| 134. | Metal Data S.A. – Mineração e Metalurgia, Contagem, Brazil | 54.,133. | 100.0 | - | - |
| 135. | MMD Araçuaí Holding Ltda., São Paulo, Brazil | 35.,54. | 100.0 | - | - |
| 136. | MPC, Metal Process Control AB, Lund, Sweden | 3. | 100.0 | - | - |
| 137. | Refractarios Especiales Y Moliendas S.A., Buenos Aires, Argentina | 63. | 100.0 | - | - |
| 138. | Refractarios Magnesita Uruguay S/A, Montevideo, Uruguay | 54. | 100.0 | - | - |
| 139. | RHI Réfractaires Algérie E.U.R.L., Sidi Amar, Algeria | 92. | 100.0 | 92. | 100.0 |
| | **Equity-accounted joint ventures and associated companies** | | | | |
| 140. | Krosaki Magnesita Refractories LLC, York, USA | 47. | 40.0 | - | - |
| 141. | Magnesita Envoy Asia Ltd., Kaohsiung, Taiwan | 4. | 50.0 | - | - |
| 142. | MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria | 114.,146. | 50.0 | 114.,146. | 50.0 |
| 143. | Sinterco S.A., Nameche, Belgium | 61. | 70.0 | - | - |
| | **Other immaterial investments, measured at cost** | | | | |
| 144. | LLC "NSK Refractory Holding", Moskau, Russia | 60. | 49.0 | 60. | 49.0 |
| 145. | LLC "NSK Refractory", Novokuznetsk, Russia | 60. | 49.0 | 60. | 49.0 |
| 146. | MAGNIFIN Magnesiaprodukte GmbH, St. Jakob, Austria | 114. | 50.0 | 114. | 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

## (6) Methods of consolidation

**Subsidiaries**

Subsidiaries are companies over which RHI Magnesita N.V. 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 recognised 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 recognised. This accounting policy choice can be exercised anew for any company acquisition. For the acquisition of Magnesita, non-controlling interests have been measured at their proportionate share of Magnesita's identifiable net assets.

The purchase price allocation at the date of acquisition can be made on a preliminary basis in justified cases. If adjustments are necessary in favour or at the expense of assets and liabilities within twelve months of the acquisition, they will be made accordingly. These adjustments will be presented in the notes.

After completing the purchase price allocation, the determined goodwill is allocated to the relevant cash-generating unit and tested for impairment at this level. In accordance with the provisions of IFRS 3, negative

goodwill is immediately recognised 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 Magnesita N.V. 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 Magnesita 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 realised 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 and associates**

Shares in joint ventures and associates are accounted for using the equity method. A joint venture is a joint arrangement between the RHI Magnesita 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.

An associate is an entity over which the RHI Magnesita Group has significant influence. Significant influence is the power to participate in an investee's financial and operating policy decisions without control or joint control. A significant influence can be assumed if a company holds directly or indirectly 20% of the shares of the investee or has other abilities (e.g. through seats in the supervisory board) to influence the company's financial and operating policy decisions. These presumptions can also be disproved if the company has no significant influence.

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 ventures and associates is determined and recognised as goodwill. Goodwill is shown under the item investments in joint ventures and associates 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 or associate that is attributable to the RHI Magnesita Group. Unrealised 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 Magnesita examines at every reporting date whether there are objective indications of an impairment of the shares in joint ventures and associates. If such indications exist, the required impairment is determined as the

difference between the recoverable amount and the carrying amount of the joint ventures and associates and recognised in profit and loss in the item share of profit of joint ventures and associates.

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.

## (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 Magnesita N.V..

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 recognised in profit or loss under other income or expenses. Contrary to this, unrealised currency translation differences from monetary items which form part of a net investment in a foreign business are recognised 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 recognised as assets and liabilities of the respective subsidiary and translated at the closing rate.

The Euro exchange rates of currencies important for the RHI Magnesita Group are shown in the following table:

| | | Closing rate | | Average rate[1] | |
|---|---|---|---|---|---|
| Currencies | 1 € = | 31.12.2017 | 31.12.2016 | 2017 | 2016 |
| Argentine Peso | ARS | 22.93 | 16.74 | 18.65 | 16.27 |
| Brazilian Real | BRL | 3.96 | 3.42 | 3.60 | 3.90 |
| Canadian Dollar | CAD | 1.50 | 1.42 | 1.46 | 1.47 |
| Chilean Peso | CLP | 735.00 | 700.25 | 733.37 | 748.21 |
| Chinese Renminbi Yuan | CNY | 7.78 | 7.31 | 7.61 | 7.32 |
| Indian Rupee | INR | 76.40 | 71.43 | 73.36 | 74.31 |
| Mexican Peso | MXN | 23.56 | 21.77 | 21.27 | 20.48 |
| Norwegian Krone | NOK | 9.85 | 9.09 | 9.30 | 9.31 |
| Pound Sterling | GBP | 0.89 | 0.86 | 0.87 | 0.81 |
| Swiss Franc | CHF | 1.17 | 1.08 | 1.11 | 1.09 |
| South African Rand | ZAR | 14.75 | 14.33 | 15.02 | 16.40 |
| US Dollar | USD | 1.20 | 1.05 | 1.12 | 1.11 |

1) Arithmetic mean of the monthly closing rates

## (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 capitalised 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 amortisation 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 capitalisable production overheads and borrowing costs. If financing can be specifically allocated to an investment, the actual borrowing costs are capitalised 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 capitalised as part of acquisition cost and recorded as a provision. The criteria for this treatment are a legal or constructive obligation towards a third party and the ability to prepare a reliable estimate.

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 Magnesita 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 capitalised as incurred if the criteria set forth in IAS 16 have been met. The carrying amount of the replaced components is derecognised. Regular maintenance and repair costs are expensed as incurred.

Gains or losses from the disposal of property, plant and equipment, which result as the difference between the net realizable value and the carrying amount, are recognised as income or expense in the Consolidated Statement of Profit or Loss.

**Goodwill**
Goodwill is recognised 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 recognised 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 recognised under general and administrative expenses. They are only capitalised 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. Capitalised development costs are amortised on a straight-line basis over the expected useful life, however, over a maximum of ten years, and recognised 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 programmes and represent a significant extension or improvement over the original condition of the software are capitalised as production costs and added to the original purchase price of the software. These direct costs include the personnel expenses for the development team as well as an adequate, proportional share of overheads. Software is predominantly amortised 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 amortisation and impairments. Intangible assets with a finite useful life are amortised 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 to 15 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 recognised in the Consolidated Statement of Profit or Loss. If the reason for an impairment loss recognised in the past for property, plant and equipment and for other intangible assets ceases to exist, a reversal of impairment on the amortised acquisition and production costs is recognised in 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 recognised on goodwill are not permitted and are therefore not considered. The effects of impairment tests at the CGU level are shown in other income or other expenses in the Consolidated 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.

Cash-generating units (CGU)
In the RHI Magnesita 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 organisational 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 and the knowledge of RHI Magnesita's products 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 Magnesita products. The services offered extend over the life cycle of RHI Magnesita products at the customer's plant, from the appropriate installation and support of optimal operations, to environmentally sound disposal or sustainable reuse in RHI Magnesita's production process. These factors determine cash inflow to a significant extent and consequently form the basis for the CGU structures of RHI Magnesita.

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 (glass, cement/lime, nonferrous metals and environment, energy, chemicals) forms a separate CGU. The independent CGU Fused Cast in the Industrial Division was sold in 2017.

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 organisation goes beyond plant management and also includes sub-tasks of the administration processes.

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 2017, the terminal value is based on a growth rate derived from the difference of the current and the possible degree of utilisation 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 5.7% and 8.6% in the year 2017. In the previous year, the interest rates determined on the same basis ranged between 6.4% and 8.0%.

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

Basis for the impairment test was the five-year forward-looking business plan that was used on the one hand to support the decision making of the acquisition of Magnesita and on the other hand to support the listing at the London Stock Exchange. This business plan has been updated with the budget 2018 as starting point, that was approved by the Board, and developed with the growth rates used in the forward-looking business plan.

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | WACC before Tax | Perpetual annuity growth rate | Goodwill per group of CGUs in € million | WACC before tax | Perpetual annuity growth rate | Goodwill in € million |
| Preliminary goodwill not yet allocated | | | 171.7 | | | |
| Steel Division - Linings | 8.6% | 0.9% | 9.4 | 7.6% | 0.9% | 9.4 |
| Steel Division - Flow Control | 8.5% | 0.9% | 28.3 | 8.0% | 0.9% | 27.4 |
| Industrial Division - Glass | 7.2% | 0.9% | 0.0 | 7.0% | 0.9% | 0.0 |
| Industrial Division - Cement | 8.4% | 0.9% | 0.5 | 7.2% | 0.9% | 0.5 |
| Industrial Division - Nonferrous | 7.7% | 0.9% | 0.2 | 6.8% | 0.9% | 0.2 |
| Industrial Division - EEC | 8.0% | 0.9% | 0.3 | 7.0% | 0.9% | 0.3 |
| Raw Material - Raw Material | 7.9% | 0.9% | 0.0 | 6.7% | 0.9% | 0.0 |
| Raw Material - Norway | 5.7% | 0.0% | 0.0 | 6.5% | 0.0% | 0.0 |

In addition, an intangible asset with indefinite useful life of €1.8 million (31.12.2016: €1.8 million) is allocated to the Steel Division – Flow Control.

The preliminary goodwill determined due to the Magnesita acquisition was not considered in the impairment calculation since the purchase price allocation is not complete yet and it is not possible to make a reliable estimate of the allocations to CGUs. On the other hand, no triggering events were identified that would lead to an impairment of the goodwill.

Result of impairment test
Based on the impairment test conducted in the financial year 2017, the recoverability of the assets was demonstrated in all CGUs.

In the year 2016, the impairment losses for the former CGU Industrial/Fused Cast amounted to €8.0 million. In the first half of 2017, the Fused Cast plants were classified as a disposal group, which led to an additional impairment of €1.8 million. The disposal group was sold in the fourth quarter.

As in the previous year, no reversals of impairments were made in the financial year 2017.

**Other financial assets and liabilities**
The Group initially recognises securities which are held for trading on the trading date when the entity becomes a party to the contractual provisions of the instruments. All other financial assets and financial liabilities are initially recognised on the date when they are originated. Financial assets are derecognised if the entity transfers substantially all the risks and rewards or if the entity neither transfers nor retains substantially all the risks and rewards and has not retained control. Financial liabilities are derecognised when the contractual obligations are settled, withdrawn or have expired.

The item other financial assets in the Consolidated Statement of Financial Position of RHI Magnesita 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 as well as liabilities to fixed-term or puttable non-controlling interests.

Shares in non-consolidated subsidiaries and investments in other companies are classified entirely as "available for sale" in the RHI Magnesita Group. These available-for-sale financial assets of minor significance are measured at cost. If there are indications that the fair value is lower, the lower value is recognised.

Securities classified as available-for-sale 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 recognised to profit or loss are reversed through other comprehensive income. Reversals of impairment for debt instruments are recognised to profit or loss.

Securities are classified as at fair value through profit or loss if they are classified as held for trading or designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Securities at fair value through profit or loss are measured at fair value and changes therein, including any interest income, are recognised in profit or loss.

Financial receivables are measured at amortised 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 Magnesita 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 are accounted for in accordance with IAS 39 and concern a long-term power supply contract which provides for the purchase of fixed amounts of electricity at fixed

prices. 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. Unrealised valuation gains or losses and results from the realisation are recognised to the Statement of Profit or Loss under other income or expenses. The underlying transactions for the derivatives are carried at amortised 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 Magnesita 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. The interest rate swaps as hedging instruments are measured at fair value, which corresponds to the amount which RHI Magnesita would receive or has 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 unrealised gain or loss. Only at the time of the realisation 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 recognised immediately in the Statement of Profit or Loss. If the underlying 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.

Capital shares of non-controlling interests in subsidiaries with a fixed term are recognised under other financial liabilities in the Consolidated Statement of Financial Position in accordance with IAS 32. The liabilities are measured at amortised cost. The share of profit attributable to non-controlling interests is recognised under interest expenses in the Statement of Profit or Loss. Dividend payments to non-controlling interests reduce liabilities.

Furthermore, the RHI Magnesita 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 recognised to equity at the time of initial recognition without affecting profit or loss. Subsequently, the liability to puttable non-controlling interests is measured at amortised cost and changes are recorded in net finance costs.

**Deferred taxes**

Deferred taxes are recognised on temporary differences between the tax base and the IFRS carrying amount of assets and liabilities, tax-loss carryforwards and consolidation entries.

Deferred tax assets are recognised 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.

Deferred taxes are recognised 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 recognised for financial instruments which were issued by subsidiaries to non-controlling interests and which are classified as a financial liability in accordance with IFRS.

The RHI Magnesita 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.

The calculation of deferred taxes is based on the tax rate expected in the individual countries at the time the deferred tax asset is realised or the liability is settled 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%. Deferred tax assets and liabilities of the Brazilian group companies are measured at the tax rate of 34%. Tax rates from 12.5% to 35.0% (31.12.2016: 12.5% to 37.9%) were applied to the other 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 relate to income taxes 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 recognised 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 amortised cost minus any valuation allowances. These valuation allowances are determined on an individual basis and reflect any recognizable risk of default. A default leads 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 recognised 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 recognised 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 recognised 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 recognised through profit or loss in the item other expenses. Non-current assets are not depreciated as long as they are classified as held for sale.

**Financial liabilities**
Financial liabilities include liabilities to financial institutions and other lenders and are measured at fair value less directly attributable transaction costs at initial recognition. In subsequent measurements these liabilities are measured at amortised cost applying the effective interest method. Financial liabilities in foreign currency are translated at the closing rate.

**Provisions**
Provisions are recognised 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 recognised under provisions for pensions. However, if the plan assets exceed the obligations, the asset recognised 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 recognised 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.

Remeasurement gains and losses are recorded net of deferred taxes under other comprehensive income in the period incurred.

Other personnel provisions

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

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 31 December 2002 receive a one-off lump-sum termination benefit as defined by Austrian labour 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 31 December 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.

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 are mainly related to service anniversary bonuses 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 labour 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 former 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 recognised to profit or loss in general and administrative expenses.

Obligations for lump-sum settlements are based on company agreements in individual companies.

Other provisions

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 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.

The Group recognises provisions for demolition and disposal costs and environmental damages. RHI Magnesita's facilities and its refractory, exploration and mining operations are subject to environmental and governmental laws and regulations in each of the jurisdictions in which it operates. These laws govern, among other things, reclamation or restoration of the environment in mined areas and the clean-up of contaminated properties. Provisions for demolition and disposal costs and environmental damages include the estimated demolition and disposal costs of plants and buildings as well as environmental restoration costs arising from mining activities, based on the present value of estimated cash flows of the expected costs. The estimated future costs of deactivation of assets are reviewed annually and adjusted, if appropriate.

Provisions for labour and civil contingencies are recognised 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 RHI Magnesita Group.

**Trade payables and other current liabilities**

These liabilities are initially recognised at fair value, and subsequently measured at amortised cost.

Liabilities denominated in foreign currencies are translated at the closing rate.

**Government grants**
Government grants to promote investments are recognised 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 recognised to profit or loss in the periods in which the subsidized expenses are incurred. In the RHI Magnesita 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 realised 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 Magnesita Group can therefore expect to collect the related receivable. If formal acceptance by the customer is agreed, the related revenue is only recognised after this acceptance has been received.

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

Expenses are recognised to the Statement of Profit or Loss when a service is consumed or the costs are incurred.

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

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

Income taxes are recognised according to the local regulations applicable to each company. Current and deferred income taxes are recognised 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.

RHI Feuerfest GmbH, Vienna, Austria, acts as the head of a corporate tax group. The corporate tax group of RHI AG, Vienna, Austria was terminated with 31 December 2016 due to the corporate restructuring of RHI AG in 2017. A new tax compensation agreement has been concluded and is in force since 1 January 2017 between the head of the group and eight Austrian group members. 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 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 utilised within the group. In case the losses of a group member were compensated (negative tax allocation payment) and this group member generates taxable income within the next three years (after compensation), the positive tax allocation amounts to 12.5%. In 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 group for corporate and trade tax purposes. The seven tax group members are obliged to transfer their profit or loss to Didier-Werke Aktiengesellschaft based on a profit or loss transfer agreement. Additionally, Didier-Werke Aktiengesellschaft, Wiesbaden, acts as the head of a tax group for input tax purposes with nine German tax group members. Furthermore, Rearden G Holdings Eins GmbH, Hagen, acts as the head of a two-level structure tax group with four group members for corporate, trade tax and input tax purposes.

## (9) Segment reporting

The RHI Magnesita 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 organisational 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 Magnesita Group are managed centrally. R&D costs are allocated directly to the three segments.

The Shared Service Centre 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 gross profit serves the management of the RHI Magnesita Group for internal management. The profit of joint ventures and associates 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 and associates 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 Magnesita Group.

## (10) Discretionary decisions, assumptions and estimates

The RHI Magnesita 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 acquisitions, RHI Magnesita consults with independent experts who accompany the execution of the discretionary decisions and record it in appraisal 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 €1,117.1 million at 31 December 2017 (31.12.2016: €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 Magnesita 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 of impairments.

**Impairment of goodwill**
The effect of an adverse change by plus 10% in the estimated interest rates as of 31 December 2017 or by minus 10% in the contribution margin would not result in an impairment of goodwill recognised (carrying amount 31.12.2017: €38.7 million, 31.12.2016: €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 31 December 2017 or by minus 10% in the contribution margin would not result in an impairment charge to intangible assets with indefinite useful lives recognised (carrying amount at 31.12.2017 and 31.12.2016: €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 | 31.12.2017 Pension plans | 31.12.2017 Termination benefits | 31.12.2016 Pension plans | 31.12.2016 Termination benefits |
|---|---|---|---|---|---|
| Present value of the obligations | - | 517.1 | 58.1 | 289.2 | 58.5 |
| Interest rate | +0.25 | (14.9) | (1.5) | (7.6) | (1.6) |
| | (0.25) | 15.7 | 1.6 | 8.0 | 1.6 |
| Salary increase | +0.25 | 0.8 | 1.6 | 0.6 | 1.5 |
| | (0.25) | (0.7) | (3.5) | (0.6) | (1.4) |
| Pension increase | +0.25 | 10.6 | - | 5.0 | - |
| | (0.25) | (10.2) | - | (4.9) | - |
| Life expectancy | +1 year | 18.3 | - | 12.9 | - |
| | (1) year | (23.6) | - | (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 semi-annually; all other assumptions are reviewed at the end of the year.

**Other provisions**

The recognition and measurement of other provisions totalling €128.5 million (31.12.2016: €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 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 Magnesita N.V. 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 different interpretations by local finance authorities.

When determining the amount of the capitalisable deferred tax assets, 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 €168.7 million (31.12.2016: €131.3 million) would have to be increased by €0.8 million (31.12.2016: €1.8 million) or reduced by €0.9 million (31.12.2016: €1.7 million).

