

**RHI Magnesita N.V.**  
(“RHI Magnesita” or the “Company” or “Group”)

**Annual Financial Report 2017**

RHI Magnesita has today published its Annual Financial Report for the financial year ended 31 December 2017 (the “Annual Report 2017”).

In compliance with Listing Rule 9.6.1 a copy of the Annual Report 2017 will be submitted to the National Storage Mechanism and will shortly be available for inspection at [www.morningstar.co.uk/uk/NSM](http://www.morningstar.co.uk/uk/NSM). The Annual Report 2017 is also available to view and download on the RHI Magnesita website at [www.rhimagnesita.com](http://www.rhimagnesita.com).

This announcement also contains as appendices additional information for the purposes of compliance with DTR 6.3.5 (1) of the UK Disclosure and Transparency Rules. The information below is extracted, in full unedited text, from the Annual Report 2017. Page numbers and cross references in the extracted information refer to page numbers and cross-references in the Annual Report. This announcement should be read in conjunction with and is not a substitute for reading the full Annual Report 2017.

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## RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

### Transformational year and strong financial performance

21 March 2018, London. RHI Magnesita N.V. (LSE: RHIM), a global leading supplier of refractory products, systems and services, announces its audited results for the year ended 31 December 2017.

Financial Summary	Reported (audited)		Adjusted Pro-forma <sup>1</sup> (unaudited)		
	2017	2016	2017	2016	Change %
	€m	€m	€m	€m	
Revenue	1,946.1	1,651.2	2,677.2	2,409.1	11%
EBITA	56.7	126.6	304.1	219.3	39%
EBITA margin	2.9%	7.7%	11.4%	9.1%	+230 bps
Dividend per share	0.75	0.75	n/a	n/a	n/a

### Highlights

- Successful completion of the merger of RHI and Magnesita and the subsequent admission of RHI Magnesita N.V. to the Premium Segment of the London Stock Exchange
- Integration progressing well, with senior management in place. “One face to the customer” deployed in sales and fully integrated production and supply chains
- Adjusted pro-forma revenue of €2,677.2 million, up 11%, driven by sales growth in both steel and industrial divisions, supported by a more favourable market environment
- Adjusted pro-forma EBITA of €304.1 million, up 39%
- Adjusted pro-forma EBITA margin of 11.4%, up 230bps from the previous year, driven by higher sales and the Company’s initiatives to improve operational efficiencies
- Net Debt/Adjusted pro-forma EBITDA of 1.9x, after the acquisition of the control of Magnesita in October 2017
- Faster realization of synergies by one year: €40 million in 2018 and the balance of €70 million in 2019
- The Board of Directors will propose a dividend of €0.75 per share, to be paid on 2 July 2018. The proposed dividend is subject to the approval by the Annual General Meeting of Shareholders, to be held on 7 June 2018

Commenting on the results, Chief Executive Officer, Stefan Borgas and Chairman, Herbert Cordt, said:

*“2017 was a truly transformational year for the business, which will go down in the company history as the year when we successfully implemented and completed the merger of RHI and Magnesita. The listing on the Premium Segment of the London Stock Exchange at the end of October was a resounding success for RHI Magnesita. The merger reshapes the landscape of the sector as RHI Magnesita is now the global market leader and the driving force of the industry.”*

<sup>1</sup>Adjusted pro-forma results were prepared as if the combined Group had already existed since January 1, 2016 and 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. More details on page 8.

*In addition to the cross-border merger, RHI Magnesita recorded a strong operating performance in the financial year which is attributable to the company's efficient operations, improving macroeconomic environment and the engagement of all employees worldwide. Global steel production outside China increased by 4%. The combined adjusted pro-forma revenue is up by 11% while adjusted pro-forma EBITA grew by 39%. The continued shortage of raw materials from China resulted in higher material input costs, which are being gradually passed-on in higher prices. Supplying our customers reliably throughout this period continues to be our primary focus. We would like to thank our customers for their continued support and trust.*

*2018 will be another important year, which has started well for RHI Magnesita and the Board is looking forward to the coming year with confidence."*

**For further enquiries, please contact:**

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**Conference call**

The Company will host a teleconference at 9:00am (GMT) this morning to discuss the results. For conference call details, please visit the RHI Magnesitas' website <https://ir.rhimagnesita.com/conference-call/>.

**About RHI Magnesita**

RHI Magnesita is the result of the combination of RHI and Magnesita to form the global leading supplier of high-grade refractory products, systems and services which are indispensable for industrial high-temperature processes exceeding 1,200°C in a wide range of industries, including steel, cement, non-ferrous metals, and glass, among others. With a vertically integrated value chain, from raw materials to refractory products and full performance-based solutions, RHI Magnesita serves more than 10,000 customers in nearly all countries around the world.

The Company has unmatched geographic diversification with more than 14,000 employees in 35 main production sites and more than 70 sales offices. RHI Magnesita intends to use its global leadership position in terms of revenue, greater scale, complementary product portfolio and diversified geographic presence around the world to target opportunistically those countries and regions benefitting from more dynamic economic growth prospects.

For more information please visit: [www.rhimagnesita.com](http://www.rhimagnesita.com)

## Strategic priorities

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

- **Strategic rationale of the merger**

This merger of RHI and Magnesita can clearly be seen as a strategic combination that captures synergies, drives efficiencies by establishing a leading market position, whilst strengthening our global geographic cluster, leveraging technology capabilities and 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, which is otherwise characterized 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-term to long-term.

Due to the increased 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. Thus, it is comprehensively developed around five main topics, which we are tackling over the medium term: 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 technological focus.

## Our focus for the year ahead

- **Markets:** Global lead with strong local organizations and significant market positions

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

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

RHI Magnesita has already developed a leading market position in basic products especially in linings 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 non-basic and functional product segments. RHI Magnesita, with its high vertical integration, is able to rely more on stable supply of raw materials. Recycling refractory material is important not only for economic but also for environmental reasons.

