RHI MAGNESITA

# 2018 FY Results

27 March 2019

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# Agenda

1. Highlights of 2018
2. Financial review
3. Operational and strategic review
4. Summary and outlook
5. Appendix

# Highlights of 2018

# 2018 highlights

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**€3.1bn** ▲ **21%**[1]
2018 revenue

**1.2x** ▼ **0.7x**
Net debt / adjusted EBITDA

**13.9%** ▲ **460bps**[1]
2018 adjusted EBITA margin

**15.4%** ▼ **680bps**
Working capital intensity

**€428m** ▲ **81%**[1]
2018 adjusted EBITA

**€1.50** ▲ **100%**
Proposed final dividend per share

Notes:1) Represents the change between 2018 and 2017 adjusted pro forma figures at constant currency. 2017 adjusted pro forma results are prepared on a constant currency basis and before the impact of items such as: divestments, restructuring expenses, merger-related adjustments and non-merger related other income and expenses, which are generally non-recurring. Adjusted 2018 figures exclude other income and expenses

# Delivering the value of the merger

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| Merger commitments | 2018 achievements |
|---|---|
| Capture €40m of synergies in first year of merger and €70m altogether | ✓ €70m delivered in 2018 and €110m 2020 target on track |
| Offset merger related divestments and revenue dissynergies | ✓ Business revenue growth; volume up 5% in 2018 |
| Divest EU commission mandated assets | ✓ €40m raised with the sale of divested businesses in November 2017 |
| Restructure balance sheet, enhance maturity profile and reduce interest expenses by €20m per year | ✓ Around €0.8 billion refinanced and annualised savings of €24m achieved |
| Focus on deleveraging balance sheet to below 2.0x net debt EBITDA | ✓ 2018 year-end leverage reduced to 1.2x (from 2.6x at merger) within 14 months |
| Reduce working capital intensity from 26% pre-merger | ✓ Working capital intensity reduced to 15.4% in 2018 |
| Develop new growth strategy with increased potential of the group | ✓ Growth targets announced; driven by growth markets in the short term and new business models in the longer term |
| Acquisition of Magnesita's outstanding minority shareholding | ✓ 97.5% ownership and delisting achieved in Q1 2019 |

**Creation of one team, one culture, one company that leads the refractory industry**

# 2018 operational highlights

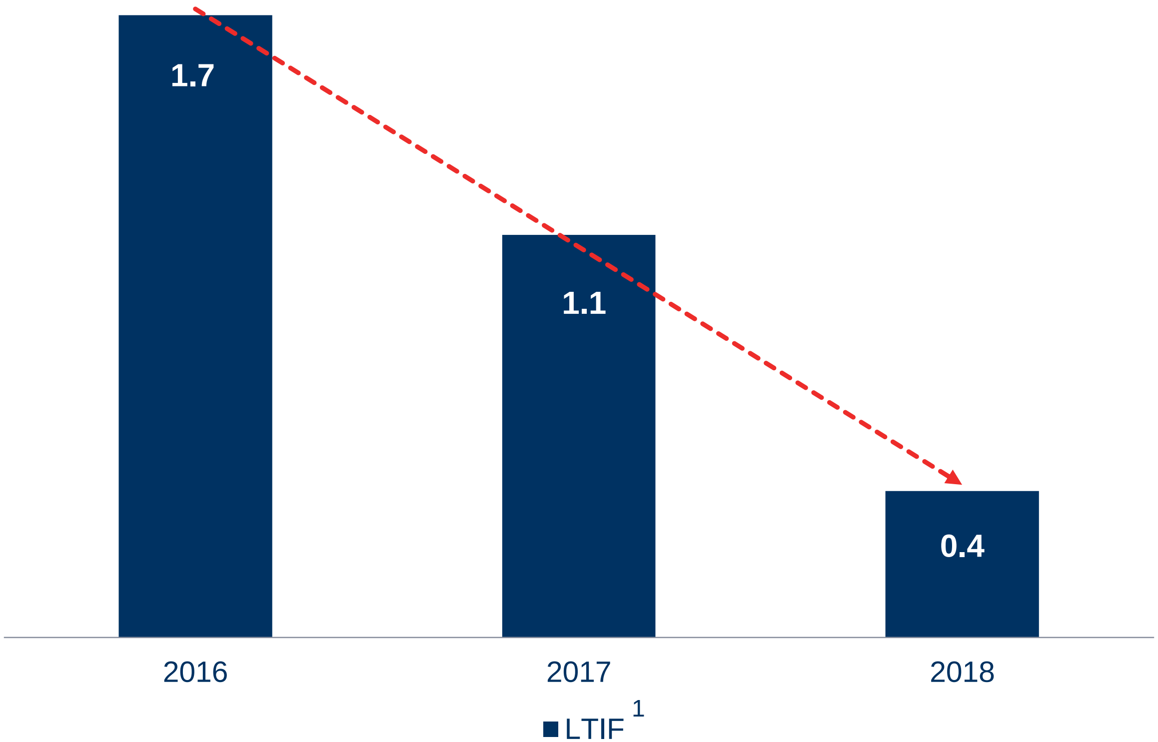
## Strong delivery in the first full financial year of RHI Magnesita

- Strong performance underpinned by robust demand and pricing environment
  - Significant step up in operating margins
  - Continued benefit of vertically integrated model
  - Outperformance on synergy delivery (€70m against plan of €60m)
- Stable market conditions, healthy levels of customer demand and high raw material prices drove:
  - Steel Division: +15% revenue growth; gross margin +60bps to 23.7%
  - Industrial Division: +33% revenue growth; gross margin +200bps to 24.5%
  - Significant progress in growth markets: China revenue +36% and India +21%
- Some operational and supply chain issues in H2
  - Root causes identified and improvement plans in place to resolve in 2019

# Prioritising safety

## Our goal is to build an industry leading safety culture with zero accidents

**Improving safety performance**




Notes: 1) Lost Time Injury Frequency rate per 200,000 hours

**Continued focus on safety**

- Intensive ‘Safety First’ campaign is yielding benefits
- Lost Time Injury Frequency (“LTIF”) rate reduced by 60% in 2018 to all time low of 0.4
- Target to drive zero accidents
- 22 sites certified to OHSAS 18001
- Transitioning all certified sites to ISO 45001 by the end of 2020

# A clear and compelling strategy

Enabling us to add value through a full suite of products & services

## People

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

## Progress in 2018

- Integration of c.14,000 employees worldwide
- Roll out of cultural values and international career programmes in place
- Diversity targets in place
- Strong leadership team in place across regions and key functions

## Business model

Leading service and solution provider in the refractory industry with an extensive portfolio based on leading material science, innovative technologies and digitalisation

- Exploring new business models focused on new customer requirements
- Application of automation and product differentiation
- Developing new services beyond refractory materials

## Markets

Worldwide presence with strong local organisations and solid market positions in all major markets

- 15% global market share (30% ex-China)
- Continued to strengthen leading position across established markets,
- Strong growth and market share increases in India & China

## Competitiveness

Low-cost producer of technically advanced refractory materials with safe production network

- €70 million synergies realised in 2018 (€110m overall target)
- Established global business services team & Supply Chain Management department
- c.€63 million expenditure on R&D and Technical Marketing in 2018