**Other items**

With respect to the other items of the Statement of Financial Position, RHI Magnesita 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

## (11) Property, plant and equipment

Property, plant and equipment developed as follows in the year 2017 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 01.01.2017 | 453.7 | 32.1 | 877.9 | 294.2 | 43.8 | 1,701.7 |
| Currency translation | (14.5) | (0.5) | (23.5) | (6.5) | (2.3) | (47.3) |
| Additions to consolidated companies[1)] | 148.6 | 16.6 | 214.1 | 5.4 | 54.4 | 439.1 |
| Additions | 6.5 | 1.5 | 13.6 | 8.8 | 34.4 | 64.8 |
| Retirements and disposals | (20.4) | 0.0 | (24.4) | (9.5) | 0.0 | (54.3) |
| Reclassifications | 7.3 | 1.0 | 16.5 | 6.1 | (30.0) | 0.9 |
| Reclassification as held for sale | (25.4) | (5.1) | (92.5) | (10.6) | (0.9) | (134.5) |
| **Cost at 31.12.2017** | **555.8** | **45.6** | **981.7** | **287.9** | **99.4** | **1,970.4** |
| Accumulated depreciation 01.01.2017 | 285.6 | 24.5 | 639.3 | 229.6 | 0.9 | 1,179.9 |
| Currency translation | (5.3) | 0.0 | (11.2) | (5.0) | (0.1) | (21.6) |
| Depreciation charges | 8.7 | 0.5 | 36.4 | 14.3 | 0.0 | 59.9 |
| Impairment losses | 9.4 | 0.0 | 7.9 | 1.1 | 0.3 | 18.7 |
| Retirements and disposals | (19.6) | 0.0 | (23.1) | (9.0) | 0.0 | (51.7) |
| Reclassifications | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 |
| Reclassification as held for sale | (22.4) | (3.6) | (79.9) | (10.3) | (0.3) | (116.5) |
| **Accumulated depreciation 31.12.2017** | **256.8** | **21.4** | **569.4** | **220.7** | **0.8** | **1,069.1** |
| **Carrying amounts at 31.12.2017** | **299.0** | **24.2** | **412.3** | **67.2** | **98.6** | **901.3** |

1) preliminary

| 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 01.01.2016 | 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 31.12.2016** | **453.7** | **32.1** | **877.9** | **294.2** | **43.8** | **1,701.7** |
| Accumulated depreciation 01.01.2016 | 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 31.12.2016** | **285.6** | **24.5** | **639.3** | **229.6** | **0.9** | **1,179.9** |
| **Carrying amounts at 31.12.2016** | **168.1** | **7.6** | **238.6** | **64.6** | **42.9** | **521.8** |

The impairment losses of €18.7 million are primarily related to the restructuring of operations in Germany and Brazil. In 2016, impairment losses of €8.8 million were mainly caused by the restructuring of the CGU Industrial/Fused Cast and the CGU Raw Materials/Norway.

The item prepayments made and plant under construction includes plant under construction with a carrying amount of €96.5 million (31.12.2016: €41.7 million), with the modification of the smelter at the site in Radenthein, Austria, representing the largest investment project under construction of the financial year 2017.

As in the previous year, there are no restrictions on the sale of property, plant and equipment.

## (12) Goodwill

Goodwill developed as follows:

| in € million | 2017 | 2016 |
|---|---|---|
| Cost at beginning of year | 40.2 | 40.1 |
| Currency translation | (1.6) | 0.1 |
| Additions to consolidated companies[1)] | 174.1 | 0.0 |
| Reclassification as held for sale | (0.4) | 0.0 |
| **Cost at year-end** | **212.3** | **40.2** |
| Accumulated impairment at beginning of year | (2.4) | (2.6) |
| Currency translation | 0.1 | 0.2 |
| Reclassification as held for sale | 0.4 | 0.0 |
| **Accumulated impairment at year-end** | **(1.9)** | **(2.4)** |
| **Carrying amount at year-end** | **210.4** | **37.8** |

1) preliminary

## (13) Other intangible assets

Other intangible assets changed as follows in the financial year 2017:

| in € million | Internally generated intangible assets | Other intangible assets | Total |
|---|---|---|---|
| Cost at 01.01.2017 | 45.9 | 114.0 | 159.9 |
| Currency translation | (0.2) | (10.0) | (10.2) |
| Additions to consolidated companies[1)] | 0.0 | 163.5 | 163.5 |
| Additions | 4.1 | 1.5 | 5.6 |
| Retirements and disposals | 0.0 | (0.6) | (0.6) |
| Reclassifications | (0.6) | (0.3) | (0.9) |
| Reclassification as held for sale | (1.6) | (1.7) | (3.3) |
| **Cost at 31.12.2017** | **47.6** | **266.4** | **314.0** |
| Accumulated amortisation 01.01.2017 | 27.7 | 61.1 | 88.8 |
| Currency translation | (0.2) | (2.0) | (2.2) |
| Amortisation charges | 3.8 | 9.0 | 12.8 |
| Impairment losses | 0.8 | 0.0 | 0.8 |
| Retirements and disposals | 0.0 | (0.6) | (0.6) |
| Reclassifications | (0.6) | 0.2 | (0.4) |
| Reclassification as held for sale | (1.3) | (1.5) | (2.8) |
| **Accumulated amortisation 31.12.2017** | **30.2** | **66.2** | **96.4** |
| **Carrying amounts at 31.12.2017** | **17.4** | **200.2** | **217.6** |

1) preliminary

Other intangible assets changed as follows in the previous year:

| in € million | Internally generated intangible assets | Other intangible assets | Total |
|---|---|---|---|
| Cost at 01.01.2016 | 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 31.12.2016** | **45.9** | **114.0** | **159.9** |
| Accumulated amortisation 01.01.2016 | 25.5 | 73.0 | 98.5 |
| Currency translation | (0.3) | 0.1 | (0.2) |
| Disposals of consolidated companies | (1.1) | (1.5) | (2.6) |
| Amortisation 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 amortisation 31.12.2016** | **27.7** | **61.1** | **88.8** |
| **Carrying amounts at 31.12.2016** | **18.2** | **52.9** | **71.1** |

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

Other intangible assets include in particular acquired customer relations, patents, trademark rights, software, and land use rights. The customer relations of Magnesita have a preliminary carrying amount of €116.1 million and a remaining useful life of 8 to 15 years. The land use rights have a carrying amount of €26.0 million (31.12.2016: €23.4 million) and a remaining useful life of 20 to 60 years.

As in the previous year, there are no restrictions on the sale of intangible assets.

## (14) Investments in joint ventures and associates

The following investments in joint ventures and associates are accounted for using the equity method in the RHI Magnesita Consolidated Financial Statements:

| in € million | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Investments in joint ventures | 20.7 | 20.5 |
| Investments in associates | 9.8 | 0.0 |
| **Carrying amount at year-end** | **30.5** | **20.5** |

**Joint ventures**

As in the previous year, the RHI Magnesita 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 Magnesita has a residual interest in the net assets of the company and accordingly classified its share as a joint venture. There are no listed market prices.

The following table summarises the income and expenses of MAGNIFIN:

| in € million | 2017 | 2016 |
|---|---|---|
| Revenue | 40.3 | 40.0 |
| Profit before income tax | 20.8 | 20.9 |
| Depreciation | 0.8 | 1.7 |
| Interest expense | 0.2 | 0.3 |
| Other comprehensive income | (0.2) | (0.3) |
| Total comprehensive income | 20.6 | 20.6 |

Income taxes on the share of profit of MAGNIFIN amounting to €2.7 million (2016: €2.8 million) are recognised by the head of the tax group, RHI Feuerfest GmbH, Vienna, Austria, due to the legal form of the joint venture and transferred to Veitscher Vertriebsgesellschaft m.b.H., Vienna, Austria, in accordance with the provisions of the tax compensation agreement.

The net assets of MAGNIFIN are shown in the table below:

| in € million | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Non-current assets | 9.3 | 9.9 |
| Current assets (without cash and cash equivalents) | 10.2 | 12.9 |
| Cash and cash equivalents | 19.7 | 16.7 |
| Non-current liabilities and provisions | (4.0) | (4.0) |
| Current provisions | (1.2) | (1.1) |
| Trade payables and other current liabilities | (2.7) | (3.2) |
| **Net assets** | **31.3** | **31.2** |

The development of the carrying amount of the share in MAGNIFIN in the RHI Magnesita Consolidated Financial Statements is shown below:

| in € million | 2017 | 2016 |
|---|---|---|
| **Proportional share of net assets at beginning of year** | **15.6** | **14.4** |
| Share of profit | 10.8 | 10.9 |
| Share of other comprehensive income (remeasurement losses) | (0.1) | (0.1) |
| Dividends received | (10.7) | (9.5) |
| Other changes in value | 0.0 | (0.1) |
| **Proportional share of net assets at year-end** | **15.7** | **15.6** |
| Goodwill | 4.9 | 4.9 |
| **Carrying amount of investment at year-end** | **20.6** | **20.5** |

In the course of the acquisition of Magnesita the Group acquired interests in an immaterial joint venture with a carrying amount of €0.1 million as of 31 December 2017 (26.10.2017: €0.1 million). The Group's share of the profit after income tax, other comprehensive income and total comprehensive income for November and December 2017 amounts to less than €0.1 million.

**Associates**

In the course of the acquisition of Magnesita the Group acquired interests in Sinterco S.A.. Sinterco is located in Nameche, Belgium, and is dedicated to the production of sintered doloma. The direct parent, which is ultimately controlled by RHI Magnesita, holds a share of 70% in equity of Sinterco but does not have control over Sinterco due to a special agreement with the minority shareholder and accordingly classified its share as an associate. There are no listed market prices.

In November and December 2017 Sinterco generated revenue amounting to €4.0 million. Profit after income tax and total comprehensive income amount to less than €0.1 million.

The net assets of Sinterco are shown in the table below:

| in € million | 31.12.2017 | 26.10.2017 |
|---|---|---|
| Non-current assets | 26.3 | 26.0 |
| Current assets | 13.8 | 13.4 |
| Non-current liabilities | (20.7) | (20.5) |
| Current liabilities | (6.4) | (5.9) |
| **Net assets** | **13.0** | **13.0** |

At 31 December 2017 as well as at 26 October 2017 the carrying amount of the investment in Sinterco in the RHI Magnesita Consolidated Financial Statements amounts to €9.1 million.

In the course of the acquisition of Magnesita the Group acquired a second, but immaterial, associate with a carrying amount of €0.7 million as of 31 December 2017 (26.10.2017: €0.7 million). The Group's share of the profit after income tax for November and December 2017 amounts to €0.1 million. Total comprehensive income including other comprehensive income of less than €0.1 million, amounts to €0.1 million.

## (15) Other non-current financial assets

Other non-current financial assets consist of the following items:

| in € million | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Interests in subsidiaries not consolidated | 0.8 | 0.0 |
| Available-for-sale investments | 0.4 | 0.4 |
| Available-for-sale securities and shares | 15.0 | 15.8 |
| Securities designated as fair value through profit and loss | 2.3 | 0.0 |
| Interest derivatives designated as cash flow hedges | 1.5 | 0.0 |
| Non-current receivables from disposal of subsidiaries | 2.6 | 0.0 |
| Other non-current financial receivables | 2.5 | 2.7 |
| **Other non-current financial assets** | **25.1** | **18.9** |

At 31 December 2017 accumulated impairments on investments, securities and shares of €3.8 million (31.12.2016: €2.0 million) are recognised.

## (16) Other non-current assets

Other non-current assets include the following items:

| in € million | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Receivables from other taxes | 9.9 | 6.7 |
| Stripping costs | 8.0 | 8.3 |
| Judicial deposits | 3.7 | 0.0 |
| Plan assets from overfunded pension plans | 2.0 | 2.1 |
| Prepaid expenses | 0.6 | 0.6 |
| **Other non-current assets** | **24.2** | **17.7** |

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 utilised in the medium term.

## (17) Deferred taxes

Deferred taxes are related to the following significant balance sheet items and loss carryforwards:

| | 31.12.2017 | | 2017 | 31.12.2016[1] | | 2016[1] |
|---|---|---|---|---|---|---|
| in € million | Deferred tax assets | Deferred tax liabilities | Expense/ (Income) | Deferred tax assets | Deferred tax liabilities | Expense/ (Income) |
| Property, plant and equipment, intangible assets | 21.6 | 81.5 | (4.7) | 22.3 | 38.5 | 0.8 |
| Inventories | 16.1 | 1.1 | 5.7 | 16.9 | 1.0 | (3.5) |
| Trade receivables, other assets | 6.3 | 38.3 | (11.5) | 1.6 | 3.1 | (8.7) |
| Pensions and other personnel provisions | 70.2 | 0.3 | 6.4 | 53.1 | 0.4 | 2.6 |
| Other provisions | 20.5 | 1.2 | 3.0 | 3.9 | 0.7 | (0.1) |
| Trade payables, other liabilities | 26.6 | 4.8 | (1.4) | 16.5 | 1.1 | 2.4 |
| Tax loss carryforwards | 134.6 | - | 8.4 | 61.8 | - | 10.8 |
| Offsetting | (115.5) | (115.5) | - | (31.3) | (31.3) | - |
| **Deferred taxes** | **180.4** | **11.7** | **5.9** | **144.8** | **13.5** | **4.3** |

1) Comparative values adjusted to current presentation

As of 31 December 2017, subsidiaries which generated tax losses in the past year or the previous year recognised net deferred tax assets on temporary differences and on tax loss carryforwards of €26.0 million (31.12.2016: €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 lead to increased taxable income. On the one hand, a subsidiary was sold; on the other hand, the financing of a subsidiary was optimized.

Tax loss carryforwards totalled €609.7 million in the RHI Magnesita Group as of 31 December 2017 (31.12.2016: €383.7 million). A significant portion of the tax loss carryforwards originates in Austria and in Brazil and can be carried forward indefinitely. The annual offset of the tax loss carryforwards in Austria is limited to 75% and in Brazil to 30% of the respective tax profits. No deferred taxes were recognised for tax loss carryforwards of €157.7 million (31.12.2016: €156.9 million). The main part of the non-capitalised tax losses can be carried forward indefinitely. €3.4 million (31.12.2016: €25.8 million) will lapse at the earliest in the year 2020 if not used by then.

In addition, no deferred tax assets were recognised for temporary differences totalling €16.2 million (31.12.2016: €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 €667.0 million (31.12.2016: €109.3 million) and deductible temporary differences of €295.6 million were not recognised 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:

| | 31.12.2017 | | | 31.12.2016 | | |
|---|---|---|---|---|---|---|
| in € million | Current | Non-current | **Total** | Current | Non-current | **Total** |
| Deferred tax assets | 50.9 | 129.5 | **180.4** | 39.0 | 105.8 | **144.8** |
| Deferred tax liabilities | 0.4 | 11.3 | **11.7** | 0.0 | 13.5 | **13.5** |

## (18) Inventories

Inventories as presented in the Consolidated Statement of Financial Position consist of the following items:

| in € million | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Raw materials and supplies | 183.7 | 74.5 |
| Unfinished products and unfinished services | 122.1 | 99.4 |
| Finished products and goods | 353.6 | 184.9 |
| Prepayments made | 17.2 | 6.5 |
| **Inventories** | **676.6** | **365.3** |

The inventories recognised as of 31 December 2017 totalled €676.6 million (31.12.2016: €365.3 million), of which €9.0 million (31.12.2016: €2.7 million) are carried at net realizable value.

The impairment losses recorded in the financial year 2017, netted out against reversals of impairment losses, amount to €4.0 million (2016: €1.1 million).

As in the previous year, there are no restrictions on the disposal of inventories.

## (19) Trade and other current receivables

Trade and other current receivables as presented in the Statement of Financial Position are classified as follows:

| in € million | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Trade receivables | 394.9 | 309.0 |
| Receivables from long-term construction contracts | 11.7 | 7.8 |
| Receivables from other taxes | 77.0 | 65.9 |
| Receivables from joint ventures and associates | 19.4 | 1.0 |
| Prepaid expenses | 3.7 | 2.8 |
| Prepaid transaction costs related to financial liabilities | 2.5 | 0.0 |
| Receivables from property transactions | 2.5 | 3.3 |
| Emission rights | 1.6 | 0.0 |
| Receivables from employees | 1.3 | 0.8 |
| Receivables from personnel welfare foundation | 0.8 | 0.8 |
| Receivables from non-consolidated subsidiaries | 0.3 | 0.0 |
| Other current receivables | 14.3 | 7.7 |
| **Trade and other current receivables** | **530.0** | **399.1** |
| thereof financial assets | 419.9 | 312.1 |
| thereof non-financial assets | 110.1 | 87.0 |

Receivables from long-term construction contracts consist of the following components:

| in € million | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Contract costs incurred up to the reporting date | 13.2 | 10.0 |
| Profits recognised by the reporting date | 1.4 | 0.8 |
| Prepayments received | (2.9) | (3.0) |
| **Receivables from long-term construction contracts** | **11.7** | **7.8** |

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 31 December 2017 (31.12.2016: €34.0 million).

Accumulated valuation allowance to trade and other current receivables developed as follows:

| in € million | 2017 | 2016 |
|---|---|---|
| **Accumulated valuation allowance at beginning of year** | **35.2** | **30.1** |
| Currency translation | (1.1) | 0.4 |
| Addition | 11.2 | 7.4 |
| Use | (3.2) | (0.3) |
| Reversal | (5.6) | (2.4) |
| Reclassification as held for sale | (2.1) | 0.0 |
| **Accumulated valuation allowance at year-end** | **34.4** | **35.2** |

## (20) Income tax receivables

Income tax receivables amounting to €13.5 million (31.12.2016: €9.3 million) are mainly related to tax prepayments and deductible withholding taxes.

## (21) Other current financial assets

This item of the Consolidated Statement of Financial Position consists of the following components:

| in € million | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Securities held for trading | 32.3 | 0.0 |
| Derivatives in open orders | 0.8 | 1.1 |
| Forward exchange contracts | 0.9 | 0.4 |
| Other current financial receivables | 0.1 | 1.5 |
| **Other current financial assets** | **34.1** | **3.0** |

At 31 December 2017 accumulated impairments on other current financial receivables of €1.1 million (31.12.2016: €0.0 million) are recognised.

## (22) Cash and cash equivalents

This item of the Consolidated Statement of Financial Position consists of the following components:

| in € million | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Cash at banks | 373.2 | 179.9 |
| Money market funds | 67.5 | 0.4 |
| Checks | 1.4 | 2.5 |
| Cash on hand | 0.3 | 0.1 |
| **Cash and cash equivalents** | **442.4** | **182.9** |

## (23) Share capital

At 31 December 2016, the fully paid-in share capital of RHI AG amounted to €289,376,212.84 and consisted of 39,819,039 zero par value bearer shares. One share granted a rounded calculated share of €7.27 in capital stock.