- **Technology:** Top solution provider in the refractory industry with an extensive portfolio based on innovative technologies and digitalization

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 out of almost 300 employees, of which one third have masters and PhDs in refractories or similar topics, working out of 2 research hubs and 2 centres globally. Additionally, RHI Magnesita's technical marketing staff of around 400 employees services all customers worldwide. We will continue investing in R&D to create products, which have a distinct competitive advantage by costs or by product performance. Furthermore, we will deepen our knowledge about our customers' processes in order to maintain our competitive advantage.

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

The recent market environment is characterized by excess capacities in many customer industries and aggressive export strategy of Chinese producers. We expect this to continue but on a lower level than before. Though, we believe that the high pressure on the market prices and on the profitability of manufacturers, and subsequently also on suppliers will remain.

Therefore, competitiveness is the backbone of RHI Magnesita's future success. This includes execution of derived synergies but also to extract cost efficiencies along the whole value chain. This remains essential in the prevailing market environment. Therefore, we have commenced various projects 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 employees are the single most important success factor. The merger of RHI and Magnesita has created a true global player and this we need to ensure in all levels of our corporation. Therefore, we are developing ways to further enhance global careers, enhancing geographical, gender and functional diversity and generally about to establish a culture of trust and openness. We believe in our young talents and built a meritocratic environment in which they can nurture.

- **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.

## Divisional Performance

RHI Magnesita comprises two divisions, Steel and Industrial. With its Steel Division, RHI Magnesita provides its customers with a broad range of customized 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. 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.

## Steel Division

Refractories demand from the steel industry is directly associated with the number of furnaces in operation (with respect to linings) and the steel volumes produced (with respect to flow control systems). In the long run, the number of furnaces usually correlates with the development of steel production. Therefore, in the long run the overall refractories demand from the steel industry correlates with steel production.

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.

## **Industrial Division**

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, nonferrous 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.

### *Nonferrous 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 nonferrous 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

### 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.

The tables below reconcile the reported results to adjusted pro-forma results for 2017:

	Reported 2017 Results	Magnesita Jan-Oct 2017	Prelim. PPA effect <sup>1</sup>	Merger-related adjustments	Foreign exchange variations <sup>2</sup>	Disposed business <sup>3</sup>	Non-merger related Other Income/ Expenses	Adjusted pro-forma 2017	Adjusted pro-forma 2016
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(i)+(ii)+(iii)- (iv)-(v)-(vi)- (vii)	
<b>Revenue</b>	<b>1,946.1</b>	<b>846.1</b>	-	-	-	<b>115.1</b>	-	<b>2,677.2</b>	<b>2,409.1</b>
COGS	(1,485.6)	(614.0)	2.2	-	-	(98.1)	-	(1,999.3)	(1,822.1)
<b>Gross Profit</b>	<b>460.5</b>	<b>232.1</b>	<b>2.2</b>	-	-	<b>17.0</b>	-	<b>677.9</b>	<b>587.0</b>
SG&A	(292.6)	(130.8)	(8.2)	(24.4)	-	(7.3)	-	(399.8)	(382.1)
Other Operating Income & Exp.	(124.8)	(96.1)	-	(162.3)	(48.2)	-	(10.4)	(0.0)	-
<b>EBIT</b>	<b>43.1</b>	<b>5.2</b>	<b>(6.0)</b>	<b>(186.7)</b>	<b>(48.2)</b>	<b>9.6</b>	<b>(10.4)</b>	<b>278.1</b>	<b>204.9</b>
Amortization	(13.6)	(4.4)	(8.2)	-	-	(0.1)	-	(26.0)	(14.4)
<b>EBITA</b>	<b>56.7</b>	<b>9.6</b>	<b>2.2</b>	<b>(186.7)</b>	<b>(48.2)</b>	<b>9.7</b>	<b>(10.4)</b>	<b>304.1</b>	<b>219.3</b>
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)
<b>EBITDA</b>	<b>116.6</b>	<b>39.5</b>	<b>2.2</b>	<b>(186.7)</b>	<b>(48.2)</b>	<b>11.8</b>	<b>(7.3)</b>	<b>388.8</b>	<b>309.5</b>
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.

## **Revenue**

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 €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 magnesia 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 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 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 of Shareholders on June 7, 2018 and was not recognized 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. 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 2nd 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 the previous year. 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 million 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.

### ***Going concern and viability statement***

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.

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.

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.

## **Principal Risks and Uncertainties**

### ***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 a 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 in working in progress and in preparation for discussion with the Board.

Risks considered to be unacceptable because of their natures or their potential financial or qualitative impacts are being mitigated by appropriate strategies. The implementation and effectiveness of the defined mitigation measures are being reviewed continuously. For that purpose, the impacts 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.

### ***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.

	Principal Risks	Mitigation
<b>Macroeconomic environment and condition of customer industries</b>	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. The demand for refractory products is directly influenced by steel production, the investment climate, metal and energy	Diversified customer base in term of industries and geographies Diversified product portfolio in terms of technology and prices Technological leadership Optimization of the production network to increase cost flexibility