# Financial review

# Profit and loss

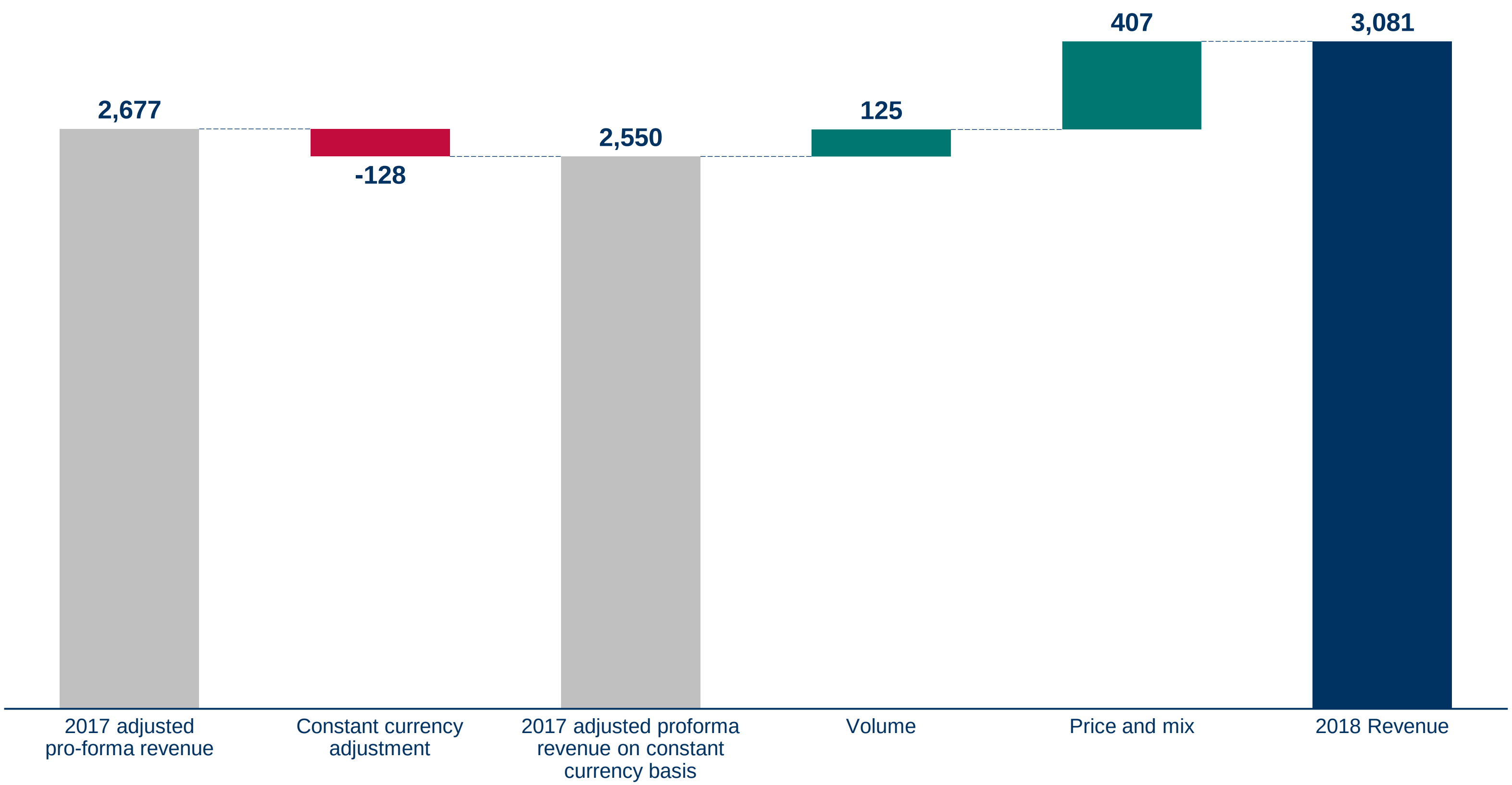
## Overview

| €m | 2018 | 2017[1] | Change |
|---|---|---|---|
| Revenue | 3,081.4 | 2,549.6 | 21% |
| CoGS | (2,344.5) | (1,989.1) | 18% |
| **Gross profit** | **736.9** | **560.5** | **31%** |
| *Gross margin* | *23.9%* | *22.0%* | *190bps* |
| SG&A | (337.3) | (350.4) | (4%) |
| Other expenses | (0.9) | 14.2 | (106%) |
| **EBIT** | **398.6** | **224.2** | **78%** |
| Amortisation | (28.6) | (25.9) | 11% |
| **Adjusted EBITA** | **428.1** | **235.9** | **81%** |
| *Adjusted EBITA (%)* | *13.9%* | *9.3%* | *460bps* |

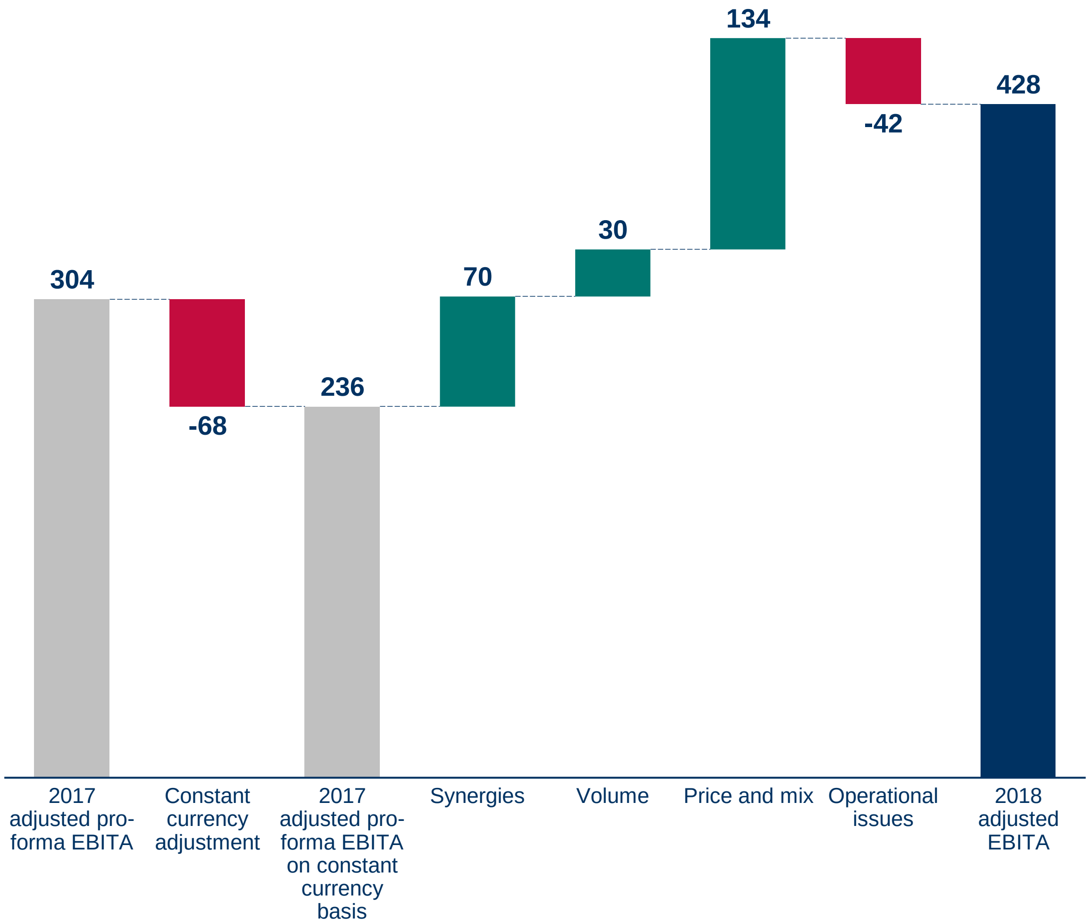
- Significant revenue growth of 21% driven by:
  - Robust end markets
  - Continued high raw material pricing
  - Growth in Steel and Industrial Divisions
- Adjusted EBITA up 81% from
  - Improving gross margin +190bps
  - Some deterioration in H2 due to identified operational problems
  - Reducing SG&A with successful implementation of the synergies

Notes: 1) Adjusted pro-forma numbers at constant currency

# 2018 revenue bridge



# 2018 EBITA bridge




- Synergy benefits amounted to €70m (ahead of €60m target)
- EBITA benefitting from both good volume growth and price/mix development
- Financial performance driven by the underlying strength of the markets in which we operate
  - Steel Division gross margin up 60bps
  - Industrial Division gross margin up 200 bps
- Operational issues in H2 impacted the result
  - Specific production issues at four plants (out of 35)
  - Supply chain costs and inventory write-offs to reduce inventories
  - Total EBITA impact of €42m
- Root causes identified and improvement plans in place at all four plants
  - Already showing some benefits
  - Expectation of recouping at least €20m in 2019