In exchange for the cancellation of the RHI AG shares as a result of the merger, in which RHI AG merged with and into RHI Magnesita N.V., the shareholders of RHI AG received one newly issued ordinary share of RHI Magnesita N.V. for each RHI AG share. As part of the purchase price for the acquisition of control of Magnesita, RHI Magnesita N.V. issued 5,000,000 new ordinary shares to the sellers of Magnesita shares as at 26 October 2017. Following the merger and the acquisition of control and also at year-end 2017, RHI Magnesita N.V.'s issued and fully paid-in share capital therefore consists of 44,819,039 ordinary shares at €1 each share.

The authorized share capital of RHI Magnesita N.V. amounts to €100,000,000 divided into 100,000,000 ordinary shares, of which 44,819,039 ordinary shares are issued and outstanding as explained before.

All outstanding RHI Magnesita 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. There are no RHI Magnesita shares with special control rights. No limitations regarding the voting rights of RHI Magnesita shares, including from agreements between shareholders, are known to the company.

On 20 October 2017 the voluntary employee stock ownership programme "4 plus 1" for employees and executives of RHI AG as well as members of the management, executives and employees of RHI group companies was terminated. Until the termination of the plan employees received one RHI share free of charge for four RHI shares they purchased themselves. During 2017, 2,310 (2016: 7,998) shares were acquired over the stock exchange for the employee stock ownership plan and issued to employees. No own shares were held by RHI AG at the merger date and at 31 December 2016.

## (24) Group reserves

**Additional paid-in capital**
At 31 December 2017, additional paid-in capital comprises premiums on the issue of shares less issue costs net of tax by RHI Magnesita N.V.. The additional paid-in capital as of 31 December 2016, was eliminated in the course of downstream merger from RHI AG to RHI Magnesita N.V..

**Mandatory reserves**
The articles of association stipulate a mandatory reserve of €288,699,230.59 which was created in connection with the merger. No distributions, allocations or additions may be made and no losses of the company may be allocated to the mandatory reserve.

**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.

**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.

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 unrealised 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 recognised 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 cease to form part of a net investment in a foreign operation, the currency translation differences of these monetary items previously recognised in other comprehensive income are reclassified to profit or loss. In the financial year 2017, the Group reassessed its internal financing structure and as a result reclassified accumulated losses of €38.9 million to the profit or loss statement. Due to the disposal of Fused Cast accumulated foreign currency translation losses of €1.8 million were reclassified to the Statement of Profit or Loss. The corresponding tax effect led to an income of €6.2 million.

## (25) Non-controlling interests

**Non-controlling interests in Magnesita**
Non-controlling interests hold a share of 50% minus one share in the listed company Magnesita Refratários S.A. and its subsidiaries (Magnesita). Magnesita is a global group dedicated to the production and sale of an extensive line of refractory materials and industrial minerals and distinguishes itself through its vertically integrated operations.

Based on the net assets of Magnesita, the carrying amount of the non-controlling interests is determined as follows:

| in € million | 31.12.2017 | 26.10.2017 |
|---|---|---|
| Non-current assets | 660.8 | 680.8 |
| Current assets | 678.2 | 672.0 |
| Non-current liabilities | (619.6) | (687.3) |
| Current liabilities | (471.1) | (415.3) |
| **Net assets before intragroup eliminations** | **248.3** | **250.2** |
| **Intragroup eliminations** | **(0.1)** | **0.0** |
| **Net assets** | **248.2** | **250.2** |
| Percentage of non-controlling interests | 50.0% | 50.0% |
| **Carrying amount of non-controlling interests** | **124.1** | **125.1** |

The aggregate Statement of Profit or Loss and Statement of Comprehensive Income are shown below:

| in € million | 11-12/2017 |
|---|---|
| Revenue | 172.2 |
| Operating expenses, net finance costs and income tax | (165.9) |
| **Profit after income tax before intragroup eliminations** | **6.3** |
| **Intragroup eliminations** | **0.0** |
| **Profit after income tax** | **6.3** |
| thereof attributable to non-controlling interests of Magnesita | 3.1 |

| in € million | 11-12/2017 |
|---|---|
| Profit after income tax | 6.3 |
| Other comprehensive income | (9.8) |
| **Total comprehensive income** | **(3.5)** |
| thereof attributable to non-controlling interests of Magnesita | (1.8) |

The following table shows the summarised Statement of Cash Flows:

| in € million | 11-12/2017 |
|---|---|
| Net cash flow from operating activities | 46.5 |
| Net cash flow from investing activities | 18.7 |
| Net cash flow from financing activities | (2.8) |
| **Total cash flow** | **62.4** |

**Non-controlling interests in Orient Refractories Ltd.**

Non-controlling interests hold a share of 30.4% (31.12.2016: 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.

Based on the net assets of the company, the carrying amount of the non-controlling interests is determined as follows:

| in € million | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Non-current assets | 25.6 | 28.9 |
| Current assets | 48.8 | 44.6 |
| Non-current liabilities | (6.8) | (8.2) |
| Current liabilities | (16.6) | (14.8) |
| **Net assets before intragroup eliminations** | **51.0** | **50.5** |
| Intragroup eliminations | (0.2) | (0.2) |
| **Net assets** | **50.8** | **50.3** |
| Percentage of non-controlling interests | 30.4% | 30.4% |
| **Carrying amount of non-controlling interests** | **15.4** | **15.3** |

The aggregate Statement of Profit or Loss and Statement of Comprehensive Income are shown below:

| in € million | 2017 | 2016 |
|---|---|---|
| Revenue | 77.9 | 68.6 |
| Operating expenses, net finance costs and income tax | (70.1) | (61.9) |
| **Profit after income tax before intragroup eliminations** | **7.8** | **6.7** |
| Intragroup eliminations | 0.1 | (0.3) |
| **Profit after income tax** | **7.9** | **6.4** |
| thereof attributable to non-controlling interests of ORL | 2.4 | 1.9 |

| in € million | 2017 | 2016 |
|---|---|---|
| Profit after income tax | 7.9 | 6.4 |
| Other comprehensive income | (3.6) | 0.8 |
| **Total comprehensive income** | **4.3** | **7.2** |
| thereof attributable to non-controlling interests of ORL | 1.3 | 2.2 |

The following table shows the summarised Statement of Cash Flows of ORL:

| in € million | 2017 | 2016 |
|---|---|---|
| Net cash flow from operating activities | 6.4 | 7.9 |
| Net cash flow from investing activities | (1.0) | (0.5) |
| Net cash flow from financing activities | (3.8) | (2.3) |
| **Total cash flow** | **1.6** | **5.1** |

Net cash flow from financing activities includes dividend payments to non-controlling interests amounting to €1.1 million (2016: €0.6 million).

**Accumulated other comprehensive income attributable to non-controlling interests**
The development of accumulated other comprehensive income attributable to non-controlling interests is shown in the following table:

| in € million | Cash flow hedges | Defined benefit plans | Currency translation |
|---|---|---|---|
| **Accumulated other comprehensive income 01.01.2017** | **0.0** | **0.0** | **0.1** |
| Unrealised results from currency translation | - | - | (6.0) |
| Unrealised results from fair value change | 0.1 | - | - |
| Remeasurement of defined benefit plans | - | (0.1) | - |
| **Accumulated other comprehensive income 31.12.2017** | **0.1** | **(0.1)** | **(5.9)** |

## (26) Financial liabilities

Financial liabilities include all interest-bearing liabilities of the RHI Magnesita Group due to financial institutions and other lenders at the respective reporting date.

The financial liabilities have the following contractual remaining terms:

| | Total | Remaining term | | |
|---|---|---|---|---|
| in € million | 31.12.2017 | up to 1 year | 2 to 5 years | over 5 years |
| Export credits and investment financing | 346.4 | 65.6 | 280.0 | 0.8 |
| Syndicated Financing | 266.2 | 0.0 | 266.2 | 0.0 |
| Bonded loans ("Schuldscheindarlehen") | 230.5 | 0.0 | 162.0 | 68.5 |
| Utilised other credit lines and other loans | 102.1 | 102.1 | 0.0 | 0.0 |
| Accrued interest | 7.8 | 7.8 | 0.0 | 0.0 |
| Liabilities to financial institutions | 953.0 | 175.5 | 708.2 | 69.3 |
| Perpetual bond | 215.3 | 64.3 | 0.0 | 151.0 |
| Senior notes | 55.6 | 1.1 | 54.5 | 0.0 |
| Other financial liabilities | 1.7 | 0.9 | 0.7 | 0.1 |
| **Financial liabilities** | **1,225.6** | **241.8** | **763.4** | **220.4** |

| | Total | Remaining term | | |
|---|---|---|---|---|
| in € million | 31.12.2016 | up to 1 year | 2 to 5 years | over 5 years |
| Bonded loans ("Schuldscheindarlehen") | 253.5 | 55.0 | 139.5 | 59.0 |
| Export credits and one-time financing | 154.5 | 29.0 | 116.9 | 8.6 |
| Utilised 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 |
| Other financial liabilities | 7.7 | 4.5 | 3.1 | 0.1 |
| **Financial liabilities** | **483.2** | **156.0** | **259.5** | **67.7** |

RHI Magnesita Group adapted its financing structure in the context of the acquisition of Magnesita. In addition to obtaining acquisition financing for the purchase price of Magnesita, financial liabilities related to the bonded loans concluded in 2012 and 2014 were 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 a total of €477.0 million and a bonded loan of €178.0 million. In addition, all existing export loans and one-off financing were also refinanced in the course of the transaction in the fourth quarter of 2017.

Of the liabilities to financial institutions recognised at 31 December 2017 €34.0 million (31.12.2016: €34.0 million) are secured by assignment of receivables and €2.6 million (31.12.2016: €0.0 million) by assignment of cash and cash equivalents. In case the loan agreements are not met, the financing banks are entitled to inflows from the receivables and cash and cash equivalents assigned.

Net debt/adjusted EBITDA is the most important financial covenant of the loan agreements. Depending on the facility, net debt/adjusted EBITDA is calculated either on the group level or on the respective RHI or Magnesita subgroup level. Compliance with the covenants is measured predominantly on an annual or semi-annual basis. During the reporting years 2017 and 2016, the Group met all covenant requirements.

For liabilities of €1,109.9 million (31.12.2016: €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, 34% (31.12.2016: 61%) of the liabilities to financial institutions carry fixed interest and 66% (31.12.2016: 39%) 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 | 31.12.2017 Carrying amount in € million | Interest terms fixed until | Effective annual interest rate | Currency | 31.12.2016 Carrying amount in € million |
|---|---|---|---|---|---|---|---|
| 2018 | EURIBOR + margin | EUR | 369.6 | 2017 | EURIBOR + margin | EUR | 125.1 |
| | Variable interest rate + margin | EUR | 34.0 | | Variable interest rate + margin | EUR | 34.0 |
| | LIBOR + margin | USD | 54.4 | | LIBOR + margin | USD | 10.2 |
| | 4.11% | USD | 18.3 | | 0.69% | EUR | 50.0 |
| | 4.15% | USD | 13.4 | | | | |
| | Interbank Deposit Certificate (CDI) + margin | BRL | 145.5 | | | | |
| | Various - variable rate | Var. | 16.0 | | Various - variable rate | Var. | 15.0 |
| | Various - fixed rate | Var. | 10.5 | | Various - fixed rate | Var. | - |
| | | | | 2018 | 1.13% | EUR | 30.0 |
| 2019 | 0.68% | EUR | 10.0 | 2019 | 0.68% | EUR | 15.0 |
| | 0.72% | EUR | 7.1 | | 0.72% | EUR | 10.7 |
| | 3.77% | EUR | 3.0 | | 1.42% + margin | EUR | 3.0 |
| | 1.59% | EUR | 4.0 | | 3.25% | EUR | 15.0 |
| | | | | | 1.49% | EUR | 16.0 |
| | | | | | 3.15% | EUR | 12.0 |
| | | | | | 1.46% + margin | EUR | 10.0 |
| 2020 | 4.19% | USD | 70.7 | 2020 | 3.15% + margin | EUR | 24.5 |
| | 4.98% | USD | 62.4 | | 3.90% | EUR | 13.6 |
| | 7.50% | BRL | 8.2 | | | | |
| | | | | 2021 | 1.97% | EUR | 17.0 |
| 2022 | 1.74% | EUR | 63.0 | 2022 | 4.50% | EUR | 6.0 |
| | 4.60% | EUR | 3.0 | | | | |
| | | | | 2023 | 0.35% + margin | EUR | 13.8 |
| 2024 | 3.10% | EUR | 37.0 | 2024 | 3.00% | EUR | 53.0 |
| | 3.20% | EUR | 5.5 | | | | |
| | 4.00% | EUR | 9.6 | | | | |
| | | | **945.2** | | | | **473.9** |

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

The financial liability from the perpetual bond bears fixed interest of 8.6%, financial liability from senior notes bears fixed interest of 7.9%.

## (27) Other financial liabilities

Other financial liabilities include the negative fair value of derivative financial instruments as well as fixed-term and puttable non-controlling interests in group companies. This item of the Consolidated Statement of Financial Position consists of the following items:

| | 31.12.2017 | | | 31.12.2016 | | |
|---|---|---|---|---|---|---|
| in € million | Current | Non-current | Total | Current | Non-current | Total |
| Liabilities from derivatives from supply contracts | 6.8 | 33.4 | 40.2 | 5.9 | 43.1 | 49.0 |
| Liabilities from interest rate swaps | 0.0 | 0.2 | 0.2 | 0.5 | 0.4 | 0.9 |
| Liabilities from derivatives in open orders | 0.5 | 0.0 | 0.5 | 0.1 | 0.0 | 0.1 |
| Derivative financial liabilities | 7.3 | 33.6 | 40.9 | 6.5 | 43.5 | 50.0 |
| Liabilities to fixed-term or puttable non-controlling interests | 10.1 | 21.9 | 32.0 | 9.1 | 23.4 | 32.5 |
| **Other financial liabilities** | **17.4** | **55.5** | **72.9** | **15.6** | **66.9** | **82.5** |

Additional explanations on derivative financial instruments are provided under Note (56).

## (28) Provisions for pensions

The net liability from pension obligations in the Consolidated Statement of Financial Position is derived as follows:

| in € million | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Present value of pension obligations | 517.1 | 289.2 |
| Fair value of plan assets | (228.6) | (56.4) |
| **Funded status** | **288.5** | **232.8** |
| Asset ceiling | 18.3 | 1.9 |
| **Net liability from pension obligations** | **306.8** | **234.7** |
| thereof assets from overfunded pension plans | 1.9 | 2.1 |
| thereof pensions | 308.7 | 236.8 |

The present value of pension obligations by beneficiary groups is structured as follows:

| in € million | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Active beneficiaries | 107.9 | 71.2 |
| Vested terminated beneficiaries | 71.9 | 17.9 |
| Retirees | 337.3 | 200.1 |
| **Present value of pension obligations** | **517.1** | **289.2** |

The calculation of pension obligations is based on the following actuarial assumptions:

| in % | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Interest rate | 3.1% | 1.9% |
| Future salary increase | 2.8% | 2.2% |
| Future pension increase | 2.1% | 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. The calculation of the actuarial interest rate for the USD and GBP currency area is based on a yield curve for returns of high-quality corporate bonds denominated in USD 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 31 December, 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 €122.6 million (31.12.2016: €124.4 million) of the present value of pension obligations and for €26.1 million (31.12.2016: €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). RHI Magnesita 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 1 January 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 €158.6 million (31.12.2016: €123.4 million) of the present value of pension obligations and for €0.7 million (31.12.2016: €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, except one contribution-based plan. There is no defined contribution model on a voluntary basis. Individual commitments have been made, with major part of them being retired beneficiaries.

The pension plan of the US group company Magnesita Refractories Company, York, USA, accounts for €73.7 million of the present value of pension obligations and for €60.0 million of the plan assets. The pension plan is a non-contributory defined benefit plan covering a portion of the employees of the company. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Effective 21 June 1999, the Company offered the participants the opportunity to elect to participate in a single enhanced defined contribution plan. Participants who make this election are no longer eligible for future accruals under this plan. All benefits accrued as of the date of transfer will be retained. Employees hired after 21 June 1999 and employees that did not meet the plan's eligibility requirements as of 21 June 1999 are not eligible for this plan. The pensions are predominantly paid in the form of annuities and are adjusted annually based on the U.S. consumer price index. The Company's contributions for the year ended 31 December 2017 met, or exceeded, the minimum funding requirements of ERISA.

The pension plan of the UK group company Magnesita Refractories Ltd., Dinnington, United Kingdom, accounts for €60.7 million of the present value of pension obligations and holds €76.5 million of assets, although only €60.7 million of the plan assets are reflected on the balance sheet due to the application of IFRIC 14 (asset ceiling). The company sponsors a funded defined benefit pension plan for qualifying UK employees. The plan is

administered by a separate board of trustees which is legally separate from the company. The trustees are composed of representatives of both the employer and employees, plus an independent professional trustee. The trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits. Under the plan, employees are entitled to annual pensions on retirement at age 65 of one-sixtieth of final pensionable salary for each year of service. Pensionable salary is defined as basic salary less the Lower Earnings Limit. Benefits are also payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these employees.

The pension liabilities of the Brazilian group company Magnesita Refratários S.A. accounts for €62.3 million of the present value of pension obligations and for €36.3 million of the plan assets and qualifies as optional benefit plan. Employees are entitled to contribute to the plan, with the company contributing 1.5 times this value. 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 salary at the time of retirement. For the majority of commitments, the amount of the company pension obligation is limited to 75% of the final remuneration. At retirement the employee may choose to receive up to 25% of his/her amount at once or receive it on a pro-rata base with different options of monthly quotes.

The following table shows the development of net liability from pension obligations:

| in € million | 2017 | 2016 |
|---|---|---|
| **Net liability from pension obligations at beginning of year** | **234.7** | **243.9** |
| Currency translation | (2.3) | (2.2) |
| Additions to consolidated companies[1)] | 81.0 | 0.0 |
| Disposals of consolidated companies | 0.0 | (5.6) |
| Pension cost | 8.5 | 9.3 |
| Remeasurement losses/(gains) | 6.0 | 9.0 |
| Benefits paid | (17.8) | (17.2) |
| Employers' contributions to external funds | (3.3) | (2.5) |
| **Net liability from pension obligations at year-end** | **306.8** | **234.7** |

1) preliminary

The present value of pension obligations developed as follows:

| in € million | 2017 | 2016 |
|---|---|---|
| **Present value of pension obligations at beginning of year** | **289.2** | **304.9** |
| Currency translation | (7.9) | (2.8) |
| Additions to consolidated companies[1)] | 240.3 | 0.0 |
| Disposals of consolidated companies | 0.0 | (11.5) |
| Current service cost | 3.3 | 3.5 |
| Interest cost | 7.2 | 6.8 |
| Remeasurement losses/(gains) | | |
| from changes in demographic assumptions | (0.6) | (0.3) |
| from changes in financial assumptions | 6.1 | 10.3 |
| due to experience adjustments | 2.2 | (1.1) |
| Benefits paid | (23.1) | (21.0) |
| Employee contributions to external funds | 0.4 | 0.4 |
| **Present value of pension obligations at year-end** | **517.1** | **289.2** |

1) preliminary

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

| in € million | 2017 | 2016 |
|---|---|---|
| **Fair value of plan assets at beginning of year** | **56.4** | **63.8** |
| Currency translation | (5.9) | (0.5) |
| Additions to consolidated companies[1)] | 174.6 | 0.0 |
| Disposals of consolidated companies | 0.0 | (5.9) |
| Interest income | 2.3 | 1.1 |
| Administrative costs (paid from plan assets) | (0.2) | (0.1) |
| Income on plan assets less interest income | 3.0 | (1.1) |
| Benefits paid | (5.3) | (3.8) |
| Employers' contributions to external funds | 3.3 | 2.5 |
| Employee contributions to external funds | 0.4 | 0.4 |
| **Fair value of plan assets at year-end** | **228.6** | **56.4** |

1) preliminary

The changes in the asset ceiling are shown below:

| in € million | 2017 | 2016 |
|---|---|---|
| **Asset ceiling at beginning of year** | **1.9** | **2.8** |
| Currency translation | (0.3) | 0.1 |
| Additions to consolidated companies[1)] | 15.3 | 0.0 |
| Interest expense | 0.1 | 0.0 |
| (Gains)/losses from changes in asset ceiling less interest expense | 1.3 | (1.0) |
| **Asset ceiling at year-end** | **18.3** | **1.9** |

1) preliminary

At 31 December 2017 the weighted average duration of pension obligations amounts to 12 years (31.12.2016: 11 years).