	<p>prices and the production methods used by customers’.</p> <p>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.</p>	Continuous monitoring of revenue and profitability performance
<b>Fluctuations in exchange rates and energy prices, increasing volatility of raw material prices</b>	<p>Due to the Group’s global sales and production activities, revenue and profitability may be impacted by currency fluctuations.</p> <p>The Group relies on 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.</p>	<p>Active balance sheet and exposure management</p> <p>Improvement of energy efficiency</p> <p>Vertical integration and usage of own raw material</p> <p>Supply chain optimization</p>
<b>Business interruption and supply chain</b>	<p>As a producing company, the Group is exposed to business interruption risk resulting either from natural catastrophes, fire, machinery breakdown or supply chain disruption.</p> <p>The Group partly relies on a small number of production sites or a small number of external suppliers for certain materials.</p> <p>The inability to produce or supply those materials may have a significant impact on the Group’s ability to produce and deliver its products.</p>	<p>Diversified production network in terms of geographies</p> <p>Centralized supply chain management allowing production transfers and substitutions in case of disruption</p> <p>Operational risk management and maintenance policies</p> <p>Risk based investment policy</p> <p>Global insurance coverage</p>
<b>Regulatory and compliance risks</b>	<p>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 which may result in financial losses or operational restrictions</p>	<p>Development and implementation of best practices through a code of conduct and further compliance policies and procedures</p> <p>Implementation of an effective internal control system, in particular in exposed processed</p> <p>Global communication and training of compliance programs</p> <p>Whistle blowing system (Compliance Helpline)</p> <p>Ethical values supported by corporate culture</p>
<b>Environment, health &amp; safety risks</b>	<p>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</p>	<p>Usage of recycling material wherever possible</p> <p>Selection of raw materials and additives according to ecological criteria</p> <p>Regular environmental audits and risk monitoring at all sites</p> <p>Regular legal compliance checks</p> <p>Worldwide Health &amp; Safety policies</p> <p>Health &amp; Safety objectives defined as</p>

	<p>high financial losses and liabilities.</p> <p>Especially at our production sites, employees and contractors may be exposed to Health &amp; Safety hazards which cannot be completely eliminated. Also our products may potentially cause accidents at the customers' sites.</p>	<p>goals for top executives</p> <p>Quality management</p>
<b>Risks related to the merger</b>	<p>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.</p>	<p>Preparation of integration at an early stage</p> <p>Dedicated project team</p> <p>Continuous monitoring of risk and performance</p> <p>Establishment of a strong, common corporate culture</p>

### 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 4 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.

### **Forward looking statements**

The consolidated financial statements presented here are consistent with the criteria of international accounting standards - IFRS issued by the International Accounting Standards Board – IASB, based on audited financial information. Nonfinancial information contained herein, as well as other operational information, were not audited by independent auditors and may include forward-looking statements and reflects the current views and perspectives of the management on the evolution of macro-economic environment, conditions of the mining and refractories industries, company performance and financial results. Any statements, projections, expectations, estimates and plans contained in this document that do not describe historical facts, and the factors or trends affecting financial condition, liquidity or results of operations, are forward-looking statements and involve several risks and uncertainties.

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The information presented or contained in this document is current as of the date hereof and is subject to change without notice. RHI Magnesita has no obligation to update it or revise it in light of new information and / or in face of future events, safeguard the current regulations which we are submitted to. This document and its contents are proprietary information of the Company and may not be reproduced or circulated, partially or completely, without the prior written consent of the Company.

# Consolidated Financial Statements 2017

# Consolidated Statement of Financial Position

as of 31.12.2017

in € million	Notes	31.12.2017	31.12.2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
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
		<b>1,589.5</b>	<b>832.6</b>
<b>Current assets</b>			
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
		<b>1,696.6</b>	<b>959.6</b>
		<b>3,286.1</b>	<b>1,792.2</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
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
		<b>759.7</b>	<b>524.0</b>
<b>Non-current liabilities</b>			
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
		<b>1,505.0</b>	<b>736.4</b>
<b>Current liabilities</b>			

# Consolidated Statement of Profit or Loss

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
		<b>1,021.4</b>	<b>531.8</b>
		<b>3,286.1</b>	<b>1,792.2</b>

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)
<b>Gross profit</b>		<b>460.5</b>	<b>356.4</b>
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)
<b>EBIT</b>		<b>43.1</b>	<b>116.1</b>
Interest income	(41)	5.6	4.1
Interest expenses	(42)	(27.1)	(17.5)
Other net financial expenses	(43)	(9.1)	(7.8)
<b>Net finance costs</b>		<b>(30.6)</b>	<b>(21.2)</b>
Share of profit of joint ventures and associates	(14)	11.0	10.9
<b>Profit before income tax</b>		<b>23.5</b>	<b>105.8</b>
Income tax	(44)	(36.4)	(29.9)
<b>Profit after income tax</b>		<b>(12.9)</b>	<b>75.9</b>
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
<b>Profit after income tax</b>		<b>(12.9)</b>	<b>75.9</b>
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)
<b>Items that will be reclassified subsequently to profit or loss, if necessary</b>		<b>(7.6)</b>	<b>(6.7)</b>
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)
<b>Items that will not be reclassified to profit or loss</b>		<b>(8.5)</b>	<b>(6.5)</b>
<b>Other comprehensive income after income tax</b>		<b>(16.1)</b>	<b>(13.2)</b>
<b>Total comprehensive income</b>		<b>(29.0)</b>	<b>62.7</b>
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)
<b>Cash flow from operating activities</b>		<b>263.5</b>	<b>200.3</b>
Income tax paid less refunds		(41.9)	(37.6)
<b>Net cash flow from operating activities</b>	(47)	<b>221.6</b>	<b>162.7</b>
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
<b>Net cash flow from investing activities</b>	(48)	<b>33.3</b>	<b>(52.9)</b>
Capital expenses for the issue of shares		(3.0)	0.0
Payments to non-controlling interests		(0.6)	0.0

# Consolidated Statement of Changes in Equity

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)
<b>Net cash flow from financing activities</b>	<b>(49)</b>	<b>16.4</b>
<b>Total cash flow</b>	<b>271.3</b>	<b>29.1</b>
<b>Change in cash and cash equivalents</b>	<b>271.3</b>	<b>29.1</b>
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
Total interest paid	(50)	25.6
Total interest received	(50)	5.1

from 01.01.2017 to 31.12.2017

in € million	Share capital	Additional paid-in	Mandatory reserves
Notes	(23)	(24)	(24)
<b>01.01.2017</b>	<b>289.4</b>	<b>38.3</b>	<b>-</b>
<b>Profit after income tax</b>	<b>-</b>	<b>-</b>	<b>-</b>
Currency translation differences	-	-	-
Cash flow hedges	-	-	-
Remeasurement of defined benefit plans	-	-	-
Share of other comprehensive income of joint ventures	-	-	-
<b>Other comprehensive income after income tax</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>
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	-	-	-
<b>Transactions with shareholders</b>	<b>5.0</b>	<b>165.7</b>	<b>-</b>
Disposal of defined benefit plans	-	-	-
Downstream merger from RHI AG to RHI Magnesita N.V.	(249.6)	(38.3)	288.7
<b>Reclassifications</b>	<b>(249.6)</b>	<b>(38.3)</b>	<b>288.7</b>
<b>31.12.2017</b>	<b>44.8</b>	<b>165.7</b>	<b>288.7</b>