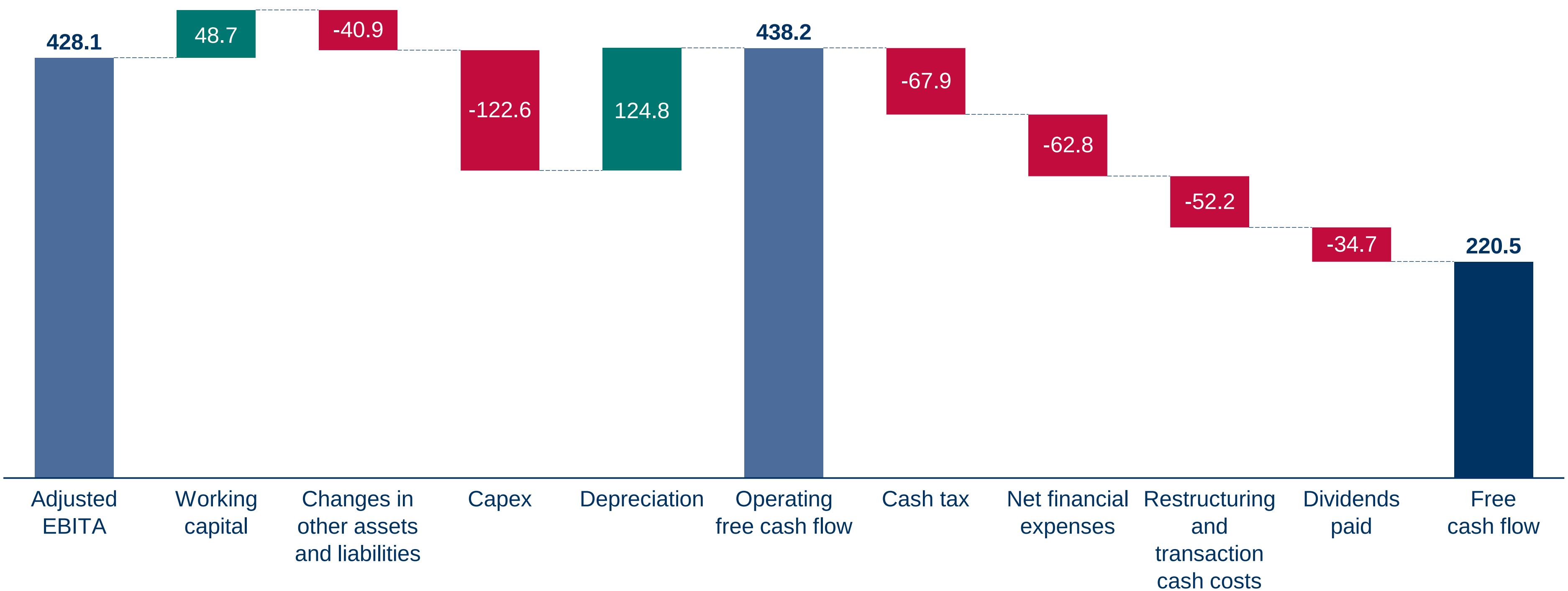
# Reconciliation of adjusted earnings

| €m | Reported 2018 | Adjustment items | Adjusted 2018 |
|---|---|---|---|
| **EBITA** | **427.2** | **0.9** | **428.1** |
| **Amortisation** | **(28.6)** | **28.6** | **-** |
| **Net financial expenses** | **(162.7)** | **76.6** | **(86.1)** |
| Share of profit of joint ventures | 10.1 | | 10.1 |
| **Profit before tax** | **246.0** | | **352.2** |
| Income tax (23.9%) | (58.9) | **(25.4)** | (84.3)[1] |
| Profit after tax | 187.1 | | 267.9 |
| Profit attributable to shareholders | 158.1 | | 238.9 |
| **EPS** | **3.52[2]** | | **5.31[2]** |

Notes: 1) Taxed at Group tax rate of 23.9%
2) At 44.9m shares outstanding

# Cash flow overview

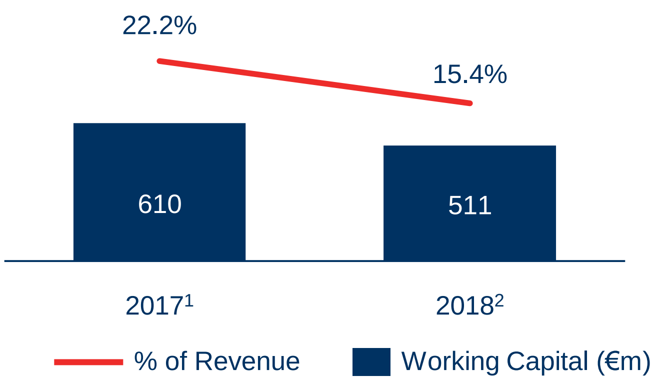
- Operating free cash flow driven by increase in adjusted EBITA and working capital efficiency
- Working capital requirements were cash generative, albeit partially offset by inventory consumption and higher raw material prices
- Net financial expenses of €62.8m expected to decrease in 2019 as a result of the refinancing of the more expensive legacy debt
- Restructuring and transaction costs amounted to €52.2m in FY 2018



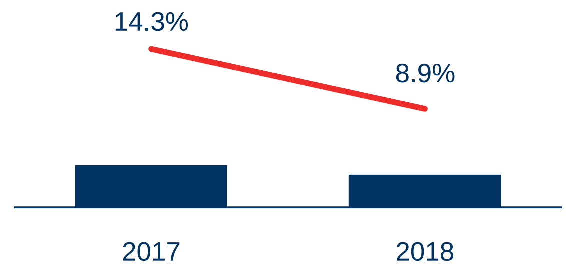
# Effective working capital management

## Leading to strong cash generation

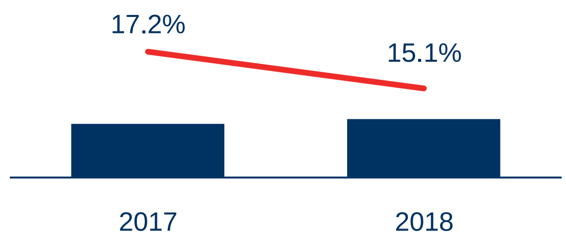
### Working capital intensity



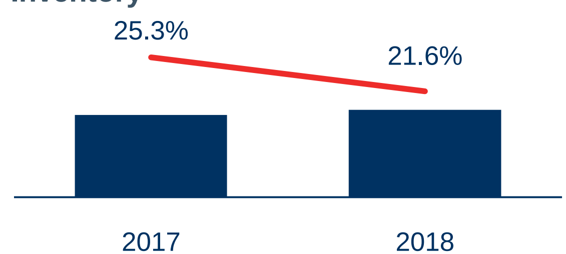

### Accounts receivable




### Accounts payables



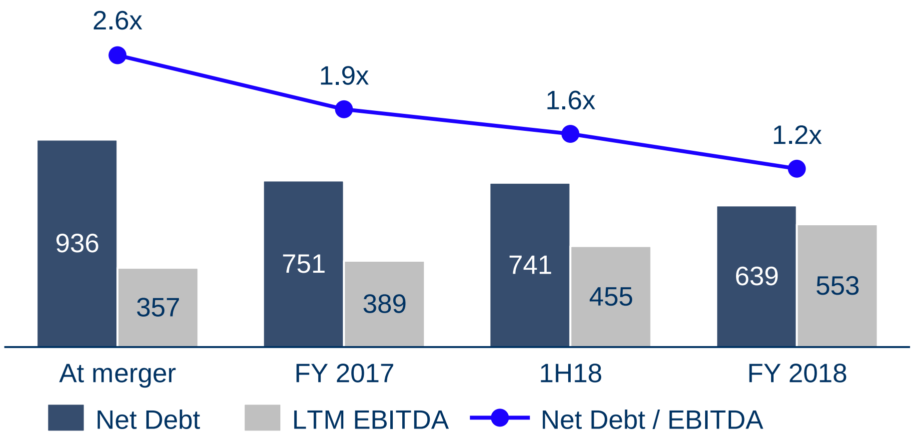

### Inventory



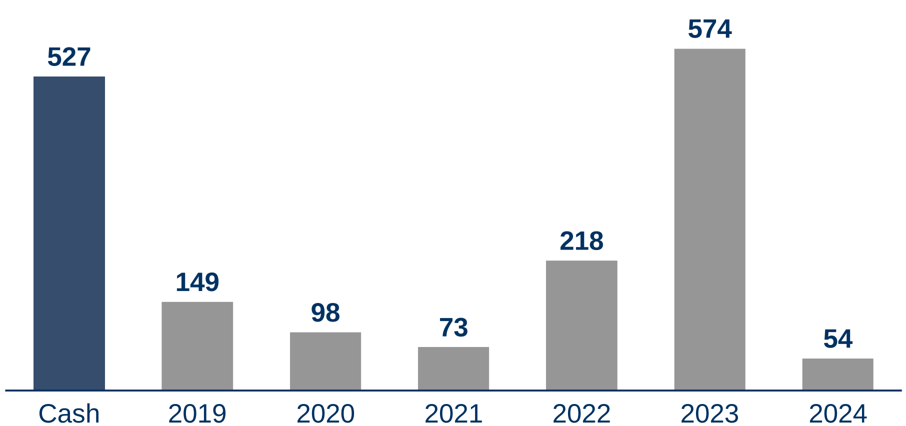

Notes: 1) Working capital for 2017 measured as a % of adjusted pro-forma second half annualised revenues. 2) Working capital for 2018 based on annualised last 3 months revenues.