The following amounts were recorded in the Consolidated Statement of Profit or Loss:

| in € million | 2017 | 2016 |
|---|---|---|
| Current service cost | 3.3 | 3.5 |
| Interest cost | 7.2 | 6.8 |
| Interest income | (2.3) | (1.1) |
| Interest expense from asset ceiling | 0.1 | 0.0 |
| Administrative costs (paid from plan assets) | 0.2 | 0.1 |
| **Pension expense recognised in profit or loss** | **8.5** | **9.3** |

The remeasurement results recognised in other comprehensive income are shown in the table below:

| in € million | 2017 | 2016 |
|---|---|---|
| **Accumulated remeasurement losses at beginning of year** | **113.3** | **102.4** |
| Reclassification due to disposal of defined benefit plans | 0.0 | 1.9 |
| Remeasurement losses/(gains) on present value of pension obligations | 7.7 | 8.9 |
| Income on plan assets less interest income | (3.0) | 1.1 |
| (Gains)/losses from changes in asset ceiling less interest | 1.3 | (1.0) |
| **Accumulated remeasurement losses at year-end** | **119.3** | **113.3** |

The present value of plan assets is distributed to the following classes of investments:

| | 31.12.2017 | | | 31.12.2016 | | |
|---|---|---|---|---|---|---|
| in € million | Active market | No active market | Total | Active market | No active market | Total |
| Insurances | 0.0 | 38.4 | 38.4 | 0.0 | 38.8 | 38.8 |
| Equity instruments | 4.8 | 23.1 | 27.9 | 5.0 | 0.0 | 5.0 |
| Debt instruments | 17.2 | 45.2 | 62.4 | 0.0 | 8.2 | 8.2 |
| Cash and cash equivalents | 35.0 | 0.4 | 35.4 | 0.0 | 0.3 | 0.3 |
| Other assets | 60.8 | 3.7 | 64.5 | 0.2 | 3.9 | 4.1 |
| **Fair value of plan assets** | **117.8** | **110.8** | **228.6** | **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 utilised by the RHI Magnesita Group.

RHI Magnesita 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 2018, RHI Magnesita expects employer contributions to external plan assets to amount to €4.8 million and direct payments to entitled beneficiaries to €17.9 million. In the previous year, employer contributions of €2.4 million and direct pension payments of €15.1 million had been expected for the financial year 2017.

## (29) Other personnel provisions

Other personnel provisions consist of the following items:

| in € million | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Termination benefits | 58.1 | 58.5 |
| Service anniversary bonuses | 19.4 | 18.3 |
| Share-based payments | 2.9 | 1.4 |
| Semi-retirements | 1.4 | 1.7 |
| Lump-sum settlements | 0.7 | 0.7 |
| **Other personnel provisions** | **82.5** | **80.6** |

**Provisions for termination benefits**
Provisions for termination benefits were based on the following weighted average measurement assumptions:

| in % | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Interest rate | 1.7% | 1.8% |
| Future salary increase | 3.8% | 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 | 2017 | 2016 |
|---|---|---|
| **Provisions for termination benefits at beginning of year** | **58.5** | **60.1** |
| Currency translation | (0.1) | 0.0 |
| Current service cost | 1.5 | 1.5 |
| Interest cost | 1.0 | 1.3 |
| Remeasurement losses/(gains) | | |
| from changes in financial assumptions | 5.1 | 2.9 |
| due to experience adjustments | 0.4 | (1.7) |
| Benefits paid | (4.1) | (5.6) |
| Reclassification | (0.4) | 0.0 |
| Reclassification as held for sale | (3.8) | 0.0 |
| **Provisions for termination benefits at year-end** | **58.1** | **58.5** |

Payments for termination benefits are expected to amount to €3.0 million in the year 2018. In the previous year, the payments for termination benefits expected for the year 2017 amounted to €1.9 million.

The following remeasurement gains and losses were recognised in other comprehensive income:

| in € million | 2017 | 2016 |
|---|---|---|
| **Accumulated remeasurement losses at beginning of year** | **23.6** | **22.3** |
| Remeasurement losses[1)] | 5.6 | 1.3 |
| Reclassification as held for sale | (1.3) | 0.0 |
| **Accumulated remeasurement losses at year-end** | **27.9** | **23.6** |

1) Including €0.1 million (2016: €0.1 million) from a joint venture accounted for using the equity method

At 31 December 2017 the weighted average duration of termination benefit obligations amounts to 11 years (31.12.2016: 11 years).

**Provisions for service anniversary bonuses**
The measurement of provisions for service anniversary bonuses is based on an average weighted interest rate of 1.4% (31.12.2016: 1.5%) and takes into account salary increases of 3.6% (31.12.2016: 3.8%).

**Provisions for semi-retirement**
The discount rate of provisions for semi-retirement amounts to 0.0% as of 31 December 2017 (31.12.2016: 0.0%).

The funded status of provisions for obligations to employees with semi-retirement contracts is shown in the table below:

| in € million | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Present value of semi-retirement obligations | 5.0 | 5.1 |
| Fair value of plan assets | (3.6) | (3.4) |
| **Provisions for semi-retirement obligations** | **1.4** | **1.7** |

External plan assets are beyond the reach of all creditors and exclusively serve to meet semi-retirement obligations.

## (30) Other non-current provisions

The development of non-current provisions is shown in the table below:

| in € million | Contract obligations | Labour and civil contingencies | Demolition/ disposal costs, environmental damages | Other | Total |
|---|---|---|---|---|---|
| **01.01.2017** | **4.0** | **0.0** | **0.5** | **0.0** | **4.5** |
| Currency translation | (1.1) | (0.3) | (0.3) | (0.1) | (1.8) |
| Additions to consolidated companies[1)] | 28.9 | 9.1 | 9.0 | 4.7 | 51.7 |
| Use | (1.7) | 0.0 | 0.0 | (0.2) | (1.9) |
| Reversal | (0.5) | 0.0 | (0.2) | 0.0 | (0.7) |
| Addition | 2.4 | 0.6 | 0.0 | 0.0 | 3.0 |
| Reclassifications | (1.0) | 0.0 | 0.0 | 0.0 | (1.0) |
| **31.12.2017** | **31.0** | **9.4** | **9.0** | **4.4** | **53.8** |

1) preliminary

The provision for contract obligations amounting to €31.0 million (31.12.2016: €4.0 million) is related to a lease contract and to contracts for logistics services and the procurement of raw materials. In November 2017, RHI Magnesita sold a plant located in Oberhausen, Germany, in order to satisfy the conditions imposed by the European Commission in connection with their approval of the Acquisition of Control of Magnesita. As RHI Magnesita is obligated to provide raw materials at cost, the Group has recognised a provision for unfavourable contracts as part of the purchase price allocation to reflect the foregone profit margin. The preliminary fair value of this provision is based on current market prices and discounted over the contractual lifetime of 12 years. The non-current portion of this contract obligation amounts to €27.6 million as of 31.12.2017.

The provision for labour and civil contingencies amounting to €9.4 million primarily comprises a provision relating to a public civil action that aims to condemn RHI Magnesita for damages caused by overloaded trucks in disagreement with the traffic legislation. In addition, a provision for a legal action is included where a supplier requires the condemnation payment of RHI Magnesita in connection with consulting services, advice and representations.

The item provision for demolition and disposal costs and environmental damages amounting to €9.0 million primarily includes provisions for the estimated costs of mining site restoration of several mines in Brazil amounting to €3.8 million and various sites in the United States amounting to €4.8 million.

The item other provisions includes provisions related to tax litigation procedures in Peru related to corporate income tax of fiscal year 2009 amounting to €2.6 million and judicial action filed in Colombia related to corporate income tax of fiscal year 2010 amounting to €1.5 million. Furthermore, several provisions are included that are individually immaterial and cannot be allocated to one of the above-mentioned categories. Currently, these provisions are expected to be used in a period from two to four years.

## (31) Other non-current liabilities

Other non-current liabilities consist of the following items:

| in € million | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Deferred income for subsidies received | 4.7 | 4.7 |
| Liabilities employees | 2.8 | 1.3 |
| Contingent consideration for acquired subsidiaries | 0.6 | 0.0 |
| Miscellaneous non-current liabilities | 0.9 | 0.9 |
| **Other non-current liabilities** | **9.0** | **6.9** |
| thereof financial liabilities | 0.6 | 0.0 |
| thereof non-financial liabilities | 8.4 | 6.9 |

## (32) Trade payables and other current liabilities

Trade payables and other current liabilities included in the Consolidated Statement of Financial Position consist of the following items:

| in € million | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Trade payables | 461.3 | 202.1 |
| Prepayments received on orders | 24.1 | 14.9 |
| Liabilities to employees | 99.2 | 51.8 |
| Taxes other than income tax | 23.2 | 16.5 |
| Payables from commissions | 13.2 | 5.9 |
| Liabilities to joint ventures and associates | 9.1 | 0.0 |
| Customers with credit balances | 6.5 | 6.0 |
| Payables from property transactions | 4.8 | 2.8 |
| Liabilities to non-consolidated subsidiaries | 1.1 | 0.1 |
| Other current liabilities | 28.9 | 12.6 |
| **Trade payables and other current liabilities** | **671.4** | **312.7** |
| thereof financial liabilities | 500.2 | 217.3 |
| thereof non-financial liabilities | 171.2 | 95.4 |

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

Other current liabilities include €3.7 million investment reimbursement obligation to the former subsidiary Dolomite Franchi S.p.A., €1.3 million (31.12.2016: €0.0 million) liabilities from emission rights and other accrued expenses.

## (33) Income tax liabilities

Income tax liabilities amounting to €16.1 million (31.12.2016: €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 recognised as far as apparent.

## (34) Current provisions

The development of current provisions is shown in the table below:

| in € million | Restructuring costs | Demolition/ disposal costs, environmental damages | Warranties | Contract obligations | Guarantees provided | Other | Total |
|---|---|---|---|---|---|---|---|
| **01.01.2017** | **2.1** | **8.2** | **11.1** | **0.0** | **3.3** | **4.4** | **29.1** |
| Currency translation | (0.2) | 0.0 | (0.3) | (0.2) | 0.0 | (0.2) | (0.9) |
| Additions to consolidated companies[1)] | 19.5 | 0.0 | 0.1 | 2.6 | 0.0 | 3.6 | 25.8 |
| Use | (3.2) | (0.5) | (1.5) | (1.9) | 0.0 | (2.4) | (9.5) |
| Reversal | (0.8) | (0.1) | (1.5) | (0.8) | (0.4) | (0.2) | (3.8) |
| Addition | 18.6 | 1.7 | 3.9 | 4.3 | 0.0 | 4.0 | 32.5 |
| Reclassifications | 1.6 | 0.0 | (3.0) | 3.2 | 0.0 | (0.1) | 1.7 |
| Reclassification from current liabilities | 0.0 | 0.0 | (0.1) | 0.0 | 0.0 | (0.1) | (0.2) |
| **31.12.2017** | **37.6** | **9.3** | **8.7** | **7.2** | **2.9** | **9.0** | **74.7** |

1) preliminary

Provisions for restructuring costs amount to €37.6 million as of 31 December 2017 (31.12.2016: €2.1 million) and primarily consist of benefit obligations to employees due to termination of employment. The increase in the fiscal year 2017 results from the acquisition-related reorganisation of the Group.

The item demolition and disposal costs, environmental damages includes provisions for the estimated demolition and disposal costs of plants and buildings, of which an amount of €2.5 million (31.12.2016: €2.8 million) refers to former sites in Duisburg, Germany and €2.7 million (31.12.2016: €1.0 million) in Aken, Germany. It is assumed that these provisions will be used up within in the next twelve months.

Provisions for warranties include provisions for claims arising from warranties and other similar obligations from the sale of refractory products.

Provision for contract obligations include provisions for unfavourable contracts from the sale of refractory products amounting to €4.7 million and provisions for unfavourable contracts related to a lease contract, to contracts for logistics services and the procurement of raw materials totalling €4.9 million. In November 2017, RHI Magnesita sold a plant located in Oberhausen, Germany, in order to satisfy the conditions of the merger control divestment imposed by the European Commission in connection with their approval of the Acquisition of Control of Magnesita. As RHI Magnesita is obligated to provide raw materials at cost, the Group has recognised a provision for unfavourable contracts as part of the purchase price allocation to reflect the foregone profit margin. The preliminary fair value of this provision is based on current market prices and discounted over the contractual lifetime of 12 years. The current portion of this contract obligation amounts to €2.5 million as of 31.12.2017.

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 other provisions include provisions for real estate transfer tax amounting to € 2.4 million resulting from corporate reorganisation of RHI Magnesita as well as a provision for the share-based remuneration programme of the members of the former Management Board of RHI AG of €1.4 million (31.12.2016: €0.7 million).

In addition, provisions for legal proceedings including attorney's fees amounting to €3.1 million are included in the item other provisions. It is currently uncertain when precisely the cash outflow is due.
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 31 December 2016. With a decision of 17 January 2017, the Frankfurt Higher Regional Court followed the amount of the adequate cash compensation according to an expert opinion and 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 26 August 2010. In addition, the RHI Magnesita 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.

Furthermore, several provisions, which are individually immaterial and cannot be allocated to one of the above-mentioned categories, are included in other provisions. A large part of these costs is expected to be paid within twelve months.

# NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

## (35) 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 €81.3 million (2016: €58.7 million).

## (36) 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, amortisation 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.

## (37) 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.

## (38) 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-capitalisable development costs.

Research and development expenses totaled €24.0 million (2016: €23.9 million), of which development costs amounting to €4.6 million (2016: €4.8 million) were capitalised. Income from research grants amounted to €3.8 million (2016: €4.0 million) in the reporting year 2017. Amortisation and impairment of development costs amounting to €4.3 million (2016: €3.4 million) are recognised under cost of sales.

For the acquisition of Magnesita, costs totaling €33.5 million were incurred in the financial year 2017 (2016: €12.1 million). They are primarily related to legal and other advisory fees and fees for the consulting investment banks. Of the total costs, €24.4 million (2016: €12.1 million) were recognised in profit or loss under general and administrative expenses and €9.1 million were accounted for as a deduction from equity since these costs were directly attributable to the issue of RHI Magnesita shares in 2017. Thereof €3.0 million were cash-effective and are shown in the Consolidated Statement of Cash Flows in the item capital expenses for the issue of shares.

## (39) Other income

The individual components of other income are:

| in € million | 2017 | 2016 |
|---|---|---|
| Foreign exchange gains | 68.2 | 85.0 |
| Gains from derivative financial instruments | 14.2 | 2.7 |
| Result from derivatives from supply contracts | 4.9 | 10.1 |
| Income from restructuring | 0.3 | 0.3 |
| Income from the disposal of non-current assets | 0.9 | 0.9 |
| Miscellaneous income | 2.7 | 3.7 |
| **Other income** | **91.2** | **102.7** |

In 2017, the valuation of the commodity futures contract for electricity for the fusion plant in Porsgrunn, Norway, led to an income of €4.9 million (2016: €10.1 million). Further information is presented in Note (56).

## (40) Other expenses

Other expenses include:

| in € million | 2017 | 2016 |
|---|---|---|
| Foreign exchange losses | (126.3) | (76.9) |
| Restructuring costs | (62.7) | (8.9) |
| Losses from the disposal of non-current assets | (7.6) | (0.5) |
| Losses from derivative financial instruments | (6.9) | (6.8) |
| Impairment losses | (2.1) | (8.6) |
| Miscellaneous expenses | (10.5) | (1.6) |
| **Other expenses** | **(216.1)** | **(103.3)** |

**Net foreign currency result**
The net foreign currency effects amount to €(58.1) million (2016: €8.1 million). The net amount of gains and losses from derivative financial instruments in the EBIT amounts to €7.3 million (2016: €(4.1) million). This amount includes realised effects from forward exchange contracts of €10.8 million (2016: €(3.6) million).

**Restructuring costs**
Merger related restructuring
In order to achieve the expected synergies from the acquisition of Magnesita the Group initiated a global restructuring programme which led to €35.3 million expenses in 2017.

Merger control divestments
The European Commission approved the acquisition of Magnesita subject to the divestment of RHI's entire dolomite business concerning the production sites in Marone, Italy, and Lugones, Spain, and Magnesita's production, sale, and related activities of magnesia-carbon bricks concentrated in Oberhausen, Germany. Consequently, all related assets and liabilities were reclassified as a disposal group. At the end of November, the disposal resulted in expenses amounting to €13.6 million. Further details regarding this divestment are included in Note (5) on the changes in the group of consolidated companies.

Sale of fused cast business
The disposal of the Italian San Vito plant and the Russian Podolsk plant, which produce fused cast refractories for the use in the glass industry, resulted in expenses amounting to €9.4 million. Further details regarding this divestment are included in Note (5) on the changes in the group of consolidated companies.

Porsgrunn plant, Norway
The high-grade products manufactured at this site stand in direct competition with products available on the market. Due to the massive drop in raw material prices in 2016, external purchases were increased and the capacities for the Group's own production restricted accordingly. This resulted in expenses for unused logistics services amounting to €4.4 million in 2017. In 2016 expenses amounting to €4.2 million were recorded, which comprised personnel costs of €1.4 million and costs from purchase contracts for the delivery of raw materials and provision of logistics services of €2.8 million.

Sale RHI Monofrax LLC, USA
The sale of RHI Monofrax LLC, Wilmington, USA, resulted in expenses amounting to €4.6 million in 2016. Further details regarding this deconsolidation are included in Note (5) on the changes in the group of consolidated companies in the previous year.