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

Group reserves						
Retained earnings	Accumulated other comprehensive income			Equity attributable to shareholders of RHI	Non-controlling interests	Total equity
(24)	Cash flow hedges (24)	Defined benefit plans (24)	Currency translation (24)		(25)	
<b>331.0</b>	<b>(0.7)</b>	<b>(100.3)</b>	<b>(49.0)</b>	<b>508.7</b>	<b>15.3</b>	<b>524.0</b>
<b>(18.4)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(18.4)</b>	<b>5.5</b>	<b>(12.9)</b>
-	-	-	(2.5)	<b>(2.5)</b>	<b>(6.0)</b>	<b>(8.5)</b>
-	0.8	-	-	<b>0.8</b>	<b>0.1</b>	<b>0.9</b>
-	-	(8.3)	-	<b>(8.3)</b>	<b>(0.1)</b>	<b>(8.4)</b>
-	-	(0.1)	-	<b>(0.1)</b>	<b>-</b>	<b>(0.1)</b>
<b>-</b>	<b>0.8</b>	<b>(8.4)</b>	<b>(2.5)</b>	<b>(10.1)</b>	<b>(6.0)</b>	<b>(16.1)</b>
<b>(18.4)</b>	<b>0.8</b>	<b>(8.4)</b>	<b>(2.5)</b>	<b>(28.5)</b>	<b>(0.5)</b>	<b>(29.0)</b>
(29.9)	-	-	-	<b>(29.9)</b>	<b>(1.2)</b>	<b>(31.1)</b>
-	-	-	-	<b>179.5</b>	<b>-</b>	<b>179.5</b>
-	-	-	-	<b>(8.8)</b>	<b>-</b>	<b>(8.8)</b>
-	-	-	-	<b>0.0</b>	<b>125.1</b>	<b>125.1</b>

<b>(29.9)</b>	-	-	-	<b>140.8</b>	<b>123.9</b>	<b>264.7</b>
(1.0)	-	1.0	-	-	-	-
(0.8)	-	-	-	-	-	-
<b>(1.8)</b>	-	<b>1.0</b>	-	-	-	-
<b>280.9</b>	<b>0.1</b>	<b>(107.7)</b>	<b>(51.5)</b>	<b>621.0</b>	<b>138.7</b>	<b>759.7</b>

Group reserves

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

# 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) <sup>1)</sup>	Mandatory application for RHI Magnesita	Effects on RHI Magnesita Consolidated Financial Statements
<b>Amendments of standards</b>				
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) <sup>1)</sup>	Mandatory application for RHI Magnesita	Expected effects on RHI Magnesita Consolidated Financial Statements
<b>New standards</b>				
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 <sup>1)</sup>	Mandatory application for RHI Magnesita	Expected effects on RHI Magnesita Consolidated Financial Statements
<b>New standards and interpretations</b>				
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
<b>Amendments of standards</b>				
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	
	Full consolidation	Equity method	Full consolidation	Equity method
Number of consolidated companies				
<b>Balance at beginning of year</b>	<b>78</b>	<b>1</b>	<b>78</b>	<b>1</b>
Additions	43	3	2	0
Retirements and disposals	(7)	0	(2)	0

<b>Balance at year-end</b>	<b>114</b>	<b>4</b>	<b>78</b>	<b>1</b>
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## 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)
<b>Net assets</b>	<b>250.2</b>
Non-controlling interest	(125.1)
<b>Proportional share of net assets acquired</b>	<b>125.1</b>
Goodwill	171.7
<b>Purchase price</b>	<b>296.8</b>

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)
<b>Net assets</b>	<b>3.2</b>
Goodwill	2.4
<b>Purchase Price</b>	<b>5.6</b>

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
<b>Net assets disposed</b>	<b>52.5</b>	<b>7.9</b>

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
<b>Result from deconsolidation</b>	<b>(13.6)</b>	<b>(9.4)</b>

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)
<b>Net assets disposed</b>	<b>7.8</b>

The result from deconsolidation is determined as follows:

in € million	06.06.2016
Net assets disposed	(7.8)
Reclassification currency translation differences	3.7
<b>Result from deconsolidation</b>	<b>(4.1)</b>

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):

Ser. no.	Name and registered office of the company	31.12.2017		31.12.2016	
		Share- holder	Share in %	Share- holder	Share in %
1.	RHI Magnesita N.V., Arnhem, Netherlands			-	-
2.	RHI AG, Vienna, Austria	-	-		
	<b>Fully consolidated subsidiaries</b>				
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, Breuille, 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., Dashi-qiao 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 Participações 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		31.12.2016	
		Share- holder	Share in %	Share- holder	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 <sup>1)</sup>	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		31.12.2016	
		Share- holder	Share in %	Share- holder	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 <sup>3)</sup>	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 <sup>1)</sup>	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 <sup>4)</sup>	-	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
<b>Subsidiaries not consolidated due to minor significance</b>					
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		31.12.2016	
		Share- holder	Share in %	Share- holder	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
<b>Equity-accounted joint ventures and associated companies</b>					
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	-	-
<b>Other immaterial investments, measured at cost</b>					
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:

Currencies	1 € =	Closing rate		Average rate <sup>1)</sup>	
		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		
		Perpetual	Goodwill per group of CGUs in € million		Perpetual	Goodwill in € million
	WACC before Tax	annuity growth rate		WACC before tax	annuity growth rate	
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		31.12.2016	
		Pension plans	Termination benefits	Pension plans	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 <sup>1)</sup>	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)
<b>Cost at 31.12.2017</b>	<b>555.8</b>	<b>45.6</b>	<b>981.7</b>	<b>287.9</b>	<b>99.4</b>	<b>1,970.4</b>
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)
<b>Accumulated depreciation 31.12.2017</b>	<b>256.8</b>	<b>21.4</b>	<b>569.4</b>	<b>220.7</b>	<b>0.8</b>	<b>1,069.1</b>
<b>Carrying amounts at 31.12.2017</b>	<b>299.0</b>	<b>24.2</b>	<b>412.3</b>	<b>67.2</b>	<b>98.6</b>	<b>901.3</b>

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)
<b>Cost at 31.12.2016</b>	<b>453.7</b>	<b>32.1</b>	<b>877.9</b>	<b>294.2</b>	<b>43.8</b>	<b>1,701</b>

						<b>.7</b>
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)
<b>Accumulated depreciation</b>						<b>1,179</b>
<b>31.12.2016</b>	<b>285.6</b>	<b>24.5</b>	<b>639.3</b>	<b>229.6</b>	<b>0.9</b>	<b>.9</b>
<b>Carrying amounts at</b>						
<b>31.12.2016</b>	<b>168.1</b>	<b>7.6</b>	<b>238.6</b>	<b>64.6</b>	<b>42.9</b>	<b>521.8</b>

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 <sup>1)</sup>	174.1	0.0
Reclassification as held for sale	(0.4)	0.0
<b>Cost at year-end</b>	<b>212.3</b>	<b>40.2</b>
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
<b>Accumulated impairment at year-end</b>	<b>(1.9)</b>	<b>(2.4)</b>
<b>Carrying amount at year-end</b>	<b>210.4</b>	<b>37.8</b>

<sup>1)</sup> 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 <sup>1)</sup>	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)
<b>Cost at 31.12.2017</b>	<b>47.6</b>	<b>266.4</b>	<b>314.0</b>
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)
<b>Accumulated amortisation 31.12.2017</b>	<b>30.2</b>	<b>66.2</b>	<b>96.4</b>
<b>Carrying amounts at 31.12.2017</b>	<b>17.4</b>	<b>200.2</b>	<b>217.6</b>

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
<b>Cost at 31.12.2016</b>	<b>45.9</b>	<b>114.0</b>	<b>159.9</b>
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
<b>Accumulated amortisation 31.12.2016</b>	<b>27.7</b>	<b>61.1</b>	<b>88.8</b>
<b>Carrying amounts at 31.12.2016</b>	<b>18.2</b>	<b>52.9</b>	<b>71.1</b>

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
<b>Carrying amount at year-end</b>	<b>30.5</b>	<b>20.5</b>

**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)
<b>Net assets</b>	<b>31.3</b>	<b>31.2</b>

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
<b>Proportional share of net assets at beginning of year</b>	<b>15.6</b>	<b>14.4</b>
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)
<b>Proportional share of net assets at year-end</b>	<b>15.7</b>	<b>15.6</b>
Goodwill	4.9	4.9
<b>Carrying amount of investment at year-end</b>	<b>20.6</b>	<b>20.5</b>

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)
<b>Net assets</b>	<b>13.0</b>	<b>13.0</b>

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
<b>Other non-current financial assets</b>	<b>25.1</b>	<b>18.9</b>

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
<b>Other non-current assets</b>	<b>24.2</b>	<b>17.7</b>

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			31.12.2016 <sup>1)</sup>		
	Deferred			Deferred		
in € million	Deferred tax assets	tax liabilities	Expense/ (Income)	Deferred tax assets	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)	-
<b>Deferred taxes</b>	<b>180.4</b>	<b>11.7</b>	<b>5.9</b>	<b>144.8</b>	<b>13.5</b>	<b>4.3</b>

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:

in € million	31.12.2017			31.12.2016		
	Current	Non-current	<b>Total</b>	Current	Non-current	<b>Total</b>
Deferred tax assets	50.9	129.5	<b>180.4</b>	39.0	105.8	<b>144.8</b>
Deferred tax liabilities	0.4	11.3	<b>11.7</b>	0.0	13.5	<b>13.5</b>

#### (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
<b>Inventories</b>	<b>676.6</b>	<b>365.3</b>

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
<b>Trade and other current receivables</b>	<b>530.0</b>	<b>399.1</b>
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)
<b>Receivables from long-term construction contracts</b>	<b>11.7</b>	<b>7.8</b>

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
<b>Accumulated valuation allowance at beginning of year</b>	<b>35.2</b>	<b>30.1</b>
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
<b>Accumulated valuation allowance at year-end</b>	<b>34.4</b>	<b>35.2</b>

#### (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
<b>Other current financial assets</b>	<b>34.1</b>	<b>3.0</b>

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
<b>Cash and cash equivalents</b>	<b>442.4</b>	<b>182.9</b>

## (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)
<b>Net assets before intragroup eliminations</b>	<b>248.3</b>	<b>250.2</b>
<b>Intragroup eliminations</b>	<b>(0.1)</b>	<b>0.0</b>
<b>Net assets</b>	<b>248.2</b>	<b>250.2</b>
Percentage of non-controlling interests	50.0%	50.0%
<b>Carrying amount of non-controlling interests</b>	<b>124.1</b>	<b>125.1</b>

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)
<b>Profit after income tax before intragroup eliminations</b>	<b>6.3</b>
<b>Intragroup eliminations</b>	<b>0.0</b>
<b>Profit after income tax</b>	<b>6.3</b>
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)
<b>Total comprehensive income</b>	<b>(3.5)</b>
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)
<b>Total cash flow</b>	<b>62.4</b>