# Capital structure

## Solid credit profile and commitment to de-leveraging current business




**Amortisation schedule** (€m as of 31 December 2018)




- During 2018 RHIM refinanced c.€800 million of its capital structure, including the redemption of Magnesita's legacy Bonds, achieving funding costs commensurate with its stronger credit profile

| Capitalisation table | €m |
|---|---|
| OeKB Term Loan | 306 |
| US$ Term loan + RCF | 358 |
| Other loans & facilities | 502 |
| **Total gross indebtedness** | **1,166** |
| Cash, equivalents & marketable securities | 527 |
| **Net debt** | **639** |

# 2019 technical guidance

- Synergy benefits: further €20m P&L impact in 2019 (cumulative €90m)
- Total capital expenditure: €175m
  - Maintenance capex: €110m
  - Additional project capex: €65m
    - Dolomite expansion in Chizhou: €30m
    - Supporting growth projects in York and India, cost saving initiatives in Supply Chain and plant rationalisation: €35m
- Depreciation: €125m
- Amortisation: €25m
- Tax rate: c.24%
- Net interest expense: €30m (excluding pensions)
- IFRS 16: No net impact on profit before tax or net cash flow expected

# Operational and strategic review

# Robust organic growth capacity, alongside significant expansion potential

## Delivering through-cycle growth – 1-3% organic and 1-3% through acquisitions

### Core / existing markets

- Supported by global technical and R&D capabilities
- Customisation
- Zero emission bricks
- Strengthen raw materials position

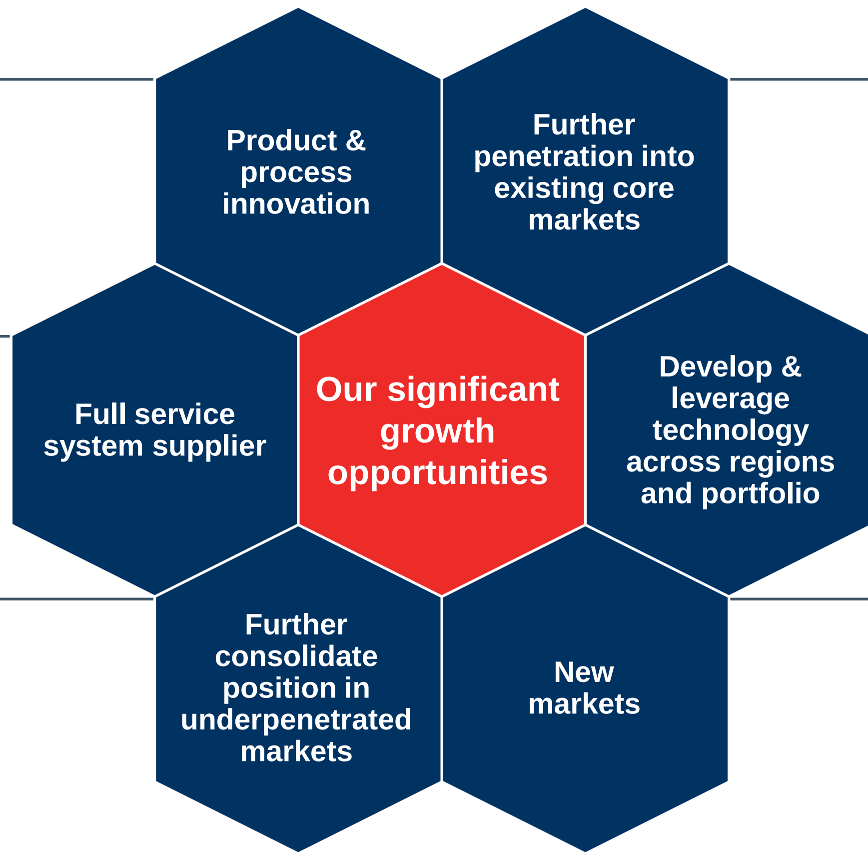
- High market share in Europe / Americas
- Potential to grow leading market position (currently 15%)

- Bring efficiencies to steel industry
- Capture more of “Heat management”
- Return per tonne of steel produced

- Digitalisation
- AI
- Process innovation
- Material science

- India
- China
- Turkey

- Russia
- Other Asia




### Growth markets

# Steel Division – 2018 review

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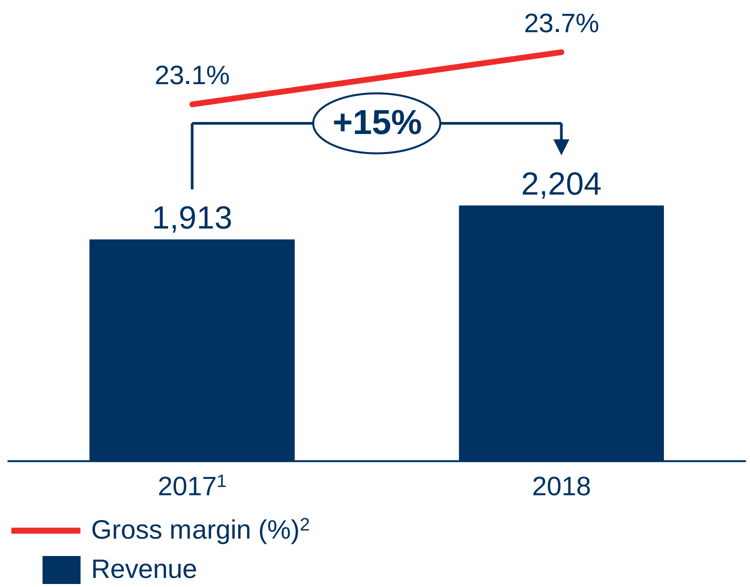
## Revenue (€m) and gross margin (%)




## 2018 performance

- **Strong revenue growth in North America** – increased crude steel production, focus on key strategic initiatives, enhanced product portfolio and market price adjustments
- **Good organic growth in Europe** – despite a weakening market overall, we have grown volumes and improved pricing, partially offset by underperformance at certain plants with some supply chain issues. Issues identified and confidence in resolving in 2019
- **Strong market position in South America** – revenue impacted by wider political instability, but profitability increased as a result of improved product mix, better technical results in performance contracts
- **Market outperformance in India, China and APAC** – positive impact of price increases. Steadier raw materials supply in 2019 expected to further improve performance

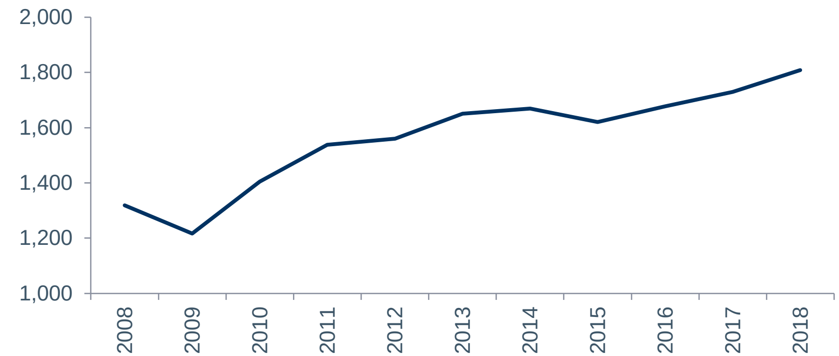
Notes: 1) 2017 adjusted pro-forma figures 2) Gross margin based on reported figures

# Stable global steel production with growing uncertainty

### Steel market overview

- Global crude steel production +4.6% in 2018[1]
  - US +6.2%
  - China +6.6%
  - India +4.9%
  - EU -0.3%
- Continued focus amongst steel producers in improving competitiveness and producing higher quality steel products
- 2019 steel demand +0.9%

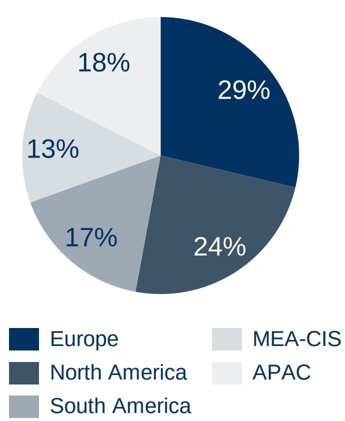
### Steel production volumes (Mt)[1]