Clydebank plant, United Kingdom
The Clydebank site was closed at the end of the year 2016 and the activities for isostatically pressed products concentrated at the site in Bonnybridge. This resulted in personnel costs of €0.1 million in 2016.

**Impairment losses**
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 utilisation burden the achievable margins and led to an impairment of €8.0 million as of 31 December 2016 for the CGU Industrial/Fused Cast. In the first half of 2017, these two plants were classified as a disposal group, which led to an additional impairment of €1.8 million. The disposal group was sold in the fourth quarter. Additionally, other minor investments totalling €0.3 million (2016: €0.6 million) were fully impaired.

**Miscellaneous expenses**
The miscellaneous expenses include €6.5 million non-recoverable input tax (ICMS), of which the majority is related to the stream-lining of operations in Brazil.

## (41) Interest income

This item includes interest on cash at banks and similar income amounting to €2.8 million (2016: €2.9 million), interest income on financial receivables amounting to €0.2 million (2016: €0.2 million) and interest income on available-for-sale securities and shares amounting to €2.5 million (2016: €1.0 million), of which €2.0 million (2016: €0.4 million) is accounted for by impaired securities.

## (42) Interest expenses

This item includes interest expenses for bonded loans and bank loans less capitalised interest on borrowings, interest from interest rate swaps, tax-related interest, interest expenses attributable to non-controlling interests totalling €3.3 million (2016: €3.4 million) and other interest and similar expenses.

## (43) Other net financial expenses

Other net financial expenses consist of the following items:

| in € million | 2017 | 2016 |
|---|---|---|
| Interest income on plan assets | 2.2 | 1.1 |
| Interest expense on provisions for pensions | (7.2) | (6.8) |
| Interest expense on provisions for termination benefits | (1.0) | (1.3) |
| Interest expense on other personnel provisions | (0.3) | (0.4) |
| Net interest expense personnel provisions | (6.3) | (7.4) |
| Reversal of impairment losses/(impairment losses) on securities | (1.9) | 0.5 |
| Expenses from the valuation of put options | (0.9) | (1.8) |
| Gains from the disposal of securities and shares | 0.0 | 0.9 |
| **Other net financial expenses** | **(9.1)** | **(7.8)** |

## (44) Income tax

Income tax consists of the following items:

| in € million | 2017 | 2016 |
|---|---|---|
| Current tax expense | 30.5 | 25.6 |
| Deferred tax expense/(income) relating to | | |
| temporary differences | (2.5) | (6.5) |
| tax loss carryforwards | 8.4 | 10.8 |
| | 5.9 | 4.3 |
| **Income tax** | **36.4** | **29.9** |

The current tax expense of the year 2017 includes tax expenses for previous periods of €2.8 million (2016: €1.8 million) and income from income tax relating to other periods of €8.6 million (2016: €8.2 million). In 2017,

€6.7 million were attributable to the reversal of a provision related to a tax audit in Germany. In 2016, the completion of a tax audit in Turkey led to the reversal of a provision of €6.3 million.

In addition to the income taxes recognised in the Statement of Profit or Loss, tax income totalling €4.1 million (2016: €1.1 million), which is attributable to other comprehensive income, was also recognised in other comprehensive income. Tax expense totalling €6.3 million (2016: tax income of €0.5 million) was reclassified from other comprehensive income to the Statement of Profit or Loss.

The administrative seat, place of effective management and registered office is located in Vienna, Austria. Consequently RHI Magnesita N.V. is considered tax resident in Austria under the tax rules of Austria and under the double taxation treaty between Austria and the Netherlands. 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 | 2017 | 2016 |
|---|---|---|
| **Profit before income tax** | **23.5** | **105.8** |
| **Arithmetic tax expense with tax rate of 25% (2016: 25%)** | **5.9** | **26.5** |
| Different foreign tax rates | 1.0 | 1.2 |
| Expenses not deductible for tax purposes, non-creditable taxes | 20.4 | 12.5 |
| Income not subject to tax and tax advantages | (7.1) | (2.2) |
| Non-capitalised tax losses and temporary differences of the financial year | 11.9 | 2.1 |
| Utilisation of previously unrecognised loss carryforwards and temporary differences | (1.2) | (0.6) |
| Capitalization of previously unrecognised loss carryforwards and temporary differences | (5.8) | (0.5) |
| Change in valuation allowance on deferred tax assets | 3.7 | 1.4 |
| Deferred tax expense due to tax rate changes | 9.5 | 1.3 |
| Deferred income tax relating to prior periods | 3.3 | (4.4) |
| Current income tax relating to prior periods | (5.8) | (6.4) |
| Other | 0.6 | (1.0) |
| **Recognised tax expense** | **36.4** | **29.9** |
| **Effective tax rate (in %)** | **154.9%** | **28.3%** |

Deferred tax expense due to tax rates changes is primarily attributable to the reduction of the corporate income tax rate in the United States from 35% to 21% (€(7.5) million) and in Norway (2017: €(1.1) million, 2016: €(1.2) 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 2017 and the previous year:

| in € million | Cost of sales | Selling and marketing expenses | General and administrative expenses | Other income/ expenses | Total 2017 |
|---|---|---|---|---|---|
| Changes in inventories, own work capitalised | (50.4) | 0.2 | (3.9) | 1.5 | (52.6) |
| Cost of materials | 919.2 | 4.0 | 5.3 | (0.3) | 928.2 |
| Personnel costs | 259.2 | 72.4 | 100.2 | 22.8 | 454.6 |
| Depreciation charges[1)] | 68.4 | 0.9 | 6.0 | 17.2 | 92.5 |
| Other income | (8.5) | 0.0 | (6.9) | (91.3) | (106.7) |
| Other expenses | 297.7 | 47.5 | 66.8 | 175.0 | 587.0 |
| **Total** | **1,485.6** | **125.0** | **167.5** | **124.9** | **1,903.0** |

1) Including impairment losses on property, plant and equipment and intangible assets

| in € million | Cost of sales | Selling and marketing expenses | General and administrative expenses | Other income/ expenses | Total 2016 |
|---|---|---|---|---|---|
| Changes in inventories, own work capitalised | 22.6 | 0.0 | (4.8) | 0.0 | 17.8 |
| Cost of materials | 781.4 | 0.4 | 2.7 | 1.2 | 785.7 |
| Personnel costs | 253.5 | 58.4 | 85.3 | 1.5 | 398.7 |
| Depreciation charges[1)] | 60.5 | 0.5 | 4.2 | 8.8 | 74.0 |
| Other income | (14.7) | 0.0 | (8.2) | (92.3) | (115.2) |
| Other expenses | 191.5 | 45.9 | 55.3 | 81.4 | 374.1 |
| **Total** | **1,294.8** | **105.2** | **134.5** | **0.6** | **1,535.1** |

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 €759.0 million (2016: €620.3 million) as well as expenses for services received, especially energy, amounting to €169.2 million (2016: €165.4 million).

Amortisation charges of intangible assets are largely recognised in cost of sales.

## (46) Personnel costs

Personnel costs consist of the following components:

| in € million | 2017 | 2016 |
|---|---|---|
| Wages and salaries | 360.1 | 305.8 |
| Pensions | | |
| Defined benefit plans | 3.4 | 3.6 |
| Defined contribution plans | 3.4 | 3.1 |
| Termination benefits | | |
| Defined benefit plans | 1.5 | 1.5 |
| Defined contribution plans | 2.0 | 1.9 |
| Other expenses | 1.5 | 4.1 |
| Social security costs | 68.7 | 68.3 |
| Fringe benefits | 14.0 | 10.4 |
| **Personnel expenses (without interest expenses)** | **454.6** | **398.7** |

Personnel costs do not include amounts resulting from the interest accrued on personnel provisions. They amount to €6.3 million (2016: €7.4 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.

### (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 €6.3 million (2016: €7.4 million), net remeasurement losses of monetary foreign currency positions and derivative financial instruments of €51.2 million (2016: net remeasurement gain of €21.9 million) and non-cash funding of provisions for restructuring amounting to €13.6 million (2016: funding of €1.0 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.

### (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 capitalised, 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. Total cash inflows due to the acquisition of subsidiaries net of cash acquired amount to €45.1 million in the reporting year. The acquisition of a share of 50.0% plus one share in Magnesita led to a cash inflow of €50.2 million (purchase price paid of €117.3 million less acquired cash and cash equivalents of €167.5 million). The purchase price paid for the acquisition of 100% of the shares of Agellis amounts to €5.1 million.

The sale of Fused Cast and the merger control divestments in the financial year 2017 led to a total cash inflow of €30.6 million (purchase price received of €40.3 million less cash and cash equivalents disposed of amounting to €9.7 million).The sale of the subsidiary RHI Monofrax LLC, Wilmington, USA, as of 6 June 2016 led to a cash outflow of €4.6 million.

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 dividend payments and interest payments. In contrast, interest on borrowings capitalised in accordance with IAS 23 is included in cash flow from investing activities, and tax-related interest is recognised in cash flow from operating activities.

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.

The net cash flow from financing activities consists of payments to shareholders of the Group and non-controlling interests as well as changes in financial liabilities and assets. The reconciliation of movements of financial liabilities and assets to cash flows arising from financing activities is shown in the table below:

| | | Cash changes | Non-cash changes | | | |
|---|---|---|---|---|---|---|
| in € million | 01.01.2017 | | Changes in foreign exchange rates | Additions to consolidated companies | Interest expense and other changes | 31.12.2017 |
| Liabilities to financial institutions | 475.5 | 60.1 | (13.3) | 407.9 | 22.8 | 953.0 |
| Perpetual bond | 0.0 | 0.0 | (5.6) | 217.9 | 3.0 | 215.3 |
| Senior notes | 0.0 | 0.0 | (1.4) | 56.3 | 0.7 | 55.6 |
| Liabilities to fixed-term or puttable non-controlling interests | 32.5 | (3.2) | (1.7) | 0.0 | 4.4 | 32.0 |
| Other financial liabilities | 7.7 | (3.4) | (0.1) | 0.1 | (2.6) | 1.7 |
| Prepaid transaction costs related to financial liabilities | 0.0 | (2.5) | 0.0 | 0.0 | 0.0 | (2.5) |
| **Changes of financial liabilities and assets arising from financing activities** | **515.7** | **51.0** | **(22.1)** | **682.2** | **28.3** | **1,255.1** |

## (50) Total interest paid and interest received

Total interest paid amounts to €25.6 million in the reporting period (2016: €17.5 million), of which €0.1 million (2016: €0.0 million) are included in cash flow from operating activities, €0.6 million (2016: €0.5 million) in cash flow from investing activities and €24.9 million (2016: €17.0 million) in cash flow from financing activities.

Total interest received amounts to €5.1 million for the financial year 2017 (2016: €3.2 million), of which €0.0 million (2016: €0.2 million) are included in cash flow from operating activities and €5.1 million (2016: €3.0 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 recognised in the Consolidated Statement of Financial Position. They include restricted cash totalling €80.8 million at 31 December 2017 (31.12.2016: €19.8 million). Restricted cash is mainly related to cash and cash equivalents at subsidiaries (mainly in Brazil, India and China) to which the company only has limited access due to foreign exchange and capital transfer controls. €75.8 million (31.12.2016: €13.5 million) are accounted for by subsidiaries with non-controlling interests.

# OTHER DISCLOSURES

## (52) Segment reporting

**Segment reporting by operating company division**

The following tables show the financial information for the operating segments for the year 2017 and the previous year:

| in € million | Steel | Industrial | Raw Materials | Reconcil-iation | Group 2017 |
|---|---|---|---|---|---|
| External revenue | 1,308.8 | 577.6 | 59.7 | 0.0 | 1,946.1 |
| Internal revenue | 0.0 | 0.0 | 228.8 | (228.8) | 0.0 |
| **Segment revenue** | **1,308.8** | **577.6** | **288.5** | **(228.8)** | **1,946.1** |
| **Gross profit** | **302.7** | **130.2** | **27.6** | **0.0** | **460.5** |
| **EBIT** | **26.4** | **9.8** | **6.9** | **0.0** | **43.1** |
| Net finance costs | 0.0 | 0.0 | 0.0 | (30.6) | (30.6) |
| Share of profit of joint ventures and associates | 0.1 | 0.0 | 10.9 | 0.0 | 11.0 |
| **Profit before income tax** | | | | | **23.5** |
| Depreciation and amortisation charges | (34.8) | (18.1) | (19.8) | 0.0 | (72.7) |
| Segment assets 31.12.2017 | 1,131.7 | 445.5 | 835.3 | 843.1 | 3,255.6 |
| Investments in joint ventures and associates 31.12.2017 | 9.2 | 0.0 | 21.3 | 0.0 | 30.5 |
| | | | | | 3,286.1 |
| Investments in property, plant and equipment and intangible assets (according to non-current assets statement) | 36.7 | 21.0 | 12.7 | 0.0 | 70.4 |

| in € million | Steel | Industrial | Raw Materials | Reconcil-iation | 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** |
| **Gross profit** | **216.4** | **124.7** | **15.3** | **0.0** | **356.4** |
| **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 amortisation charges | (31.3) | (16.5) | (17.3) | 0.0 | (65.1) |
| Segment assets 31.12.2016 | 645.4 | 269.6 | 397.8 | 458.9 | 1,771.7 |
| Investments in joint ventures 31.12.2016 | 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 |

Revenue amounting to €195.5 million (2016: €183.9 million) was realised with one customer in 2017, which is included in the Steel segment. No other single customer contributed 10% or more to consolidated revenue in 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 recognised 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 2017 |
|---|---|---|---|---|
| Shaped products | 826.3 | 435.0 | 0.2 | 1,261.5 |
| Unshaped products | 353.2 | 63.8 | 58.9 | 475.9 |
| Other | 129.3 | 78.8 | 0.6 | 208.7 |
| **Revenue** | **1,308.8** | **577.6** | **59.7** | **1,946.1** |

In 2016, revenue was classified by product group as follows:

| in € million | Steel | Industrial | Raw Materials | Group 2016 |
|---|---|---|---|---|
| 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** |

**Segment reporting by country**

Revenue is classified by customer sites as follows:

| in € million | 2017 | 2016 |
|---|---|---|
| Netherlands | 14.1 | 14.7 |
| **All other countries** | | |
| India | 204.3 | 170.7 |
| USA | 195.0 | 151.2 |
| Germany | 137.0 | 142.7 |
| PR China | 121.4 | 88.9 |
| Mexico | 118.6 | 113.6 |
| Italy | 105.9 | 93.2 |
| Brazil | 91.5 | 32.9 |
| Canada | 70.8 | 60.8 |
| Russia | 59.0 | 49.1 |
| Other countries, each below €42.3 million (2016: €41.5 million) | 828.5 | 733.4 |
| **Revenue** | **1,946.1** | **1,651.2** |

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 | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Brazil | 644.1 | 6.0 |
| Austria | 214.0 | 206.5 |
| PR China | 138.9 | 128.3 |
| Germany | 98.6 | 87.9 |
| India | 58.8 | 64.2 |
| USA | 56.6 | 6.2 |
| Turkey | 31.8 | 34.1 |
| Mexico | 28.8 | 28.4 |
| Other countries, each below €19.1 million (31.12.2016: €20.8 million) | 57.7 | 69.1 |
| **Property, plant and equipment and intangible assets** | **1,329.3** | **630.7** |

## (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 Magnesita N.V. (2016: RHI AG) by the weighted average number of shares outstanding during the financial year.

| | 2017 | 2016 |
|---|---|---|
| Profit after income tax attributable to the owners of the parent (in € million) | (18.4) | 74.0 |
| Weighted average number of shares | 40,682,053 | 39,819,039 |
| **Earnings per share (in €)** | **(0.45)** | **1.82** |

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

Based on a resolution adopted by the 38th Annual General Meeting of RHI AG on 5 May 2017, dividends totalling €29.9 million were paid out to the shareholders in the financial year 2017 for the year 2016, which corresponded to a dividend of €0.75 per share.

For the financial year 2017, the Board of Directors will propose a dividend of €0.75 per share, which corresponds to a dividend payment of €33.6 million for the shareholders of RHI Magnesita N.V.. The proposed dividend is subject to the approval by the Annual General Meeting on 7 June 2018 and was not recognised as a liability in the Consolidated Financial Statements 2017.

Dividend payments to the shareholders of RHI Magnesita N.V. have no income tax consequences for RHI Magnesita N.V..

## (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 | (Amortised) cost | Fair value recognised in profit or loss | Fair value recognised in equity | 31.12.2017[2)] Carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| Interests in subsidiaries not consolidated | FAAC | - | 0.8 | - | - | 0.8 | - |
| Available-for-sale investments | FAAC | - | 0.4 | - | - | 0.4 | - |
| Available-for-sale securities | AfS | 1 | - | - | 12.6 | 12.6 | 12.6 |
| Available-for-sale shares | FAAC | - | 2.4 | - | - | 2.4 | - |
| Securities designated as fair value through profit or loss | FAFVTPL | 1 | - | 2.3 | - | 2.3 | 2.3 |
| Interest derivatives designated as cash flow hedges | - | 2 | - | | 1.5 | 1.5 | 1.5 |
| Non-current receivables from disposal of subsidiaries | LaR | - | 2.6 | - | - | 2.6 | - |
| Other non-current financial receivables | LaR | - | 2.5 | - | - | 2.5 | - |
| Trade and other current receivables | LaR | - | 419.9 | - | - | 419.9 | - |
| Other current financial receivables | LaR | - | 0.1 | - | - | 0.1 | - |
| Financial assets held for trading - securities | FAHfT | 1 | - | 32.3 | - | 32.3 | 32.3 |
| Financial assets held for trading - derivatives | FAHfT | 2 | - | 1.7 | - | 1.7 | 1.7 |
| Cash and cash equivalents | LaR | - | 442.4 | - | - | 442.4 | - |
| **Financial assets** | | | | | | **921.5** | |
| Liabilities to financial institutions | FLAAC | 2 | 953.0 | - | - | 953.0 | 966.1 |
| Perpetual bond | FLAAC | 1 | 215.3 | - | - | 215.3 | 217.0 |
| Senior notes | FLAAC | 2 | 55.6 | - | - | 55.6 | 55.6 |
| Other financial liabilities | FLAAC | 2 | 1.7 | - | - | 1.7 | 1.7 |
| Financial liabilities held for trading - derivatives | FLHfT | 2 | - | 40.9 | - | 40.9 | 40.9 |
| Liabilities to fixed-term or puttable non-controlling interests | FLAAC | 2 | 32.0 | - | - | 32.0 | 32.0 |
| Contingent consideration for acquired subsidiaries | FLFVTPL | 3 | - | 0.6 | | 0.6 | 0.6 |
| Trade payables and other current liabilities | FLAAC | - | 500.2 | - | - | 500.2 | - |
| **Financial liabilities** | | | | | | **1,799.3** | |
| **Aggregated according to measurement category** | | | | | | | |
| Loans and receivables | LaR | | 867.5 | - | - | 867.5 | |
| Available for sale financial instruments | AfS | | - | - | 12.6 | 12.6 | |
| Financial assets designated as fair value through profit or loss | FAFVTPL | | - | 2.3 | - | 2.3 | |
| Financial assets at cost | FAAC | | 3.6 | - | - | 3.6 | |
| Financial assets held for trading | FAHfT | | - | 34.0 | - | 34.0 | |
| Financial liabilities measured at amortised cost | FLAAC | | 1,757.8 | - | - | 1,757.8 | |
| Financial liabilities held for trading | FLHfT | | - | 40.9 | - | 40.9 | |
| Financial liabilities measured at fair value through profit or loss | FLFVTPL | | - | 0.6 | - | 0.6 | |

| in € million | IAS 39 Measurement category[1)] | Level | (Amortised) cost | Fair value recognised in profit or loss | Fair value recognised in equity | 31.12.2016[2)] Carrying amount | 31.12.2016[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 - derivatives | FAHfT | 2 | - | 1.5 | - | 1.5 | 1.5 |
| Cash and cash equivalents | LaR | - | 182.9 | - | - | 182.9 | - |
| **Financial assets** | | | | | | **516.9** | |
| Liabilities to financial institutions | FLAAC | 2 | 475.5 | - | - | 475.5 | 497.7 |
| Other financial liabilities | FLAAC | 2 | 7.7 | - | - | 7.7 | 7.7 |
| Interest derivatives designated as cash flow hedges | - | 2 | - | - | 0.9 | 0.9 | 0.9 |
| Financial liabilities held for trading - derivatives | FLHfT | 2 | - | 49.1 | - | 49.1 | 49.1 |
| Liabilities to fixed-term or puttable non-controlling interests | FLAAC | 2 | 32.5 | - | - | 32.5 | 32.5 |
| 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 amortised 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
FAFVTPL: Financial assets measured at fair value through profit or loss
LaR: Loans and receivables
FAHfT: Financial assets held for trading
FLAAC: Financial liabilities measured at amortised cost
FLHfT: Financial liabilities held for trading
FLFVTPL: Financial liabilities measured at fair value through profit or loss

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 ((19) and (31)).