#### **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)
<b>Net assets before intragroup eliminations</b>	<b>51.0</b>	<b>50.5</b>
Intragroup eliminations	(0.2)	(0.2)
<b>Net assets</b>	<b>50.8</b>	<b>50.3</b>
Percentage of non-controlling interests	30.4%	30.4%
<b>Carrying amount of non-controlling interests</b>	<b>15.4</b>	<b>15.3</b>

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)
<b>Profit after income tax before intragroup eliminations</b>	<b>7.8</b>	<b>6.7</b>
Intragroup eliminations	0.1	(0.3)
<b>Profit after income tax</b>	<b>7.9</b>	<b>6.4</b>
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
<b>Total comprehensive income</b>	<b>4.3</b>	<b>7.2</b>
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)
<b>Total cash flow</b>	<b>1.6</b>	<b>5.1</b>

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
<b>Accumulated other comprehensive income 01.01.2017</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>
Unrealised results from currency translation	-	-	(6.0)
Unrealised results from fair value change	0.1	-	-
Remeasurement of defined benefit plans	-	(0.1)	-
<b>Accumulated other comprehensive income 31.12.2017</b>	<b>0.1</b>	<b>(0.1)</b>	<b>(5.9)</b>

#### (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:

in € million	Total	Remaining term		
	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
<b>Financial liabilities</b>	<b>1,225.6</b>	<b>241.8</b>	<b>763.4</b>	<b>220.4</b>

in € million	Total	Remaining term		
	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
<b>Financial liabilities</b>	<b>483.2</b>	<b>156.0</b>	<b>259.5</b>	<b>67.7</b>

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			31.12.2017	Interest terms			31.12.2016
			Carrying				Carrying
fixed until	Effective annual interest rate	Currency	amount in € million	fixed until	Effective annual interest rate	Currency	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				
			<b>945.2</b>				<b>473.9</b>

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:

in € million	31.12.2017			31.12.2016		
	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
<b>Other financial liabilities</b>	<b>17.4</b>	<b>55.5</b>	<b>72.9</b>	<b>15.6</b>	<b>66.9</b>	<b>82.5</b>

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)
<b>Funded status</b>	<b>288.5</b>	<b>232.8</b>
Asset ceiling	18.3	1.9
<b>Net liability from pension obligations</b>	<b>306.8</b>	<b>234.7</b>
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
<b>Present value of pension obligations</b>	<b>517.1</b>	<b>289.2</b>

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
<b>Net liability from pension obligations at beginning of year</b>	<b>234.7</b>	<b>243.9</b>
Currency translation	(2.3)	(2.2)
Additions to consolidated companies <sup>1)</sup>	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)
<b>Net liability from pension obligations at year-end</b>	<b>306.8</b>	<b>234.7</b>

1) preliminary

The present value of pension obligations developed as follows:

in € million	2017	2016
<b>Present value of pension obligations at beginning of year</b>	<b>289.2</b>	<b>304.9</b>
Currency translation	(7.9)	(2.8)
Additions to consolidated companies <sup>1)</sup>	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
<b>Present value of pension obligations at year-end</b>	<b>517.1</b>	<b>289.2</b>

1) preliminary

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

in € million	2017	2016
<b>Fair value of plan assets at beginning of year</b>	<b>56.4</b>	<b>63.8</b>
Currency translation	(5.9)	(0.5)
Additions to consolidated companies <sup>1)</sup>	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
<b>Fair value of plan assets at year-end</b>	<b>228.6</b>	<b>56.4</b>

1) preliminary

The changes in the asset ceiling are shown below:

in € million	2017	2016
<b>Asset ceiling at beginning of year</b>	<b>1.9</b>	<b>2.8</b>
Currency translation	(0.3)	0.1
Additions to consolidated companies <sup>1)</sup>	15.3	0.0
Interest expense	0.1	0.0
(Gains)/losses from changes in asset ceiling less interest expense	1.3	(1.0)
<b>Asset ceiling at year-end</b>	<b>18.3</b>	<b>1.9</b>

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
<b>Pension expense recognised in profit or loss</b>	<b>8.5</b>	<b>9.3</b>

The remeasurement results recognised in other comprehensive income are shown in the table below:

in € million	2017	2016
<b>Accumulated remeasurement losses at beginning of year</b>	<b>113.3</b>	<b>102.4</b>
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)
<b>Accumulated remeasurement losses at year-end</b>	<b>119.3</b>	<b>113.3</b>

The present value of plan assets is distributed to the following classes of investments:

in € million	31.12.2017			31.12.2016		
	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
<b>Fair value of plan assets</b>	<b>117.8</b>	<b>110.8</b>	<b>228.6</b>	<b>5.2</b>	<b>51.2</b>	<b>56.4</b>

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
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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
<b>Other personnel provisions</b>	<b>82.5</b>	<b>80.6</b>

### 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
<b>Provisions for termination benefits at beginning of year</b>	<b>58.5</b>	<b>60.1</b>
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
<b>Provisions for termination benefits at year-end</b>	<b>58.1</b>	<b>58.5</b>

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
<b>Accumulated remeasurement losses at beginning of year</b>	<b>23.6</b>	<b>22.3</b>
Remeasurement losses <sup>1)</sup>	5.6	1.3
Reclassification as held for sale	(1.3)	0.0
<b>Accumulated remeasurement losses at year-end</b>	<b>27.9</b>	<b>23.6</b>

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)
<b>Provisions for semi-retirement obligations</b>	<b>1.4</b>	<b>1.7</b>

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
<b>01.01.2017</b>	<b>4.0</b>	<b>0.0</b>	<b>0.5</b>	<b>0.0</b>	<b>4.5</b>
Currency translation	(1.1)	(0.3)	(0.3)	(0.1)	(1.8)
Additions to consolidated companies <sup>1)</sup>	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)
<b>31.12.2017</b>	<b>31.0</b>	<b>9.4</b>	<b>9.0</b>	<b>4.4</b>	<b>53.8</b>