### RHI Magnesita position

- 72% of Group revenue attributable to the Steel Division
- #1 refractory player in 4 of top 10 steel markets
- High geographic diversification
- High market share in mature markets of Europe & Americas
- Service and solution offering to drive customer refractory penetration
- Innovation to take advantage of increased demand for higher quality steel

### Steel revenue by geography




### RHI Magnesita Outlook

- **Europe:** 2019 growth to be weaker than 2018
- **US:** New customer green- & brownfield projects; positive impact of increased steel pour
- **Asia:** Positive benefits from the new Chizhou plant
- **South America:** Steel production increases expected
- **MEA–CIS & mature APAC:** increased risk to steel production; EAFs may specifically be impacted
- **China**: Benefitting from moves to higher quality

Political uncertainties currently impact customers' supply chain and inventory levels

Notes: 1) Source: World Steel Association

# Industrial Division – 2018 review

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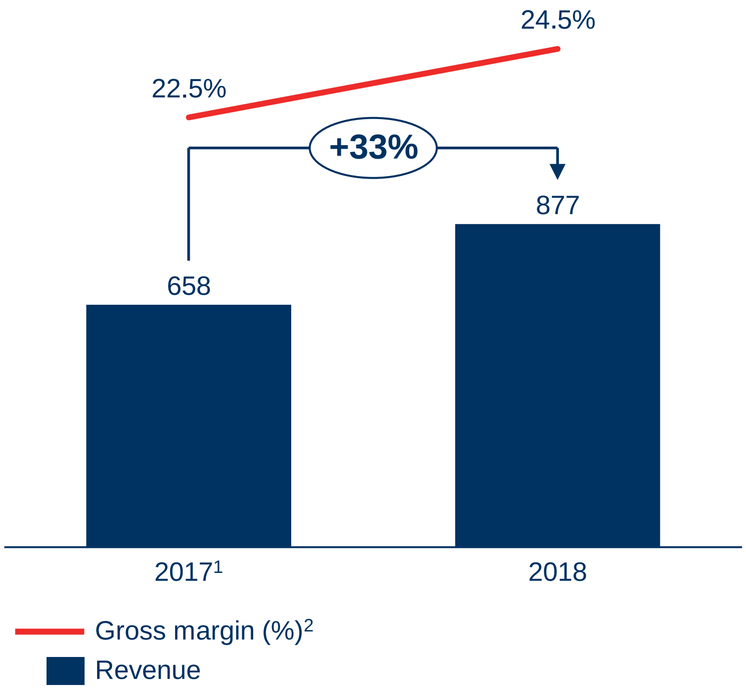
**Revenue (€m) and gross margin (%)**




**2018 performance**

**Cement / Lime**

- €321m revenue; driven by price increases and portfolio optimisation
- Successful step towards turnaround of business unit in 2018

**Project businesses[3]**

- Strong business unit performance with €556m revenue; ahead of the market
- Strong performance in glass and non-ferrous metals with significant margin improvements, driven by pricing and supported by new strategic measures
- Increase in revenue and profitability in EEC in spite of relatively flat market

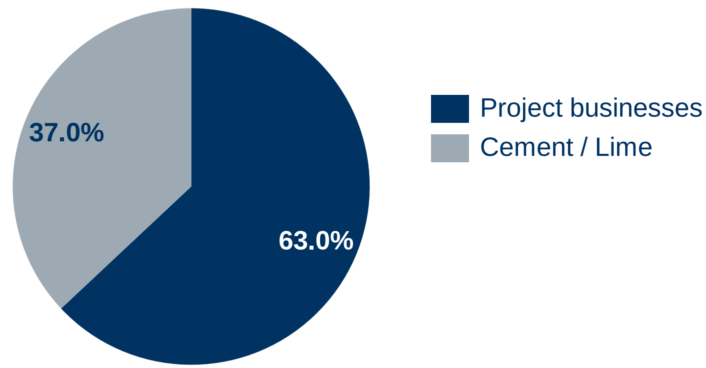
Notes: 1) 2017 adjusted pro-forma figures 2) Gross margin based on reported figures 3) Project businesses include non-ferrous metals and other process industries

# Continued GDP growth supporting Industrial Division demand

## Industrial market overview

- 2018 global GDP growth +3.7%, projected to be +3.3% in 2019[1]
- Relative stability in cement & lime from a global perspective; demand expected to increase +1.5%[2]
- Glass demand stabilised, expected to continue
- LME-listed base metals were impacted by trade disputes, and first signs of a cooling global economy

## RHI Magnesita Industrial revenue by sector[3]



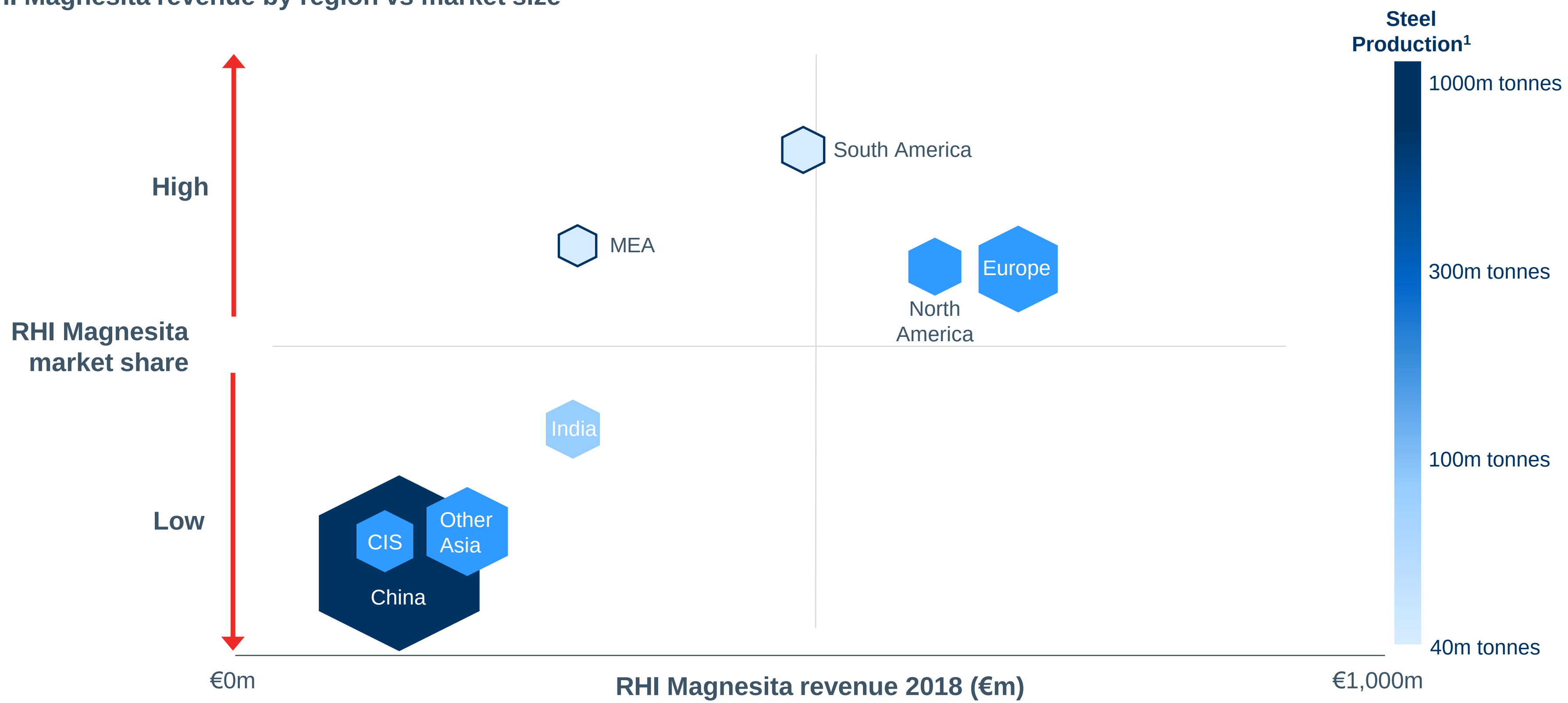

## RHI Magnesita outlook

- **Cement / Lime:** Positive current trend in 2019; further upside necessary. Evaluating exit from low-profit project business
- **Project businesses:** positive momentum expected to continue in 2019

Notes: 1) Source: OECD 2) World Cement Association 3) Project businesses include non-ferrous metals and other process industries