In the RHI Magnesita 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 favourable market if there is no main market. RHI Magnesita 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 Magnesita 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, securities designated as fair value through profit or loss and securities held for trading 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, which was previously recognised 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). For two 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 30 June 2017. Consequently, the fair values of these interest derivatives have to be classified as financial liabilities held for trading.

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 was classified as a derivative financial instrument since 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 the contingent consideration liability amounting to €0.6 million recognised in the year 2017 due to the acquisition of Agellis is determined by discounting the estimated earn-out with the transaction's internal rate of return (Level 3).

RHI Magnesita 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 and liabilities to fixed-term or puttable non-controlling interests are carried at amortised cost in the Consolidated Statement of Financial Position; the fair values of the financial liabilities are only shown in the notes. The fair value of the perpetual bond is based on price quotations at the reporting date (Level 1), all other liabilities 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 €0.8 million (31.12.2016: €0.0 million), available-for-sale investments of €0.4 million (31.12.2016: €0.4 million) and available-for-sale shares of €2.4 million (31.12.2016: €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 approximately 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 recognised in the reporting years 2017 and 2016 is shown in the following table, classified according to the measurement categories defined in IAS 39:

| in € million | 2017 | 2016 |
|---|---|---|
| Net gain on available-for-sale financial assets | | |
| recognised in the Statement of Profit or Loss | 0.5 | 2.4 |
| recognised in other comprehensive income | 0.0 | 0.1 |
| reclassified from other comprehensive income to the Statement of Profit or Loss | 0.0 | (0.1) |
| | 0.5 | 2.4 |
| Net loss from loans and receivables as well as financial liabilities at amortised cost | (87.7) | (13.1) |
| Net gain on financial assets and financial liabilities classified as held for trading | 12.2 | 6.0 |
| Net gain from financial assets at fair value through profit or loss designated on initial recognition | 0.1 | 0.0 |

The net gain on available-for-sale financial assets recognised in the Consolidated Statement of Profit or Loss includes income from securities and shares, income from the disposal of securities and shares, income realised from changes in market value originally recognised in other comprehensive income as well as impairment losses 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 expenses related to the measurement of put options.

The net gain of financial assets held for trading and financial liabilities includes unrealised results from the measurement of a long-term commodity futures contract as well as changes in the market value and realised results of forward exchange contracts and embedded derivatives in open orders in a currency other than the functional currency of RHI Magnesita, interest derivatives which do not meet the requirements of hedge accounting in accordance with IAS 39 and interest income from securities.

The net gain from financial assets at fair value through profit or loss designated on initial recognition includes income related to the measurement of securities.

Net finance costs include interest income amounting to €5.0 million (2016: €3.1 million) and interest expenses of €26.5 million (2016: €17.0 million), which 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 Magnesita 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 31 December 2015 because the "own-use exemption" (exemption for own use in accordance with IAS 39.5) no longer applies.

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 €40.1 million at 31 December 2017 (31.12.2016: €49.0 million). The corresponding present value of the cash flows for the agreed electricity supply totals €83.4 million at 31 December 2017 (31.12.2016: €97.5 million); the present value of the cash flow at market price amounts to €43.3 million (31.12.2016: €48.5 million).

**Interest rate swaps**

RHI Magnesita has concluded interest rate swaps to hedge the cash flow risk of financial liabilities carrying variable interest rates. Financial liabilities carrying variable interest 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 €17.2 million at the reporting date (31.12.2016: €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 of liabilities to financial institutions carried out in the course of the acquisition of Magnesita led to the early repayment of, among others, 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, was no longer expected to take place. Consequently, the expense of €0.3 million recognised in other comprehensive income was reclassified to profit or loss as of 30 June 2017 and recognised in interest expenses. The changes in the fair value of these interest rate swaps are now recognised through profit or loss. In the year 2016 no ineffectiveness had to be recognised through profit or loss for these two hedges. Fixed interest rates amount to roughly 0.7% as in the previous year. The variable interest rates are based on the EURIBOR.

The term of two other hedging relationships, which were acquired in the course of the acquisition of Magnesita, with a total nominal volume of US$160.0 million at the reporting date ends in the second half of the financial year 2020. The interest and compensation payments for these hedging relationships are due semi-annually at the end of January respectively March and at the end of July respectively September. The interest expenses are recognised accordingly on a period basis. The effectiveness of a hedging relationship is tested on a prospective and retrospective basis. In the reporting year no hedge ineffectiveness had to be recognised through profit or loss. Fixed interest rates amount to roughly 1.3%; the variable interest rates are based on the LIBOR.

A hedging relationship with a nominal value of €50.0 million (31.12.2016: €50.0 million) ended on 31 July 2017. The expense of €0.2 million recognised in other comprehensive income was reclassified to profit or loss and recognised under interest expenses.

The fair values of the interest rate swaps totalled €1.3 million at the reporting date (31.12.2016: €(0.9) million).

**Forward exchange contracts**

As of 31 December 2017, there are no material open forward exchange contracts. The nominal value and fair value of forward exchange contracts as of 31 December 2016 are shown in the table below:

| | | 31.12.2016 | | |
|---|---|---|---|---|
| | | Nominal value | | Fair value in |
| Purchase | Sale | | in million | € million |
| EUR | ZAR | ZAR | 100.0 | (0.1) |
| EUR | USD | USD | 90.0 | 0.4 |
| EUR | CNY | EUR | 21.7 | 0.1 |
| EUR | CAD | CAD | 10.0 | 0.0 |
| MXN | USD | USD | 10.0 | 0.0 |
| EUR | INR | EUR | 8.9 | 0.0 |
| **Forward exchange contracts** | | | | **0.4** |

## (57) Financial risk management

Financial risks are incorporated in RHI Magnesita'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 Magnesita Group.

**Credit risks**

The maximum credit risk from recognised financial assets amounts to €921.5 million (31.12.2016: €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 | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Segment Steel | 294.3 | 208.6 |
| Segment Industrial | 96.9 | 96.0 |
| Segment Raw Materials | 3.7 | 4.4 |
| Trade receivables | 394.9 | 309.0 |
| Credit insurance and bank guarantees | (158.1) | (181.5) |
| **Net credit exposure** | **236.8** | **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 | 31.12.2017 | 31.12.2016 |
|---|---|---|
| US Dollar | 96.0 | 50.1 |
| Euro | 9.9 | 6.7 |
| Pound Sterling | 3.8 | 2.9 |
| Other currencies | 7.9 | 2.6 |
| Other functional currencies | 277.3 | 246.7 |
| **Trade receivables** | **394.9** | **309.0** |

The classification of receivables by days outstanding is shown below:

| in € million | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Neither impaired nor past due at reporting date | 283.2 | 217.4 |
| Not impaired at reporting date and past due in the following time frames | | |
| Less than 30 days | 36.6 | 20.5 |
| Between 30 and 59 days | 14.6 | 7.2 |
| Between 60 and 89 days | 5.7 | 2.7 |
| More than 90 days | 19.4 | 12.8 |
| Impaired at reporting date | 67.7 | 81.6 |
| Valuation allowances | (32.3) | (33.2) |
| **Trade receivables** | **394.9** | **309.0** |

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 recognised for overdue receivables amounting to €76.3 million at the reporting date (31.12.2016: €43.2 million) and impaired receivables of €35.4 million (31.12.2016: €48.8 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 Magnesita. The liquidity requirements resulting from budget and medium-term planning are secured by concluding appropriate financing agreements. As of 31 December 2017, the RHI Magnesita Group has a credit facility of €317.2 million (31.12.2016: €310.8 million) at its disposal, which is unused and available immediately. At 31 December 2016, unused credit lines from the sale of receivables amounted to €6.8 million. These lines of credit were concluded with different international banks in order to ensure independence of banks. The companies of the RHI Magnesita 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:

| | | | Remaining term | | |
|---|---|---|---|---|---|
| in € million | Carrying amount 31.12.2017 | Cash outflows | up to 1 year | 2 to 5 years | over 5 years |
| Liabilities to financial institutions | | | | | |
| fixed interest | 176.7 | 202.7 | 60.6 | 96.8 | 45.3 |
| variable interest | 776.3 | 858.1 | 146.5 | 683.7 | 27.9 |
| Perpetual bond | 215.3 | 309.5 | 79.1 | 52.9 | 177.5 |
| Senior Notes | 55.5 | 66.0 | 5.2 | 60.8 | 0.0 |
| Other financial liabilities | 1.7 | 1.8 | 0.9 | 0.8 | 0.1 |
| Liabilities to fixed-term or puttable non-controlling interests | 32.0 | 161.0 | 10.1 | 12.3 | 138.6 |
| Contingent consideration for acquired subsidiaries | 0.6 | 0.6 | 0.0 | 0.6 | 0.0 |
| Trade payables and other current liabilities | 500.2 | 500.2 | 500.2 | 0.0 | 0.0 |
| **Non-derivative financial liabilities** | **1,758.3** | **2,099.9** | **802.6** | **907.9** | **389.4** |

| in € million | Carrying amount 31.12.2016 | 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 |
| Other financial liabilities | 7.7 | 7.8 | 4.5 | 3.2 | 0.1 |
| Liabilities to fixed-term or puttable non-controlling interests | 32.5 | 182.2 | 9.1 | 13.0 | 160.1 |
| 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 31 December 2017 and 31 December 2016 are shown in the table below:

| in € million | Carrying amount 31.12.2017 | 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 | 1.5 | 1.5 | 0.9 | 0.6 | 0.0 |
| Financial assets held for trading | 1.7 | 1.7 | 1.7 | 0.0 | 0.0 |
| **Liabilities from derivatives with net settlement** | | | | | |
| Financial liabilities held for trading | 40.9 | 43.5 | 7.5 | 28.8 | 7.2 |

| in € million | Carrying amount 31.12.2016 | 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 analysed 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 Consolidated 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 Magnesita Group result from operating activities, above all from intragroup financing transactions, unless the foreign exchange effects recognised 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 31 December 2017:

| in € million | USD | EUR | MXN | CAD | Other | Total |
|---|---|---|---|---|---|---|
| Financial assets | 583.9 | 88.5 | (0.1) | 22.7 | 48.6 | 743.6 |
| Financial liabilities, provisions | (727.5) | (218.6) | (18.6) | (2.4) | (47.1) | (1,014.2) |
| **Net foreign currency position** | **(143.6)** | **(130.1)** | **(18.7)** | **20.3** | **1.5** | **(270.6)** |

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

| in € million | USD | EUR | MXN | CAD | Other | Total |
|---|---|---|---|---|---|---|
| Financial assets | 207.4 | 64.8 | 0.1 | 4.5 | 26.9 | 303.7 |
| Financial liabilities, provisions | (156.2) | (37.8) | (14.2) | (0.1) | (24.0) | (232.3) |
| **Net foreign currency position** | **51.2** | **27.0** | **(14.1)** | **4.4** | **2.9** | **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. 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 31 December 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 | 20.3 | 20.3 | (24.8) | (24.8) |
| Euro | 11.9 | 11.9 | (14.5) | (14.5) |
| Mexican Peso | 1.7 | 1.7 | (2.1) | (2.1) |
| Canadian Dollar | (1.8) | (1.8) | 2.3 | 2.3 |
| Other currencies | (0.4) | (0.4) | 0.3 | 0.3 |

The hypothetical effect on profit or loss at 31 December 2016 can be summarised 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) |
| Canadian Dollar | (0.4) | (1.5) | 0.5 | 1.9 |
| Other currencies | (0.4) | (0.4) | 0.4 | 0.4 |

**Interest rate risks**
The interest rate risk in the RHI Magnesita Group is primarily related to financial instruments carrying variable interest rates, which may lead to fluctuations in results and cash flows. At 31 December 2017, interest rate hedges amounting to a nominal volume of €17.2 million (31.12.2016: €75.7 million) and a nominal volume of US$160.0 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 Magnesita Group measures fixed-interest financial assets and financial liabilities at amortised 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 31 December 2017 had been 25 basis points higher or lower, equity would have been €0.5 million (31.12.2016: €0.2 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 31 December 2017 had been 25 basis points higher or lower, the interest result would have been €0.5 million (31.12.2016: €0.0 million) lower or higher.

**Other market price risk**
RHI Magnesita holds certificates in an investment fund amounting to €12.6 million (31.12.2016: €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 €40.1 million at 31 December 2017 (31.12.2016: €49.0 million). If the quoted forward prices at 31 December 2017 had been 20% higher or lower, EBIT would have been €8.7 million (31.12.2016: €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 reporting date, EBIT would have been €0.3 million (31.12.2016: €0.4 million) higher or lower.

## (58) Capital management

The objectives of the capital management strategy of the RHI Magnesita Group are to secure going concern at all times by creating a solid capital base to finance growth, investments, to increase shareholders value on a sustained basis and to generate adequate returns to enable attractive dividend payments to the shareholders and to service debt.

The RHI Magnesita Group manages its capital structure through careful monitoring and assessment of the overall economic framework conditions, credit, interest rate and FX risks and the requirements and risks related to operations and taking into account strategic projects.

The capital structure key figures at the reporting date are shown below:

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Net debt (in € million) | 750.8 | 298.8 |
| Net gearing ratio (in %) | 98.8% | 57.0% |

Net debt, which reflects financial liabilities net of cash and cash equivalents and non-derivative other current financial assets, is controlled by Corporate Treasury. The main task of the Corporate Treasury department is to execute the capital management strategy as well as to secure liquidity to support business operations on a sustainable basis, to use banking and financial services efficiently and to limit financial risks while at the same time optimizing earnings and costs.

The net gearing ratio is the ratio of net debt to equity. It amounts to 98.8% for the current financial year. In the previous year, the net gearing ratio amounted to 57.0%.

The increase in net debt and gearing results primarily from the acquisition of Magnesita in the course of which additional debt was assumed.

In the reporting year 2017 and in the previous year, all externally imposed capital requirements were met. The Group has sufficient liquidity headroom within its committed debt facilities.

RHI Magnesita N.V. is subject to minimum capital requirements according to its articles of association. The articles of association stipulate a mandatory reserve of €288,699,230.59 which was created in connection with the merger.

## (59) Contingent liabilities

At 31 December 2017, warranties, performance guarantees and other guarantees amount to €39.8 million (31.12.2016: €32.0 million). The terms of contingent liabilities range between two months and 11 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 (31.12.2016: €0.7 million) were recorded, of which €0.3 million (31.12.2016: €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 31 December 2017 or can potentially be exercised against RHI Magnesita in the future. The related risks were analysed with a view to their probability of occurrence. The Group is party to tax proceedings in Brazil with the estimated amount of €178.3 million for the following lawsuits, for which no provision was set up according to IFRS, as management classified risks of loss (based on the evaluation of legal advisors) as possible but not probable:

In 2011, the Brazilian Tax Authorities raised an assessment in respect of corporate income tax and social contribution on tax goodwill referring to the years 2008 and 2009. The Tax Authorities are challenging the deductibility of the amortisation of the tax goodwill arising from mergers of subsidiaries. In 2016, the company was notified of the decision rendered by the CARF, which annulled over 90% of the tax assessment notice. However, this decision may still be amended due to appeals filed by the company and the General Counsel to the National Treasury (PGFN). The final decision is expected within one to two years. The potential loss from this lawsuit amounts to €87.8 million (including interest and penalties) as at 31 December 2017.

In 2016, the Brazilian Tax Authorities extended their above review into the years 2011 and 2012. In December 2016 the company filed a defence against the tax assessment notice. The final decision is expected within two to three years. The potential loss from this lawsuit amounts to €40.0 million (including interest and penalties) as at 31 December 2017.

In 2013, the Brazilian Tax Authorities raised an assessment notice for allegedly failing to pay social security contributions in the period from January to December 2009. The company has appealed the assessment. Legal opinions demonstrate that the company has solid supporting documentation capable of reversing the assessment. The potential loss from this proceeding amounts to €6.0 million (including interest and penalties) as at 31 December 2017.

Furthermore, the Brazilian Tax Authorities raised an assessment into a former holding company in Brazil in respect of federal taxes. The assessment relates to federal tax offsets made by the company up to and including 2008 which have not been approved by the Federal Revenue Service. Legal opinions demonstrate that the company has solid supporting documentation capable of reversing the assessment. The potential loss amounts to €11.1 million (including interest and penalties) as at 31 December 2017.

In addition, the Brazilian Tax Authorities raised an assessment into the calculation basis of CFEM (Financial Compensation for Exploration of Mineral Resources). Based on the opinion of the legal advisors the company has appealed the assessment and the loss was considered possible due to jurisprudence of the Brazilian court. Additionally, recent changes on CFEM legislation, mostly adopting the company's interpretation, also demonstrate that the interpretation taken is the most accurate, which is a fact judges can decide upon. The potential loss from this proceeding amounts to €13.9 million (including interest and penalties) as at 31 December 2017.

Magnesita Refratários S.A., Contagem, Brazil, is also involved in other minor lawsuits totalling €19.5 million which relate to a number of assessments concerning various taxes and related obligations.

Proceedings and lawsuits in which other subsidiaries are involved have no significant negative influence on the financial position and performance of the RHI Magnesita Group.