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
<b>Other non-current liabilities</b>	<b>9.0</b>	<b>6.9</b>
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
<b>Trade payables and other current liabilities</b>	<b>671.4</b>	<b>312.7</b>
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
<b>01.01.2017</b>	<b>2.1</b>	<b>8.2</b>	<b>11.1</b>	<b>0.0</b>	<b>3.3</b>	<b>4.4</b>	<b>29.1</b>
Currency translation	(0.2)	0.0	(0.3)	(0.2)	0.0	(0.2)	(0.9)
Additions to consolidated companies <sup>1)</sup>	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)
<b>31.12.2017</b>	<b>37.6</b>	<b>9.3</b>	<b>8.7</b>	<b>7.2</b>	<b>2.9</b>	<b>9.0</b>	<b>74.7</b>

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
<b>Other income</b>	<b>91.2</b>	<b>102.7</b>

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)
<b>Other expenses</b>	<b>(216.1)</b>	<b>(103.3)</b>

#### 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
<b>Other net financial expenses</b>	<b>(9.1)</b>	<b>(7.8)</b>

#### (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
<b>Income tax</b>	<b>36.4</b>	<b>29.9</b>

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
<b>Profit before income tax</b>	<b>23.5</b>	<b>105.8</b>
<b>Arithmetic tax expense with tax rate of 25% (2016: 25%)</b>	<b>5.9</b>	<b>26.5</b>
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)
<b>Recognised tax expense</b>	<b>36.4</b>	<b>29.9</b>
<b>Effective tax rate (in %)</b>	<b>154.9%</b>	<b>28.3%</b>

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 <sup>1)</sup>	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
<b>Total</b>	<b>1,485.6</b>	<b>125.0</b>	<b>167.5</b>	<b>124.9</b>	<b>1,903.0</b>

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 <sup>1)</sup>	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
<b>Total</b>	<b>1,294.8</b>	<b>105.2</b>	<b>134.5</b>	<b>0.6</b>	<b>1,535.1</b>

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
<b>Personnel expenses (without interest expenses)</b>	<b>454.6</b>	<b>398.7</b>

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:

in € million	01.01.2017	Cash changes	Non-cash changes			31.12.2017
			Changes in foreign exchange rates	Additions to consolidated companies	Interest expense and other changes	
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)
<b>Changes of financial liabilities and assets arising from financing activities</b>	<b>515.7</b>	<b>51.0</b>	<b>(22.1)</b>	<b>682.2</b>	<b>28.3</b>	<b>1,255.1</b>

(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	Reconciliation	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
<b>Segment revenue</b>	<b>1,308.8</b>	<b>577.6</b>	<b>288.5</b>	<b>(228.8)</b>	<b>1,946.1</b>
<b>Gross profit</b>	<b>302.7</b>	<b>130.2</b>	<b>27.6</b>	<b>0.0</b>	<b>460.5</b>
<b>EBIT</b>	<b>26.4</b>	<b>9.8</b>	<b>6.9</b>	<b>0.0</b>	<b>43.1</b>
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
<b>Profit before income tax</b>					<b>23.5</b>
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	Reconciliation	Group 2016
External revenue	1,071.4	538.6	41.2	0.0	1,651.2
Internal revenue	0.0	0.0	224.8	(224.8)	0.0
<b>Segment revenue</b>	<b>1,071.4</b>	<b>538.6</b>	<b>266.0</b>	<b>(224.8)</b>	<b>1,651.2</b>
<b>Gross profit</b>	<b>216.4</b>	<b>124.7</b>	<b>15.3</b>	<b>0.0</b>	<b>356.4</b>
<b>EBIT</b>	<b>76.3</b>	<b>32.0</b>	<b>7.8</b>	<b>0.0</b>	<b>116.1</b>
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
<b>Profit before income tax</b>					<b>105.8</b>
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	<u>20.5</u>
					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
<b>Revenue</b>	<b>1,308.8</b>	<b>577.6</b>	<b>59.7</b>	<b>1,946.1</b>

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
<b>Revenue</b>	<b>1,071.4</b>	<b>538.6</b>	<b>41.2</b>	<b>1,651.2</b>

### Segment reporting by country

Revenue is classified by customer sites as follows:

in € million	2017	2016
Netherlands	14.1	14.7
<b>All other countries</b>		
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
<b>Revenue</b>	<b>1,946.1</b>	<b>1,651.2</b>

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
<b>Property, plant and equipment and intangible assets</b>	<b>1,329.3</b>	<b>630.7</b>

### (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
<b>Earnings per share (in €)</b>	<b>(0.45)</b>	<b>1.82</b>

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 38<sup>th</sup> 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			Fair value		31.12.2017 <sup>2)</sup>	
	Measurem ent category <sup>1)</sup>	Level	(Amort ised) cost	recognised in profit or loss	recognised in equity	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	-
<b>Financial assets</b>						<b>921.5</b>	
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	-
<b>Financial liabilities</b>						<b>1,799.</b>	

**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	Level	(Amorti sed) cost	Fair value		31.12.2016 <sup>2)</sup>	
	Measure ment category <sup>1)</sup>			recognised in profit or loss	recognise d in equity	Carrying amount	Fair value
Available-for-sale investments	FAAC	-	0.4	-	-	0.4	-
Available-for-sale securities	AfS	1	-	-	15.3	15.3	15.3
Available-for-sale shares	FAAC	-	0.5	-	-	0.5	-
Other non-current financial receivables	LaR	-	2.7	-	-	2.7	-
Trade and other current receivables	LaR	-	312.1	-	-	312.1	-
Other current financial receivables	LaR	-	1.5	-	-	1.5	-
Financial assets held for trading - derivatives	FAHfT	2	-	1.5	-	1.5	1.5
Cash and cash equivalents	LaR	-	182.9	-	-	182.9	-
<b>Financial assets</b>						<b>516.9</b>	
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	-
<b>Financial liabilities</b>						<b>783.0</b>	
<b>Aggregated according to measurement category</b>							
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		
Purchase	Sale		Nominal value in million	Fair value in € 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
<b>Forward exchange contracts</b>				<b>0.4</b>