# High market share in Europe and Americas with opportunities to occupy ‘white spaces’ in India, China and CIS

**RHI Magnesita revenue by region vs market size**




- **Dedicated strategy for China** with focus on developing locally, to improve market share and achieve sustainable and profitable revenue growth
- **Focus on organic growth in India** (high quality demand) and **US** based on positive local market development
- Drive **organic growth in the mid term** and consider M&A to achieve overall global presence

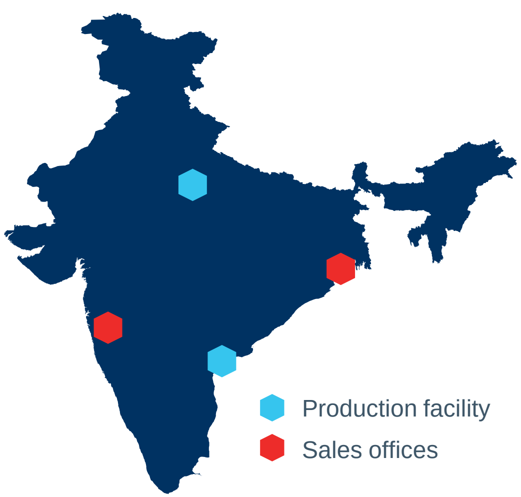
Notes: 1) Source: World Steel Association

# India – world's 2nd largest steel market

## RHI Magnesita well-positioned to benefit from expanding refractory demand

- Indian business continued to grow ahead of steel market in 2018
- Reorganisation and simplification of local business and increase in capacity to meet demand requirements
  - better aligned with larger steel manufacturers
  - provides customers with one single refractory solutions platform
  - realises business synergies
- Demand for higher performance and better quality solutions increasing – corresponds well to our solutions offering and competitive advantages
- RHI Magnesita underrepresented in industrial markets

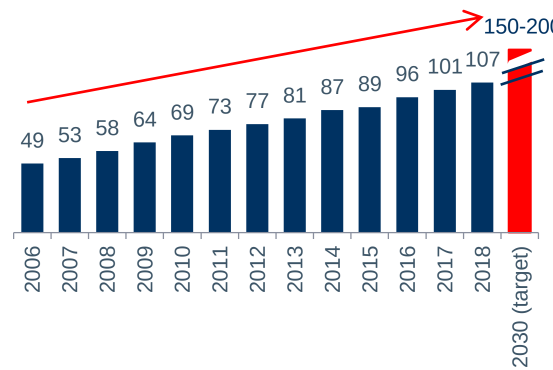
### Market advantage in local presence




### Market dynamics

- India became the world's 2nd largest steel producer in 2018 – production +4.9% to 105.6Mt
- Steel demand expected to continue to be supported by infrastructure programmes in 2019 and onwards
- Second largest cement producer

### Indian steel production (Mt)




Source: WSA and Company forecasts

# ‘China for China’ strategy

## Locally focused to exploit significant growth market opportunities

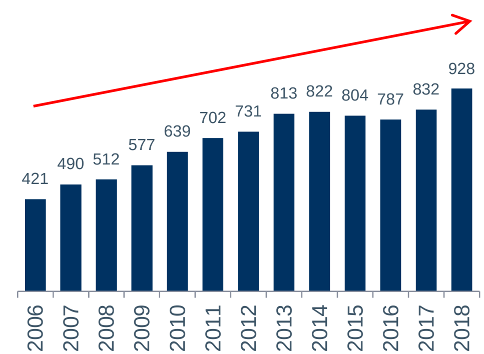
- Implementation of new business plan and strong, locally focused management team
- 2018 revenue +36% to €166m – demonstrates growth and focus on this market
- New R&D team has developed specific, strategic and environmentally friendly products to fit the fast changing Chinese market
- Successful preparation of Chizhou dolomite mining and brick production for launch in 2019

### Well positioned to serve domestic and export markets

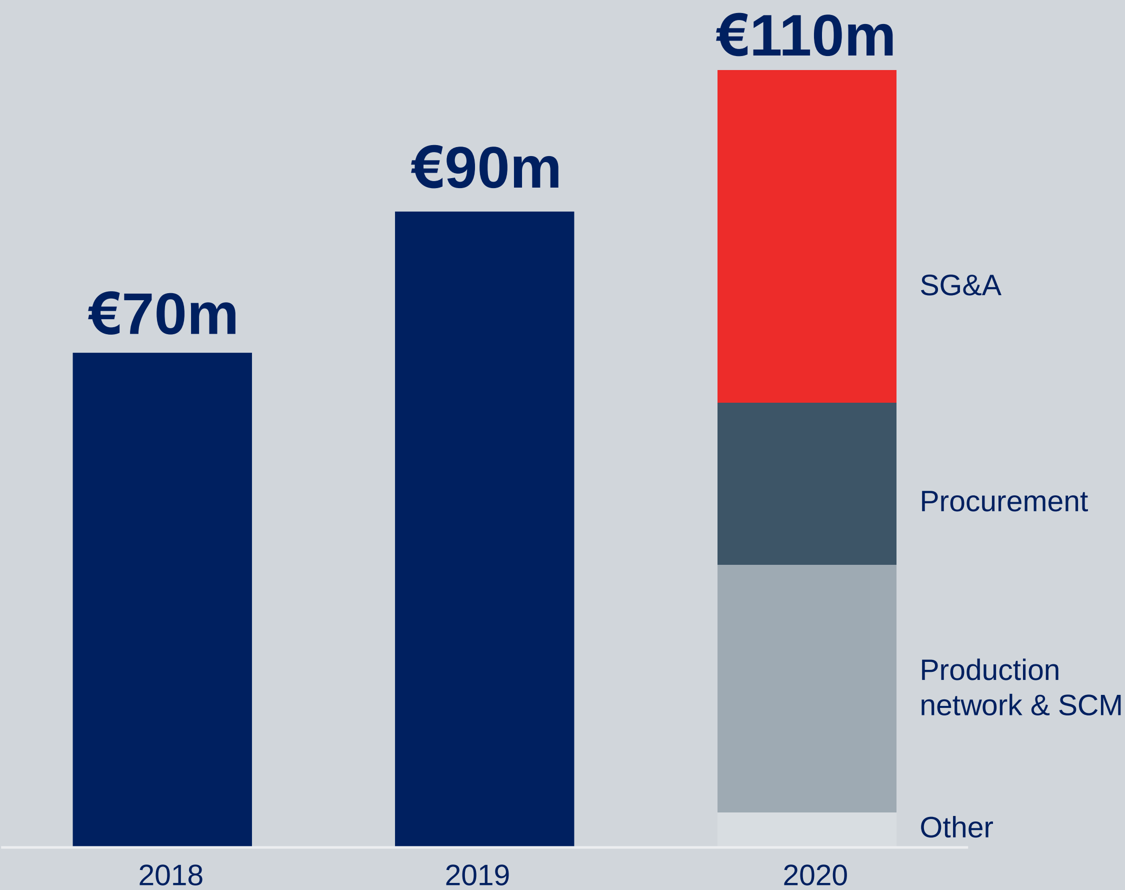

### Market dynamics

- 2018 steel production +6.6% to 928.3Mt
- Good opportunities in automotive industry despite challenging dynamics – increasing demand for SUVs, MPVs and electric vehicles
- Opportunities in shift to EAF steel plants
- World’s largest cement producer
- Growing demand for high quality products, digitalisation and ecological solutions

### Chinese steel production (Mt)



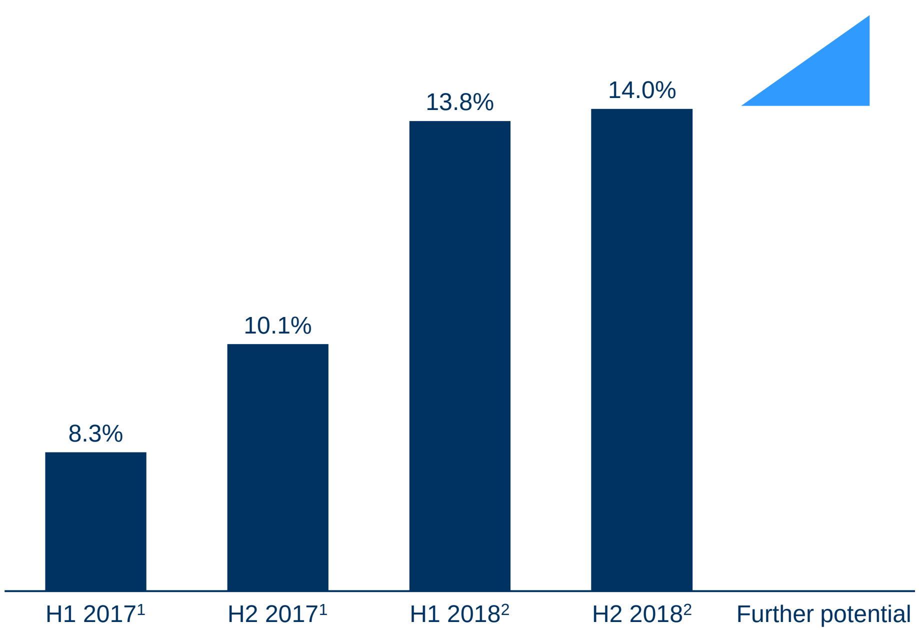
# Synergy target exceeded in 2018; €90m expected in 2019