## (60) Other financial obligations

Other financial obligations consist of the following items:

| | Total | Remaining term | | |
|---|---|---|---|---|
| in € million | 31.12.2017 | up to 1 year | 2 to 5 years | over 5 years |
| Obligations from rental and leasing contracts | 56.9 | 16.1 | 24.2 | 16.6 |
| Capital commitments | 5.9 | 5.9 | 0.0 | 0.0 |
| **Other financial obligations** | **62.8** | **22.0** | **24.2** | **16.6** |

| | Total | Remaining term | | |
|---|---|---|---|---|
| in € million | 31.12.2016 | 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 €23.1 million (2016: €21.8 million) are recognised in the Consolidated Statement of Profit or Loss of the financial year 2017.

The conditions of the most important operating rental and leasing agreements can be summarised as follows:

At the company's head office in Vienna, Austria, a rental agreement exists which has been renegotiated in 2017 and ends on 31 December 2018.

Another rental contract for offices has a term until 30 April 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 cancellable leasing agreements. The contracts have terms ranging from two to seven years; most of them do not include a purchasing option after the contract ends.

In addition to the aforementioned financial obligations, the RHI Magnesita 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 €99.9 million at the reporting date (31.12.2016: €90.3 million). The remaining terms of the contracts amount to up to nine years. Purchases from these arrangements are recognised 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.

## (61) Expenses for the Group auditor

The expensed fees for the activities of the Group auditor PwC that are included in the Consolidated Statement of Profit or Loss are shown in the following table:

| in € million | 2017 | 2016 |
|---|---|---|
| Audit of the Financial Statements | 2.4 | 1.0 |
| thereof invoiced by PwC Accountants N.V. | 0.2 | 0.0 |
| thereof invoiced by PwC network firms | 2.2 | 1.0 |
| Other audit related services | 0.1 | 0.1 |
| Tax compliance services | 0.9 | 1.7 |
| Other non-audit services | 2.5 | 0.3 |
| **Total fees** | **5.9** | **3.1** |

Other audit related services, tax compliance services and other non-audit services were performed and invoiced by PwC network firms outside of the Netherlands.

In 2017, €0.5 million of the audit fees invoiced by PwC network firms of €2.2 million are related to the full audit of the half-year consolidated financial statements. The other non-audit services of €2.5 million in 2017 are mainly related to services in connection with the acquisition of Magnesita and listing on the London Stock Exchange.

## (62) Annual average number of employees

The average number of employees of the RHI Magnesita Group based on full time equivalents amounts to:

| | 2017 | 2016 |
|---|---|---|
| Salaried employees | 3,788 | 3,544 |
| Waged workers | 4,781 | 4,134 |
| **Number of employees on annual average** | **8,569** | **7,678** |

All but one of them work outside of the Netherlands.

## (63) Transactions with related parties

Related companies include subsidiaries that are not fully consolidated, joint ventures, associates and MSP Foundation, Liechtenstein, as a shareholder of RHI Magnesita N.V. since it exercises significant influence based on its share of more than 25% in RHI Magnesita N.V.. 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 having authority and responsibility for planning, directing and controlling the activities of the Group (key management personnel) and close members of those persons' families. Since 26 October 2017 key management personnel comprises members of the Board of Directors of RHI Magnesita N.V. and the Executive Management Team. Before that members of the Management Board and the Supervisory Board of RHI AG formed the key management personnel.

**Related companies**
In the financial year 2017, the Group conducted the following transaction with its related companies:

| | Joint ventures | | Associates | Non-consolidated subsidiaries |
|---|---|---|---|---|
| in € million | 2017 | 2016 | 2017 | 2017 |
| Revenue from the sale of goods and services | 3.4 | 3.3 | 0.4 | 0.1 |
| Purchase of raw materials | 2.5 | 1.9 | 3.8 | 0.0 |
| Interest income | 0.1 | 0.1 | 0.0 | 0.0 |
| Trade and other receivables | 1.3 | 1.0 | 1.1 | 0.2 |
| Loans granted | 0.0 | 0.0 | 17.0 | 0.1 |
| Trade liabilities | 0.6 | 0.0 | 8.5 | 1.1 |
| Dividends received | 10.7 | 9.5 | 0.0 | 0.0 |

In the financial years 2017 and 2016, the Group charged electricity and stock management costs to the joint venture MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria, and purchased raw materials. In November and December 2017, the associate Sinterco S.A.,Nameche, Belgium, sold sintered doloma to the RHI Magnesita Group. Furthermore, the Group has a financing receivable of €17.0 million from a loan agreement with Sinterco.

The balances at the end of the financial year are unsecured and will be paid in cash. For the financial year 2016, business transactions with non-consolidated subsidiaries are not listed as they were of minor significance. All income and expenses of the joint ventures, associates and non-consolidated subsidiaries acquired in the course of the acquisition of Magnesita relate to the periods November and December 2017. Before the acquisition of Magnesita the Group had no associates.

To secure a pension claim of a former employee of MAGNIFIN, RHI Magnesita has assumed a surety amounting to €0.3 million (31.12.2016: €0.3 million). A resulting cash outflow is not expected. No guarantees were received.

In the financial years 2017 and 2016 no transactions were carried out between the RHI Magnesita 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 recognised as a defined benefit plan and is included in Note (28). At 31 December 2017 current account receivables of €0.8 million (31.12.2016: €0.8 million) from the personnel welfare foundation exist, for which an interest of 2.5% (2016: 2.5%) is charged. In the past reporting period, employer contributions

amounting to €0.5 million (2016: €0.5 million) were made to the personnel welfare foundation. The overfunding of the pension plan is recognised as a non-current asset of €2.0 million (31.12.2016: €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 Board of Directors and the Executive Management Team (EMT) from November to December 2017 as well as the former Management Board and Supervisory Board of RHI AG until October 2017.

After RHI AG merged with and into RHI Magnesita N.V. Stefan Borgas was appointed Executive Director and the other members of the former Management Board of RHI AG were appointed EMT Members. At the same time, the Group combined with Magnesita and Octavio Lopes was appointed second Executive Director, and additional EMT members were appointed. For the financial year 2017, expenses for the remuneration of the Executive Directors, EMT members and former Management Board, active in 2017, recognised in the Consolidated Statement of Profit or Loss total €12.6 million (2016: €10.1 million) The expenses, not including non-wage labour costs amount to €11.8 million (2016: €9.4 million), of which €9.8 million (2016: €4.6 million) were related to current benefits (fixed, variable and other earnings), €0.0 million (2016: €2.9 million) to benefits related to the termination of employment and €1.9 million (2016: €1.9 million) to share-based remuneration. At 31 December 2017, liabilities for performance-linked variable earnings and share-based payments for active members of the former Management Board of €6.7 million (2016: €1.6 million) are recognised as liabilities. There are no obligations arising from post-employment benefits and legally required termination benefits.

In addition to the variable remuneration, the members of the former Management Board of RHI AG active in 2017 and 2016 were also entitled to share-based payments. This programme was 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 programme, a portion of the annual salary was defined for the members of the former Management Board of RHI AG, and was translated into a number of virtual shares using a reference price. The relevant reference price for the remuneration programme of the respective financial year corresponded to the average RHI AG share price from 1 December of the previous year to 31 January of the current reporting year. The actual, vested entitlement to virtual shares depended on the level of target achievement; financial criteria (adjusted EBIT, ROACE, adjusted for external costs related to the planned acquisition of Magnesita) determined 70% and other criteria 30% of the entitlement. The equivalent value of the number of virtual shares determined per tranche were paid in cash in the three equal portions in the following three financial years. This equivalent value in cash was determined on the basis of the average share price of the respective period from 1 December of the reporting year to 31 January of the following year. The programme was terminated after RHI AG merged with and into RHI Magnesita N.V. and the provisioned amount will be paid over the next three years.

The effects of this compensation programme on the Consolidated Financial Statements are shown in the table below:

| | Number of virtual shares | | Provision in € million | | Expense in € million | |
|---|---|---|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 | 2017 | 2016 |
| Compensation programme 2017 | 68,389 | - | 2.5 | - | 2.7 | - |
| Compensation programme 2016 | 44,020 | 73,042 | 1.6 | 1.7 | 0.5 | 1.8 |
| Compensation programme 2015 | 6,022 | 14,781 | 0.2 | 0.4 | 0.1 | 0.1 |
| **Total** | **118,431** | **87,823** | **4.3** | **2.1** | **3.3** | **1.9** |

In the financial year 2017, a payment of €1.2 million was made for the compensation programmes 2017, 2016 and 2015 (2016: € 0.1 million for the compensation program 2015).

For members of the Non-Executive Directors as well as for the former Supervisory Board members (capital representatives), remuneration totalling €0.8 million (2016: €0.3 million) was recognised through profit or loss in the year 2017. The compensation paid to the members of the former Supervisory Board and Non-Executive Directors only consists of short-term employee benefits.

Employee representatives acting as Non-Executive Directors of RHI Magnesita N.V. or as Supervisory Board members of the former RHI AG, who are employed by the Group, do not receive compensation for their activity as Non-Executive Directors or Supervisory Board members. For their activity as employees in the company and the activity of their close relatives employed with RHI Magnesita, expenses of €0.7 million (2016: €0.8 million) are recognised. This group of persons received zero (2016: 176) RHI AG shares in the reporting year as part of the employee stock ownership plan "4 plus 1" as the programme was terminated in 2017

No advance payments or loans were granted to key management personnel. The RHI Magnesita Group did not enter into contingent liabilities on behalf of the key management personnel.

Directors Dealings reports are published on the websites of RHI Magnesita N.V. and of the London Stock Exchange. The members of the Board of Directors are covered by D&O insurance at RHI Magnesita.

Detailed and individual information on the remuneration of the Board of Directors is presented in the Annual Report on Remuneration of the RHI Magnesita Group.

Earnings of former members of the former Management Board amounted to €3.5 million (2016: €1.2 million), of which €1.4 million are related to share-based remuneration.

From 16 October 2015 until 28 September 2016, a non-remunerated consultancy agreement with a close relative of a related person was in place for the support of the initiation of the transaction with the shareholders of Magnesita, which was terminated before the signing of the agreement regarding the acquisition of the company.

## (64) Corporate bodies of former RHI AG (until 25 October 2017)

**Members of the Management Board**
Stefan Borgas, Chairman
Barbara Potisk-Eibensteiner (until 31 August 2017)
Thomas Jakowiak
Gerd Schubert
Reinhold Steiner

**Members of the Supervisory Board**
Herbert Cordt, Chairman
Helmut Draxler, Deputy Chairman
Wolfgang Ruttenstorfer, Deputy Chairman
Hubert Gorbach
Alfred Gusenbauer
Gerd Peskes
Stanislaus Prinz zu Sayn-Wittgenstein-Berleburg
David A. Schlaff

Employee representatives:
Walter Geier
Christian Hütter
Roland Rabensteiner
Franz Reiter

## (65) Board of Directors of RHI Magnesita N.V. (from 26 October 2017)

The members of the Board of Directors are as follows:

**Executive Directors**
Stefan Borgas, CEO
Octavio Lopes, CFO

**Non-independent Non-Executive Directors**
Herbert Cordt, Chairman
Fersen Lambranho
David Schlaff
Stanislaus Prinz zu Sayn-Wittgenstein-Berleburg

**Independent Non-Executive Directors**
Celia Baxter
Andrew Hosty
Jim Leng
John Ramsay
Wolfgang Ruttenstorfer
Karl Sevelda

Employee representatives:
Franz Reiter (from 13 November 2017)
Michael Schwarz (from 8 December 2017)

## (66) Material events after the reporting date

On 26 January 2018, Magnesita redeemed US$70 million of its US$250 million 8.625% perpetual notes.

On 30 January 2018, it was announced that Magnesita (through its fully-owned subsidiary Magnesita Refractories Company, York, USA) has given notice of the early redemption of the entire principal amount outstanding (US$63.3 million) of its US$400 million 7.875% Senior Notes due March 2020, to be effected on 30 March 2018, at a price equal to 100% of the principal amount plus accrued and unpaid interest.

On 28 February 2018, RHI Magnesita N.V. decided to amend the cash-only alternative offer of the Integrated Tender Offer to ensure it is "at least" equivalent to Magnesita's shares' economic value. For further details refer to Note (5) – Acquisition of Magnesita.

After the reporting date on 31 December 2017, there were no other events of special significance which may have a material effect on the financial position and performance of the RHI Magnesita Group.

## (67) Company Financial Statements of RHI Magnesita N.V.

**Company Balance Sheet as at 31 December 2017**
(before appropriation of result)

| in € million | Notes | 31.12.2017 | 30.06.2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Fixed assets** | | | |
| Financial fixed assets | (A) | 571.5 | 0.0 |
| | | **571.5** | **0.0** |
| **Current assets** | | | |
| Receivables from group companies | | 62.5 | 70.0 |
| Cash and cash equivalents | | 0.1 | 0.0 |
| **Total current assets** | | **62.6** | **70.0** |
| **Total assets** | | **634.1** | **70.0** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | (B) | 44.8 | 0.0 |
| Additional paid-in capital | (C) | 165.7 | 70.0 |
| Legal and mandatory reserves | (D) | 237.3 | 0.0 |
| Other reserves | | 263.5 | 0.0 |
| Result for the period | (F) | (90.3) | 0.0 |
| **Shareholders' Equity** | | **621.0** | **70.0** |
| **Current liabilities** | | | |
| Trade payables | | 2.8 | 0.0 |
| Accrued liabilities | | 10.3 | 0.0 |
| **Total current liabilities** | | **13.1** | **0.0** |
| **Total equity and liabilities** | | **634.1** | **70.0** |

**Company Statement of Profit or Loss for the period 1 July to 31 December 2017**

| in € million | Notes | 2017 |
|---|---|---|
| General and administrative expenses | | (13.0) |
| **Result before taxation** | | **(13.0)** |
| Income tax | | 0.0 |
| Net result from investments | (E) | (77.3) |
| **Net result for the period** | **(F)** | **(90.3)** |

**Movements in Shareholder's Equity**

| in € million | Share capital | Additional paid-in capital | Legal and mandatory reserves: Cash flow hedges | Legal and mandatory reserves: Currency translation | Legal and mandatory reserves: Mandatory reserves | Other reserves: Retained earnings | Net result | Equity attributable to shareholders |
|---|---|---|---|---|---|---|---|---|
| Incorporation 20 June 2017 | - | - | - | - | - | - | - | **0.0** |
| Increase of equity | - | 70.0 | - | - | - | - | - | **70.0** |
| **Balance as of 30 June 2017** | **-** | **70.0** | **-** | **-** | **-** | **-** | **-** | **70.0** |
| Net result | - | - | - | - | - | - | (90.3) | **(90.3)** |
| Downstream merger from RHI AG | 39.8 | (70.0) | (0.1) | (71.2) | 288.7 | 270.0 | - | **457.2** |
| Issue of ordinary shares minus costs | 5.0 | 165.7 | - | - | - | - | - | **170.7** |
| Net income/ (expense) recognised directly in equity | - | - | 0.2 | 19.7 | - | (6.5) | - | **13.4** |
| **Balance as of 31 December 2017** | **44.8** | **165.7** | **0.1** | **(51.5)** | **288.7** | **263.5** | **(90.3)** | **621.0** |

**Notes to the Company Financial Statements for the period ended 31 December 2017**

**General**

RHI Magnesita N.V. is a public company with limited liability under Dutch law. The company is registered with the Dutch Trade Register of the Chamber of Commerce under the number 68991665 and has its corporate seat in Arnhem, Netherlands. The administrative seat, place of effective management and registered office is located at Wienerbergstraße 9, 1100 Vienna, Austria.

The shares of RHI Magnesita N.V. (ISIN code NL0012650360) are listed on the Main Market of the London Stock Exchange and are included in the FTSE 250 index.

The first financial year of the Company ended on 30 June 2017. On 16 October 2017 the general meeting of the company resolved to amend and completely readopt the articles of association of the company. Upon the amendment of articles of association of the company, taking effect on 26 October 2017, the current financial year runs from 1 July 2017 up to and including 31 December 2017.

**Basis of preparation**

The Company Financial Statements have been prepared in accordance with the provisions of Part 9 of Book 2 of the Dutch Civil Code. The Company uses the option of Section 362, subsection 8, of Part 9, Book 2, of the Dutch Civil Code to prepare the Company Financial Statements on the basis of the same accounting principles as those applied for the Consolidated Financial Statements. Valuation is based on recognition and measurement requirements of accounting standards adopted by the EU (i.e. only IFRS that is adopted for use in the EU at the date of authorisation) as explained further in the Notes to the Consolidated Financial Statements.

**Significant accounting policies**

Financial fixed assets

Investments in group companies in the Company Financial Statements are accounted for using the equity method.

Net result from investments

The share in the result of investments comprises the share of the company in the result of these investments.

**Fixed assets**

(A) Financial fixed assets

The financial fixed assets comprise investments in:

| Name and registered office of the company | Share in % |
|---|---|
| Didier Werke A.G., Wiesbaden, Germany | 12.5 |
| RHI Refractories Raw Material GmbH, Vienna, Austria | 25.0 |
| RHI Feuerfest GmbH, Vienna, Austria | 100.0 |

The investments have developed as follows:

| in € million | |
|---|---|
| Balance as at 30 June 2017 | 0.0 |
| From downstream merger | 457.2 |
| Capital contributions | 179.5 |
| Changes from currency translation and cash flow hedges | 19.9 |
| Changes from defined benefit plans | (5.6) |
| Equity settled transaction | (2.2) |
| Net result from investments | (77.3) |
| **Balance as at 31 December 2017** | **571.5** |

A list of investments in group companies, prepared in accordance with the relevant legal requirements (Dutch Civil Code, Book 2, Sections 379), is shown in Note 5 of the Consolidated Financial Statements.

**Equity**

(B) Share capital

The company's authorised share capital amounts to €100,000,000, comprising 100,000,000 ordinary shares, each of €1 nominal value. Following the merger and also at year-end 2017, RHI Magnesita N.V.'s issued and fully paid-in share capital consists of 44,819,039 ordinary shares.

(C) Additional paid-in capital

At 31 December 2017, additional paid-in capital comprises premiums on the issue of shares less issue costs net of tax by RHI Magnesita N.V.. The additional paid-in capital as of 30 June 2017 was eliminated in the course of the downstream merger from RHI AG to RHI Magnesita N.V..

(D) Legal and mandatory reserves

Cash flow hedges

The item cash flow hedges includes gains and losses from the effective part of cash flow hedges less tax effects.

Currency translation

Currency translation includes the accumulated currency translation differences from translating the financial statements of foreign subsidiaries as well as unrealised 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 recognised 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 recognised in other comprehensive income are reclassified to profit or loss.

The cash flow hedges reserve and the currency translation reserve are legal reserves and are restricted for distribution.

Mandatory reserve
The articles of association stipulate a mandatory reserve of €288,699,230.59 which was created in connection with the merger.

No distributions may be made from the mandatory reserve, no losses of the company may be allocated to the mandatory reserve and no allocation or addition may be made to the mandatory reserve.