### (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)
<b>Net credit exposure</b>	<b>236.8</b>	<b>127.5</b>

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
<b>Trade receivables</b>	<b>394.9</b>	<b>309.0</b>

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)
<b>Trade receivables</b>	<b>394.9</b>	<b>309.0</b>

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:

in € million	Carrying amount 31.12.2017	Remaining term			
		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
<b>Non-derivative financial liabilities</b>	<b>1,758.3</b>	<b>2,099.9</b>	<b>802.6</b>	<b>907.9</b>	<b>389.4</b>

in € million	Carrying amount 31.12.2016	Remaining term			
		Cash outflows	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
<b>Non-derivative financial liabilities</b>	<b>733.0</b>	<b>912.4</b>	<b>390.4</b>	<b>289.1</b>	<b>232.9</b>

#### 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	Remaining term			
		Cash flows	up to 1 year	2 to 5 years	over 5 years
<b>Receivables from derivatives with net settlement</b>					
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
<b>Liabilities from derivatives with net settlement</b>					
Financial liabilities held for trading	40.9	43.5	7.5	28.8	7.2

in € million	Carrying amount 31.12.2016	Remaining term			
		Cash flows	up to 1 year	2 to 5 years	over 5 years
<b>Receivables from derivatives with net settlement</b>					
Financial assets held for trading	1.5	1.5	1.5	0.0	0.0
<b>Liabilities from derivatives with net settlement</b>					
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)
<b>Net foreign currency position</b>	<b>(143.6)</b>	<b>(130.1)</b>	<b>(18.7)</b>	<b>20.3</b>	<b>1.5</b>	<b>(270.6)</b>

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)
<b>Net foreign currency position</b>	<b>51.2</b>	<b>27.0</b>	<b>(14.1)</b>	<b>4.4</b>	<b>2.9</b>	<b>71.4</b>

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):

in € million	Appreciation of 10%		Devaluation of 10%	
	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:

in € million	Appreciation of 10%		Devaluation of 10%	
	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:

in € million	Total	Remaining term		
	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
<b>Other financial obligations</b>	<b>62.8</b>	<b>22.0</b>	<b>24.2</b>	<b>16.6</b>

in € million	Total	Remaining term		
	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
<b>Other financial obligations</b>	<b>69.2</b>	<b>16.3</b>	<b>32.6</b>	<b>20.3</b>

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
<b>Total fees</b>	<b>5.9</b>	<b>3.1</b>

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
<b>Number of employees on annual average</b>	<b>8,569</b>	<b>7,678</b>

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:

in € million	Joint ventures		Associates	Non-consolidated subsidiaries
	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
<b>Total</b>	<b>118,431</b>	<b>87,823</b>	<b>4.3</b>	<b>2.1</b>	<b>3.3</b>	<b>1.9</b>

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 Lambranhó

David Schlaff

Stanislaus Prinz zu Sayn-Wittgenstein-Berleburg

**Independent Non-Executive Directors**

Celia Baxter

Andrew Hosty

Jim Leng

John Ramsay

Wolfgang Ruttenstorfer

Karl Sevelde

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
<b>ASSETS</b>			
<b>Fixed assets</b>			
Financial fixed assets	(A)	571.5	0.0
		<b>571.5</b>	<b>0.0</b>
<b>Current assets</b>			
Receivables from group companies		62.5	70.0
Cash and cash equivalents		0.1	0.0
<b>Total current assets</b>		<b>62.6</b>	<b>70.0</b>
<b>Total assets</b>		<b>634.1</b>	<b>70.0</b>

**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
<b>Shareholders' Equity</b>		<b>621.0</b>	<b>70.0</b>

**Current liabilities**

Trade payables		2.8	0.0
Accrued liabilities		10.3	0.0
<b>Total current liabilities</b>		<b>13.1</b>	<b>0.0</b>
<b>Total equity and liabilities</b>		<b>634.1</b>	<b>70.0</b>

**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)
<b>Result before taxation</b>		<b>(13.0)</b>
Income tax		0.0
Net result from investments	(E)	(77.3)
<b>Net result for the period</b>	<b>(F)</b>	<b>(90.3)</b>

## Movements in Shareholder's Equity

in € million	Share capital	Additional paid-in capital	Cash flow hedges	Legal and mandatory reserves		Other reserves		Equity attributable to shareholders
				Currency translation	Mandatory reserves	Retained earnings	Net result	
Incorporation								
20 June 2017	-	-	-	-	-	-	-	<b>0.0</b>
Increase of equity	-	70.0	-	-	-	-	-	<b>70.0</b>
<b>Balance as of 30 June 2017</b>	<b>-</b>	<b>70.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70.0</b>
Net result	-	-	-	-	-	-	(90.3)	<b>(90.3)</b>
Downstream merger								
from RHI AG	39.8	(70.0)	(0.1)	(71.2)	288.7	270.0	-	<b>457.2</b>
Issue of ordinary shares minus costs	5.0	165.7	-	-	-	-	-	<b>170.7</b>
Net income/ (expense) recognised directly in equity	-	-	0.2	19.7	-	(6.5)	-	<b>13.4</b>
<b>Balance as of 31 December 2017</b>	<b>44.8</b>	<b>165.7</b>	<b>0.1</b>	<b>(51.5)</b>	<b>288.7</b>	<b>263.5</b>	<b>(90.3)</b>	<b>621.0</b>

## 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)
<b>Balance as at 31 December 2017</b>	<b>571.5</b>

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
<b>Company's consolidated results (attributable to shareholders of RHI Magnesita N.V.)</b>	<b>(18.4)</b>

#### **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)
<b>At the disposal of the General Meeting of Shareholders</b>	<b>0.0</b>

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 Lambranh

Stanislaus Prinz zu Sayn-Wittgenstein-Berleburg

**Independent Non-Executive Directors**

Celia Baxter

John Ramsay

Andrew Hosty

Wolfgang Rutenstorfer

Jim Leng

Karl Sevela

**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 the 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.