- €70m synergies (vs €60m target) in the 2018 P&L and €110m in synergies to be achieved by 2020
- Expected total cash restructuring costs are projected to be €100m-€120m, with €52m of cash outflows disbursed during 2018
- Interest expenses reduced by €24m in 2019 run-rate with re-financing completed in 2018

# Continued EBITA margin potential

**Adjusted EBITA margin progression**




**Further margin potential**

- Continued volume growth and associated operational leverage
- Further product price increases
- Further penetration of higher margin solutions offering

- Progress in growth markets of China and India
- Additional capex projects to drive further cost savings and operational improvements in 2020 and beyond.

- Ongoing synergy delivery (an additional €20m in 2019; €20m in 2020)
- Reversal of 2018 operating issues (c.€20m) in 2019

***Assumes:***

***- Continued stability in raw material prices***

***- Recovery of inventory reduction at customers, with a strengthening of the order book***



Notes: 1) adjusted pro-forma EBITA margin at constant currency, and including final determination of the PPA. 2) Adjusted to include the final determination of the PPA

# Capital allocation strategy

## Balanced and dynamic capital allocation enabling long term growth & shareholder returns

### Cash

Strong cash flow generation from operating business

Supported by synergies, growth opportunities & expansion

### Leverage

Maintain robust financial position

Commitment, through cycle, to leverage range of 0.5–1.5x

### Maintenance investment

€110m investment per year in maintenance capex

Ongoing R&D and Technical Marketing investment (2.2% of revenues)

### Organic investment

Commitment to capital deployment for growth and cost savings

Significant opportunities to develop strategy organically

Technology, digitalisation, data, backwards integration

### M&A

Disciplined screening process and risk evaluation

Deployment to accelerate growth in line with strategy

Balance sheet strength provides flexibility

### Returns

Progressive dividend policy established

Share buyback when appropriate

# Progressive dividend policy

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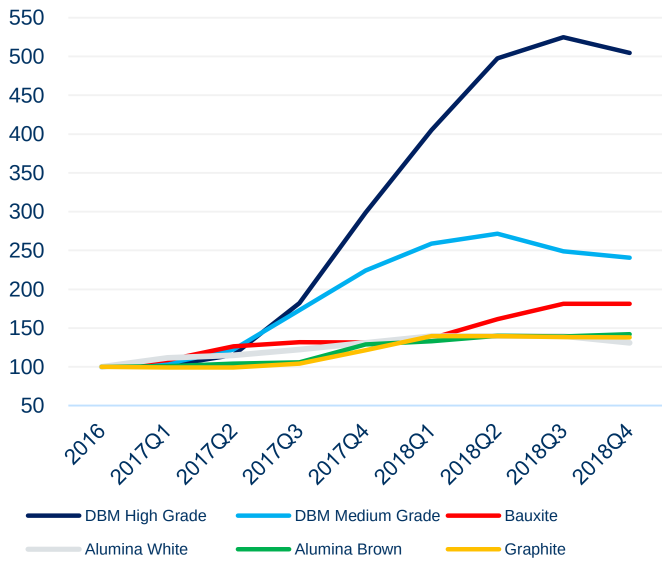
## A sustainable dividend policy linked to adjusted earnings and cash flow generation

- Underpinned by strong performance and having reached leverage of 1.2x net debt to adj. EBITDA in 2018, the Board has recommended:
  - A final dividend of €1.50 per share for 2018
  - Represents a 100% increase on FY 2017 dividend
  - Dividend cover of 3.5x adjusted EPS
- Formal dividend policy commenced:
  - Progressive – with reference to the growth in adjusted earnings and the cash flow generation of the Group
  - Semi-annual payment from 2019 onwards – 1/3 prior year’s full dividend paid at the interim
  - Targeting dividend cover of below 3.0x adjusted earnings over the medium term

# Summary and outlook

# Raw material outlook

### Significant price rises in refractory raw materials[1]




### Outlook

- As a result of potential further export taxes, more restrictive allocation of explosives, strict environment enforcement and the nationalisation or controlled consolidation of mining operations in China, the structurally altered raw materials pricing environment is expected to remain in 2019 and beyond
- Global scarcity and availability of raw materials as a result of Chinese restrictions to continue
- Persistent high Chinese raw material prices, cost increases for non-basic raw materials (Alumina, Bauxite, Graphite) and additional environmental cost require pricing measures

### Our position

- Highest level of backward integration in the industry
- Unique internal mineral sources: 70% self-sufficiency in magnesite and dolomite and 50% for all raw materials

Notes: 1) Source: Asian Metal

# Summary and outlook

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## Setting the business on the right path to achieve its full potential

**2018: a year of progress and success**

- Strong performance in first full year post merger
- Outperformance of synergy targets
- Delivered growth ahead of underlying markets alongside step up in profitability
- Refinancing and ITO complete
- Strong and fast deleveraging has created a platform for future growth and capital allocation
- Progressive dividend policy established
- Created an experienced, determined, collaborative management team

**2019: whilst global economic uncertainties exist, we currently anticipate:**

- Robust customer end markets in the medium term, with higher uncertainty in the short term
- Continued raw materials pricing stability into H2 2019
- Modest organic revenue growth; depending on reversal of customer inventory reductions
- Further margin improvement potential
  - Ongoing synergy extraction
  - Further optimisation initiatives from manufacturing improvements
- Strong cash flow generation

# Appendix

# Clear and compelling investment case

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## 1 Clear strategy and strong competitive position

- Strong market position with 15% global market share (30% ex-China), clear leadership in Americas, Europe and Middle East with broadest value-added solution offering
- Opportunity to develop and leverage technology across regions and portfolio
- Highest level of vertical integration in the industry with unique mineral sources and 50%+ self-sufficiency in all raw materials

## 2 Significant growth opportunity from new markets, service offering and M&A

- Opportunities to grow materially in under-represented markets such as India and China
- Greater penetration of solutions offering to customers – improving margins & providing added value to clients
- Acceleration of market growth through M&A

## 3 Continued margin opportunity from ongoing synergies and further cost savings

- €70m synergies in 2018 and €110m target by 2020
- Additional “below the line” opportunities in working capital and tax
- Cost saving potential beyond synergies from further initiatives in the mid term

## 4 Strong cash conversion and robust balance sheet

- Strong cash flow from operating business supported by synergies and organic growth opportunities
- Rapid delevering since merger and net debt to EBITDA to 1.2x
- Capital flexibility to pursue both growth and shareholder returns

# Impact of foreign currency movements

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### EBITDA sensitivity

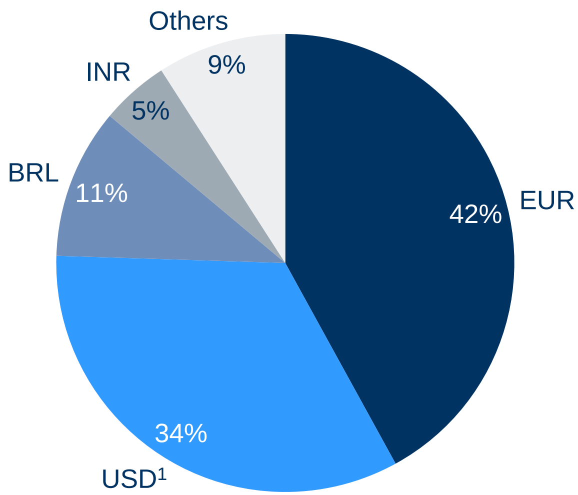
| vs € | Unit | ∆ in EBITDA (€m) |
|---|---|---|
| **USD** | +1 cent | 4.61 |
| **CNY** | +0.01 yuan | -0.20 |
| **BRL** | +0.10 reais | 2.72 |
| **INR** | +1 rupee | 0.64 |