(E) Net results from investments
The exact legal steps of the merger are reflected in the Company Financial Statements. Consequently the interests in the investments are recognised as per date of the transaction, in this case 26 October 2017.

The results of the investments for the period from 26 October to 31 December 2017 amount to a loss of €77.3 million and are recognised in the Company Statement of Profit or Loss.

The results of the investments for the period from 1 January to 25 October 2017 amount to a profit of €71.9 million and have been recognised as an effect from the downstream merger under retained earnings.

(F) Net result for the period
A different accounting treatment of the merger has been applied in the Consolidated Financial Statements and the Company Financial Statements. In the Consolidated Financial Statements the results of a full year have been recognised in the profit or loss account (the so called 'pooling of interest methodology'), whereas in the Company Financial Statements the results of the period 26 October 2017 to 31 December 2017 have been recognised in the profit or loss account (the so called 'carryover accounting methodology). The difference between the Consolidated Financial Statements and the Company Financial Statements is shown in the table below:

| in € million | 2017 |
|---|---|
| Company's net result for the period 1 July to 31 December 2017 | (90.3) |
| Result of the investments for the period from 1 January 2017 to 25 October 2017 recognised in retained earning | 71.9 |
| **Company's consolidated results (attributable to shareholders of RHI Magnesita N.V.)** | **(18.4)** |

**Proposed appropriation of result**
It is proposed that pursuant to Article 27 clause 1 of the articles of association of the company the result shown in RHI Magnesita N.V. income statement be appropriated as follows:

| in € million | 2017 |
|---|---|
| Loss attributable to shareholders | (90.3) |
| In accordance with Article 27 clause 1 to be transferred to retained earnings | (90.3) |
| **At the disposal of the General Meeting of Shareholders** | **0.0** |

It is proposed that €33.6 million of retained earnings are distributed among the shareholders.

**Other notes**
Information regarding auditor's fees, number of employee's and the remuneration of the Board of Directors is included in Note 61 to 63 of the Consolidated Financial Statements.

**Material events after the reporting date**
On 28 February 2018, RHI Magnesita N.V. decided to amend the cash-only alternative offer of the Integrated Tender Offer to ensure it is "at least" equivalent to Magnesita's shares' economic value. For further details refer to Note 5 of the Consolidated Financial Statements – Acquisition of Magnesita.

Vienna, 20 March 2018

**Executive Directors**

Stefan Borgas
CEO

Octavio Lopes
CFO

**Non-independent Non-Executive Directors**

Herbert Cordt,
Chairman

David Schlaff

Fersen Lambranho

Stanislaus Prinz zu Sayn-Wittgenstein-Berleburg

**Independent Non-Executive Directors**

Celia Baxter

John Ramsay

Andrew Hosty

Wolfgang Ruttenstorfer

Jim Leng

Karl Sevelda

**Employee representatives**

Franz Reiter

Michael Schwarz

## Other information

**Provisions of the articles of association on profit and distributions**
The stipulations of Article 27 and 28 of the Articles of Association concerning profit and distributions are:

27 Profit and distributions
27.1 The Board may resolve that the profits realised during a financial year will fully or partially be appropriated to increase and/or form reserves. With due regard to Article 26.2, a deficit may only be offset against the reserves prescribed by law to the extent this is permitted by law.

27.2 The allocation of profits remaining after application of Article 27.1 shall be determined by the General Meeting. The Board shall make a proposal for that purpose. A proposal to make a distribution of profits shall be dealt with as a separate agenda item at the General Meeting.

27.3 Distribution of profits shall be made after adoption of the annual accounts if permitted under the law given the contents of the annual accounts.

27.4 The Board may resolve to make interim distributions and/or to make distributions at ttie expense of any reserve of the Company, other than the Mandatory Reserve.

27.5 Distributions on Shares may be made only up to an amount which does not exceed the amount of the Distributable Equity. If it concerns an interim distribution, the compliance with this requirement must be evidenced by an interim statement of assets and liabilities as referred to in Section 2:105 paragraph 4 of the Dutch Civil Code. The Company shall deposit the statement of assets and liabilities at the Dutch Trade Register within eight days after the day on which the resolution to make the distribution is published.

27.6 Distributions on Shares payable in cash shall be paid in euro, unless the Board determines that payment shall be made in another currency.

27.7 The Board is authorised to determine that a distribution on Shares will not be made in cash but in kind or in the form of Shares, or to determine that Shareholders may choose to accept the distribution in cash and/or in the form of Shares, all this out of the profits and/or at the expense of reserves, other than the Mandatory Reserve, and all this if and in so far the Board has been designated by the General Meeting in accordance with Article 6.1. The Board shall set the conditions under which such a choice may be made.

28 Release for payment
Distributions of profits and other distributions shall be made payable four weeks after adoption of the relevant resolution, unless the Board or the General Meeting at the proposal of the Board determine another date.

# Global Reporting Initiative G4 Index

| General Standard Disclosures | | Page Annual Report / Location | Remarks / Omissions |
|---|---|---|---|
| **Strategy and Analysis** | | | |
| G4-1 | Foreword | 6-7 | |
| **Organizational profile** | | | |
| G4-3 | Name of the organization | 58, Shareholder Information | |
| G4-4 | Important brands, products and services | 4, 10-11, 48 | |
| G4-5 | Headquarters of the organization | Shareholder Information | |
| G4-6 | Number and names of the countries in which the organization operates | 5<br>See also the world map at www.rhimagnesita.com/about/where-we-are/ | |
| G4-7 | Nature of ownership and legal form | 65, Shareholder Information | |
| G4-8 | Markets and industries served | 4-5 | |
| G4-9 | Scale of the organization | 4-5, 32, Balance Sheet | |
| G4-10 | Employees by employment contract, gender and region | 32, 33, 37 | Only employees of consolidated subsidiaries are taken into account in the headcount. The number of employees working at non-consolidated subsidiaries is not significant.<br>Temporary workers are not included in the headcount. |
| G4-11 | Percentage of employees covered by collective bargaining agreements | 38 | |
| G4-12 | Supply chain | See the Responsibility / Reporting section on the RHI Magnesita website. | |
| G4-13 | Changes during the reporting period | 12 | |
| G4-14 | Precautionary approach and principle | 24-25 | |
| G4-15 | Advocacy of external charters, principles and initiatives | 26<br>See also page 5 of our Code of Conduct. | |
| G4-16 | Membership in associations | 27-28 | |
| **Identified material aspects and boundaries** | | | |
| G4-17 | Entities included in the company's consolidated financial statements | See the consolidated financial statements. | |
| G4-18 | Process for defining report content | 27 | |
| G4-19 | Material aspects and topics | 27 | |
| G4-20 | Description of boundary of material aspects within the organization | 27, GRI Index | This information is indicated after each key RHI Magnesita topic. The terms "internal" and "external" indicate whether a topic is material within or outside the company. |
| G4-21 | Description of boundary of material aspects outside the organization | GRI Index | This information is indicated after each key RHI Magnesita topic. The terms "internal" and "external" indicate whether a topic is material within or outside the company. |
| G4-22 | Restatement of information provided in previous reports and reasons | | No restatements. |
| G4-23 | Changes in scope and aspect boundaries | | Due to the merger, the scope of companies included in the consolidated financials statements has changed. |
| **Stakeholder engagement** | | | |
| G4-24 | List of stakeholders | 27 | |
| G4-25 | Basis for selection of stakeholders | 27 | |
| G4-26 | Approach and frequency of stakeholder engagement | 27 | |

| General Standard Disclosures | | Page Annual Report / Location | Remarks / Omissions |
|---|---|---|---|
| G4-27 | Key topics and concerns of stakeholders | 27 | |
| **Report profile** | | | |
| G4-28 | Reporting period | 26 | |
| G4-29 | Date of the most recent previous report | | This is the first report of RHI Magnesita. The Annual Report 2016 of RHI was published in April 2017. |
| G4-30 | Reporting cycle | | The Annual Report is published annually. |
| G4-31 | Contact/imprint | Shareholder Information, Imprint | |
| G4-32 | "In accordance" option, GRI Index | 26 | |
| G4-33 | External audit of the report | | The GRI disclosures were not audited externally. |
| **Governance** | | | |
| G4-34 | Governance structure of the organization | 58-59, 64 | |
| G4-38 | Composition of the highest governance body and its committees | 59-61, 62-64 | |
| G4-39 | Chair of the governance body | 59 | |
| G4-41 | Avoidance of conflicts of interest | 61, 62 | |
| G4-42 | Role of the highest governance body in setting values, strategies, etc. | 30, 59 | |
| G4-43 | Measures to develop competencies of the governance body with respect to sustainability topics | 31 | |
| G4-44 | Performance evaluation of the highest governance body | 62 | |
| G4-51 | Remuneration policy | 73-81 | |
| **Ethics and integrity** | | | |
| G4-56 | Values, principles, standards and norms of behavior | 30 | |
| G4-58 | Reporting mechanisms | 30-31 | |

| Specific Standard Disclosures / Key RHI Magnesita Topics | | Page Annual Report / Location | Remarks / Omissions |
|---|---|---|---|
| **Sustainable profitable growth (internal and external)** | | | GRI aspect: Economic Performance |
| DMA | Management approach | 12-13 | |
| G4-EC1 | Direct economic value generated and distributed | 28, 39 | |
| **Innovation (internal and external)** | | | |
| DMA | Management approach | 47-48 | |
| RHIM | Indicator: Priority patent applications | 47 | Indicator was developed by RHI Magnesita. |
| **Governance, business ethics and values (internal and external)** | | | GRI aspects: Anti-corruption and Public Policy |
| DMA | Management approach | 30, 58 | |
| G4-SO3 | Operations with risks related to corruption | 30 | The risk assessment conducted as part of Risk & Opportunity Reporting is not structured by operational sites. In the framework of the Compliance Risk Assessment legal entities and locations are also assessed. In the year 2017, the Compliance Risk Assessment was updated to cover legal entities and sites of the combined company. The focus of the assessment was on anti-trust law. |

# Global Reporting Initiative G4 Index

continued

| Specific Standard Disclosures / Key RHI Magnesita Topics | | Page Annual Report / Location | Remarks / Omissions |
|---|---|---|---|
| G4-SO4 | Communication and trainings on corruption prevention | 31 | Due to the merger, the focus of compliance training was on anti-trust and competition law. In the year 2018, an e-learning on the Code of Conduct is planned to be introduced and classroom trainings will be conducted. These training measures will cover the topic of corruption prevention. |
| G4-SO5 | Confirmed incidents of corruption and actions taken | 31 | |
| G4-SO6 | Political contributions | 31 | |
| **Communication (internal)** | | | Internal communication was rated material as part of the materiality analysis in the year 2015. |
| DMA | Management approach | 38 | |
| RHIM | Indicator: share of employees reached via internal digital channels | 38 | Indicator was developed by RHI Magnesita. The previously used indicator, namely the number of intranet news items, was replaced by a new indicator, since the use of internal digital channels is getting more and more importance. |
| **Product responsibility and quality management (internal and external)** | | | GRI aspects: Energy, Products and Services, Customer Health and Safety, Product and Service Labeling |
| DMA | Management approach | 41 (IMS), 45 (Use of substitute materials), 49 (R&D) | |
| G4-EN6 | Reduction of energy consumption | 49 | |
| G4-EN27 | Measures to mitigate the environmental impacts of products and services | 45, 49 | |
| G4-PR1 | Products for which health and safety impacts are assessed | 45 | |
| G4-PR3 | Legally required information on products | | Safety data sheets provide information on safe storage, transport, use and disposal of the products. |
| G4-PR5 | Surveys measuring customer satisfaction | | No surveys were conducted in the year 2017. |
| **Raw materials and mining (internal and external)** | | | GRI aspects: Materials, Biodiversity |
| DMA | Management approach | 41–42 | |
| G4-EN1 | Materials used | 41 | |
| G4-EN13 | Habitats protected or restored | 42 | |
| **Environmental protection and emissions (internal and external)** | | | GRI aspects: Water, Emissions, Transport, Overall |
| DMA | Management approach | 40 | |
| G4-EN8 | Total water withdrawal by source | 44 | |
| G4-EN15 | Direct GHG emissions | 42, 43 | |
| G4-EN16 | Indirect energy-related GHG emissions | 42, 43 | |
| G4-EN19 | Reduction of GHG emissions | 42 | |
| G4-EN21 | Nox, Sox and other significant air emissions | 44 | |
| G4-EN30 | Significant environmental impacts of transporting products | 45 | Qualitative description of sustainable transport concepts. |
| G4-EN31 | Total environmental protection expenditures | 40–41 | |
| **Recycling and waste management (internal and external)** | | | GRI aspects: Effluents and Waste, Products and Services |
| DMA | Management approach | 42, 44 | |
| G4-EN2 | Percentage of materials used that are recycled input materials | | This indicator cannot be reported for the year 2017 and for the combined company. RHI Magnesita will work on compiling reliable data for the next reporting cycle. |

| Specific Standard Disclosures / Key RHI Magnesita Topics | | Page Annual Report / Location | Remarks / Omissions |
|---|---|---|---|
| G4-EN23 | Total weight of waste by type and disposal method | 44, 45 | |
| G4-EN27 | Measures to mitigate the environmental impacts of products and services | 42-43, 44 | |
| G4-EN28 | Products and packaging materials that are reclaimed | | This indicator cannot be reported for the year 2017 and for the combined company. RHI Magnesita will work on compiling reliable data for the next reporting cycle. |
| **Energy efficiency (internal)** | | | GRI aspect: Energy |
| DMA | Management approach | 43 | |
| G4-EN3 | Energy consumption within the organization | 43 | |
| G4-EN6 | Reduction of energy consumption | 43 | |
| **Responsible employer (internal)** | | | GRI aspects: Economic Performance, Market Presence, Employment, Occupational Health and Safety, Training and Education, Diversity and Equal Opportunities, Equal Remuneration for Women and Men |
| DMA | Management approach | 32-37 | |
| G4-EC3 | Coverage of defined benefit plan obligations | 21 | |
| G4-EC6 | Proportion of senior management hired from local community | 34 | |
| G4-LA1 | New employee hires and employee turnover | 33 | Exits of employees in Brazil due to short term fixed contracts in sales services are not included in the turnover rate.<br>In the year 2018 a unified database will be developed at RHI Magnesita to ensure reliable data for the combined company. |
| G4-LA2 | Benefits provided to full-time employees | 37 | |
| G4-LA3 | Return to work after parental leave | 37 | No global data can be reported, as regulations vary from country to country. In Austria, 48 persons were on parental leave in the reporting year, i.e. began their parental leave, terminated it or both in 2017 or were on parental leave during the whole year. |
| G4-LA5 | Workforce represented in formal joint management-worker health and safety committees | 36 | |
| G4-LA6 | Injuries, occupational diseases, lost days, absenteeism, fatalities | 36, 37 | The Indian subsidiary Orient Refractories Ltd. is planned to be included as of the year 2018.<br>In accordance with an international company agreement, accidents are not reported by gender.<br>In the case of ten occupational accidents the employees were still on sick leave at the time of data collection (end of January 2018), these occupational accidents were not included in the calculation of the lost day rate. |
| G4-LA7 | Workers with high incidence or risk of diseases related to their occupation | 37 | |
| G4-LA8 | Health and safety topics covered in formal agreements with trade unions | 37 | |
| G4-LA9 | Average hours of training per year per employee | | These data are not reported for the year 2017. Due to merger preparation measures, employees were mainly trained by means of on-the-job development measures. |
| G4-LA10 | Programs for skills management and lifelong learning | 34-36 | |

# Global Reporting Initiative G4 Index

continued

| Specific Standard Disclosures / Key RHI Magnesita Topics | | Page Annual Report / Location | Remarks / Omissions |
|---|---|---|---|
| G4-LA11 | Performance and career development reviews | 36 | Data for Austria and Germany cover all employees. Worldwide data cover employees from professional level to managers and directors. |
| G4-LA12 | Diversity of employees and governance bodies | 33, 48, 61 | |
| G4-LA13 | Ratio of salary by gender | 34 | |
| **Human rights (internal and external)** | | | |
| DMA | Management approach | 31 | |
| G4-HR2 | Employee training on aspects of human rights | 31 | Due to the merger, the focus of compliance training was on anti-trust and competition law. In the year 2018, an e-learning on the Code of Conduct is planned to be introduced and classroom trainings will be conducted. These training measures will cover aspects of human rights. |
| G4-HR3 | Incidents of discrimination and corrective actions taken | 31 | |
| G4-HR4 | Risk of violation of the right to exercise freedom of association and collective bargaining | 30, 31 | The right to exercise freedom of association and collective bargaining is covered in the Code of Conduct and the Supplier Code of Conduct. In the year 2017 no incidents were known to RHI Magnesita. |
| G4-HR5 | Operations and suppliers having risk of child labor | 30, 31 | The prohibition of child labor is covered in the Code of Conduct and the Supplier Code of Conduct. In the year 2017 no incidents were known to RHI Magnesita. |
| G4-HR6 | Operations and suppliers having risk of forced labor | 30, 31 | The prohibition of forced labor is covered in the Code of Conduct and the Supplier Code of Conduct. In the year 2017 no incidents were known to RHI Magnesita. |
| G4-HR7 | Training of security personnel | | Not relevant |
| G4-HR8 | Number of incidents of violations involving rights of indigenous peoples | | In the year 2017 no such incidents were known to RHI Magnesita. |
| G4-HR9 | Operations that have been subject to human rights reviews | | In the framework of regular internal audits human rights aspects are also taken into account. |
| G4-HR11 | Significant actual and potential negative human rights impacts in the supply chain | | In the year 2017 no incidents were known to RHI Magnesita. |
| G4-HR12 | Grievances about human rights impacts filed | 31 | |
| **Good Corporate Citizenship (internal and external)** | | | GRI aspect: Local Communities |
| DMA | Management approach | 39 | |
| G4-SO1 | Development programs for local communities | 39 | |

Disclosures on the Management Approach (DMA), indicators developed by RHI Magnesita as well as certain General Standard Disclosures are not highlighted directly in the text but can be found on the page indicated.

The pages referred to regarding DMA disclosures cover narrative information on the materiality of the key CSR topics as well as on their management.

Our Code of Conduct can be found on the Investor Relations website at:
https://ir.rhimagnesita.com/corporate-governance/code-of-conduct/

# Shareholder Information

RHI Magnesita N.V. is a public company with limited liability under Dutch law and was incorporated on June 20, 2017. It has its corporate seat in Arnhem, the Netherlands, its administrative seat in Vienna, Austria and its registered office at Wienerbergstrasse 9, 1100 Vienna, Austria. The telephone number of the Issuer is +43 50 2136200.

Ticker symbol: RHIM
ISIN Code: NL0012650360

Share's price can be obtained on the Company's website: rhimagnesita.com

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The shares of RHI Magnesita N.V. are listed on the Premium Segment of the Official List on the Main Market of the London Stock Exchange.

**Company registrars**
Enquiries on the following administrative matters can be addressed to the Company's registrars at:

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The Pavilions, Bridgwater Road
Bristol, BS99 6ZZ
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