### 2018 exchange rates

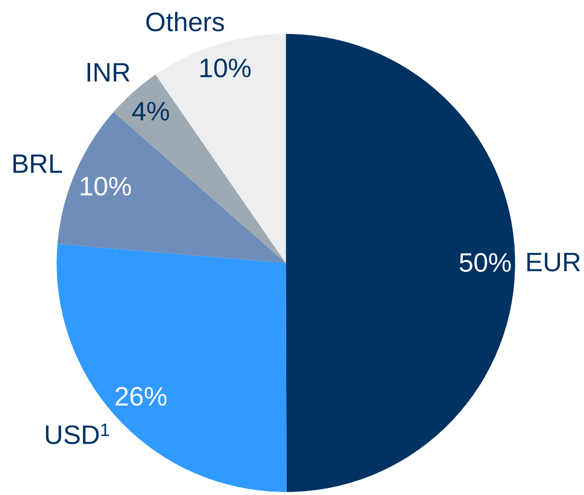
| 1 € = | Closing rate | Average rate |
|---|---|---|
| **USD** | 1.15 | 1.18 |
| **CNY** | 7.87 | 7.81 |
| **BRL** | 4.45 | 4.31 |
| **INR** | 80.0 | 80.7 |

# Combined selected financials per currency

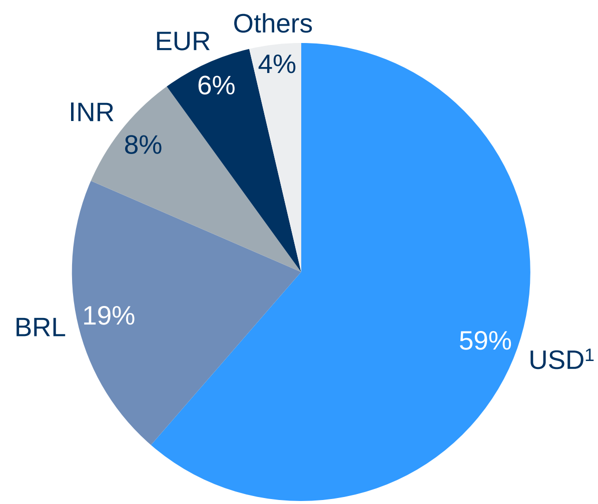
### Revenues




### COGS and SG&A




### EBITDA per currency




Notes: 1) USD exposure includes CNY. CNY exposure is ~5% of total revenues and ~12% of CoGS + SG&A

# P&L reconciliation

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## 2017 pro-forma figures

| | a | b | c | = a+b+c | d | e | = e/d-1 |
|---|---|---|---|---|---|---|---|
| | **2017 Adjusted pro-forma** | **Purchase Price Allocation adjustment** | **P&L Reclassifications** | **2017 Adjusted pro-forma** | **2017 Constant currency pro-forma** | **2018** | **Δ** |
| Revenue | 2,677.2 | | 4.0 | 2,681.2 | 2,549.6 | 3,081.4 | 21% |
| COGS | (1,999.3) | (49.5) | (31.4) | (2,080.3) | (1,989.1) | (2,344.5) | 18% |
| Gross profit | 677.9 | (49.5) | (27.4) | 600.9 | 560.5 | 736.9 | 31% |
| SG&A | (399.8) | 2.7 | 27.4 | (369.6) | (350.4) | (337.3) | (4%) |
| Other income/expenses | (0.0) | 14.2 | (0.1) | 14.1 | 14.2 | (0.9) | (106%) |
| EBIT | 278.1 | (32.6) | (0.0) | 245.5 | 224.2 | 398.6 | 78% |
| Amortisation | 26.0 | 3.1 | (0.8) | 28.3 | 25.9 | 28.6 | 11% |
| EBITA | 304.1 | (29.6) | (0.8) | 273.7 | 250.1 | 427.2 | 71% |
| Depreciation | 84.7 | 41.1 | | 125.8 | 115.1 | 124.8 | 8% |
| EBITDA | 388.8 | 11.5 | | 400.3 | 365.3 | 552.1 | 51% |
| Adjusted EBIT | 278.1 | (46.8) | 0.0 | 231.3 | 210.1 | 399.5 | 90% |
| Adjusted EBIT (%) | *10.4%* | | | 8.6% | 8.2% | 13.0% | 480bps |
| Adjusted EBITA | 304.1 | (43.8) | (0.7) | 259.6 | 235.9 | 428.1 | 81% |
| Adjusted EBITA(%) | *11.4%* | | | 9.7% | 9.3% | 13.9% | 460bps |
| Adjusted EBITDA | 388.8 | (2.7) | 0.1 | 386.2 | 351.1 | 553.0 | 58% |
| Adjusted EBITDA (%) | *14.5%* | | | 14.4% | 13.8% | 17.9% | 410 bps |

# P&L reconciliation

### 2017 reported figures

| | a | b | c | = a+b+c |
|---|---|---|---|---|
| | **2017 Reported** | **Purchase Price Allocation adjustment** | **P&L reclassifications** | **2017 Adjusted** |
| Revenue | 1,946.1 | | 4.0 | 1,950.1 |
| COGS | (1,485.6) | (30.5) | (27.3) | (1,543.4) |
| Gross profit | 460.5 | (30.5) | (23.3) | 406.7 |
| SG&A | (292.5) | 0.5 | 47.7 | (244.3) |
| Other income/expenses | (124.9) | 1.6 | 26.4 | (96.9) |
| EBIT | 43.1 | (28.4) | 50.8 | 65.5 |
| Amortisation | 13.6 | | (0.2) | 13.4 |
| EBITA | 56.7 | (28.4) | 50.6 | 78.9 |
| Depreciation | 59.9 | 6.3 | | 66.2 |
| EBITDA | 116.6 | (22.1) | 50.6 | 145.1 |
| Adjusted EBIT | 168.0 | (30.0) | 24.4 | 162.4 |
| *Adjusted EBIT (%)* | *8.6%* | | | *8.3%* |
| Adjusted EBITA | 181.6 | (30.0) | 24.2 | 175.8 |
| *Adjusted EBITA(%)* | *9.3%* | | | *9.0%* |
| Adjusted EBITDA | 241.5 | (23.7) | 24.2 | 242.0 |
| *Adjusted EBITDA (%)* | *12.4%* | | | *12.4%* |

# Net financial expenses

## Detailed overview

| (€m) | 2018 | Recurring | Non-recurring |
|---|---|---|---|
| **Interest income** | **9.7** | 9.7 | – |
| **Interest expense** | **(48.5)** | (48.5) | – |
| **Foreign exchange** | **(81.3)** | (19.6) | (61.7) |
| **Other financial expenses** | **(42.6)** | (27.6) | (15.0) |
| **Total** | **(162.7)** | (86.1) | (76.6) |

### Net interest expenses

- Post refinancing, net interest expenses will be c.€30m on a prospective annualised basis

### Foreign exchange

- Significant appreciation of the USD against the Argentine Peso (ARS) led to €25.0m of non-cash variances from the market to market of intercompany loans
- €37.2m in mark-to-market variances on foreign currency debt owed by Magnesita, a Brazilian Real reporting entity, which have been refinanced during 2018
- €6.3m FX gain on cash held in foreign currencies held by Magnesita’s Brazilian entities
- As a result of the Group’s hedging policy, which aims to match the currency exposure of our net debt to that of the EBITDA, the group has incurred €19.6m in derivative losses in 2018, of which €20.1m were settled in cash in 2018

### Other financial expenses

- Transaction costs: €10.6m, one-off non-cash expenses related to the refinancing of legacy debt
- EU remedies: €9.9m related to non-cash present value adjustment of the provision for the unfavorable contract required to satisfy the EU remedies
- Pension: expenses of €9.1m

# Impact of IFRS 16

| | | After application of IFRS16 (€m) | Net impact (€m) |
|---|---|---|---|
| **Profit and loss statement** | Depreciation | 12.7 | 12.7 |
| | Other expenses | -13.3 | -13.3 |
| | **EBIT** | **-0.6** | **-0.6** |
| | Interest expenses on borrowings | 0.6 | 0.6 |
| | **Profit before tax** | **0.0** | **0.0** |
| **Cash flow** | Cash flow from operations | 13.3 | 13.3 |
| | Net cash flow from financing activities | -13.3 | -13.3 |
| | **Net cash flow** | **0.0** | **0.0** |
| **Balance sheet (at 1 Jan 19)** | Right of use assets | 67.2 | 67.2 |
| | Lease liabilities | -67.2 | -67.2 |
| | **Equity adjustment** | **0.0** | **0.0** |

- No net impact on profit before tax or net cash flow