

2004

# RHI Consolidated Financial Statements 2004

# Management Report

As in previous years, use was made of the option under § 267 (3) Austrian Commercial Code (HGB) and § 251 (3) HGB to summarize the management report of RHI AG together with the consolidated management report. RHI AG had no branches in the reporting period.

## Economic climate

The world industrial cycle went into recovery in the year 2004 overall. Key emerging markets such as China, India and Russia, once again registered growth in the high one-digit range. Asia once again significantly contributed to the growth of many economies and commodities industries, thanks to the high demand in this region. In addition to demand from Asia, which resulted in significant capacity increases among RHI's major customers, such as the steel industry, the development of the US dollar against the euro and other currencies had implications for the industrial climate worldwide. Many of RHI's customers, as well as the RHI Group itself, were affected, to what extent varied, however, greatly from region to region and from case to case.

The worldwide economic climate for the refractories industry in 2004 has improved substantially on 2003. Almost all the industries and markets which are supplied by RHI Refractories profited from strong growth in Asia, particularly the key markets of China and India. Persistently high demand in these countries for raw materials, energy, freight capacity, steel and other key raw materials required to establish infrastructure and industry was a key influencing factor once again for many sectors worldwide in 2004. The Asian growth engine also gave crucial momentum for growth in other regions in 2004; many export-based industries managed to improve capacity utilisation substantially thanks to the demand pull from Asia. The US economy grew approx. +4.4%, Japan +2.6%, the euro zone +1.8%. GDP growth in China (+8%), India (+7%) and Russia (+7%) clearly outstripped growth in the industrialised nations, Latin America (+4%) was slightly above the world average. High demand from Asia triggered cost increases and price hikes in 2004, both for many basic commodities and for freight. The euro's 10% appreciation against the US dollar was another key factor affecting the commercial performance of many RHI customers.

In 2004, developments on markets important for insulating markets in Western Europe were once again inhomogeneous. In Germany, mineral wool consumption was again in decline due to a further drop in investments in the construction sector, and sales of insulating materials in Austria stagnated as a result. Due to reductions in capacity and changes in sales concepts, revenue stabilised in Germany. However, competition for market share caused prices to fall in Austria. In other West European countries, the construction industry developed satisfactorily in 2004. The economy in Central and Eastern Europe, including the new European Union member states, continued to develop positively. Growth rates of between 5% and 10% also had a positive impact on capital expenditure in the construction sector.

## Business development

Business development varied in the refractories division from region to region and depending on customer industry in 2004, but the division fared well overall thanks to the economic upturn, notwithstanding the further depreciation of the US dollar.

Capacity utilisation in the steel industry was very good in Europe in 2004, due to the persistently high demand from Asia, especially from China, from which producers in Western and Eastern Europe derived equal benefit.

RHI Refractories profited from the high capacity utilisation in the European steel industry overall, increasing both sales volume and revenue. The fortunes of the steel industry in Central and South America were boosted by strong demand domestically and from China. RHI substantially boosted its sales volume substantially in this market environment in 2004, however, revenue did not rise proportionately due to the effects of currency translation. The Asia/Pacific region – China and India in particular – was once again the focus of global developments in the steel industry in 2004. All in all, sales volume in the Asia/Pacific region rose by almost one third in 2004, but the corresponding rise in revenue was lower due to the continuing weakness of the US dollar.

The steel market in Canada/USA picked up considerably in 2004, with steel output in the USA up 5%. The increase in sales to steel customers exceeded their increase in output in 2004, but revenue did not rise proportionately due to the weak dollar.

The cement industry in Western Europe was once again affected by low construction activity, particularly in Germany. Market penetration of the new EU member states developed in line with expectations. Sales volume relating to new plant projects rose in Southern Europe. In Central and South America, on the other hand, only the cement markets in Mexico, Chile and Venezuela were in good shape, Asia has increased its cement capacities, China in particular. RHI increased both sales volume and revenue overall in 2004.

The lime industry picked up only slightly in Western Europe, and remained largely unchanged due to consolidation among lime producers in Eastern Europe. Signs of an economic upturn came from Germany, Italy and the United Kingdom at the end of 2004. Business fared well in Central and South America, especially in the core Mexican market. The refractories business for new projects once again developed well in the lime industry in 2004, sales volume and revenue in the lime sector was slightly up on the previous year in 2004.

The market for non-ferrous metals was characterised by high metal prices in 2004. Strong demand from China and the improved economic climate exacerbated the bottleneck for ore products. Non-ferrous metal producers capitalised on the very attractive metals prices in 2004 to utilise all their available kiln capacity, and necessary repairs were consequently postponed. Major project business was subdued in 2004, but RHI managed to win important new contracts in its regular supply business. Sales volume and revenue fell short of the previous year's levels overall.

The glass industry in 2004 was characterised by sharp growth in output of flat glass for the construction and automotive sector in Asia. Capacities were extended by modernisation and new plants in Latin America and Eastern Europe. The cooperation initiated between RHI and Asahi Glass Ceramics from Japan in 2003 went from strength to strength; RHI succeeded in increasing its sales of fused cast refractory products in Asia. RHI's position in the increasingly important Chinese glass market was strengthened further, and, once again, sales volume and revenue growth was above average in 2004.

In the environment, energy and chemicals segment, special waste incineration was characterised by overcapacities. Incineration plants are planned in many EU member states, and RHI has managed to win contracts to equip waste incineration plants in France and Germany, including assembly in addition to the supply of refractories. In China, RHI won contracts for refractories engineering and material supplies for several projects, including a 300 MW power plant in association with a European plant construction firm. In the chemicals and petrochemicals segment, RHI won major projects in Qatar and Iran. Sales volume and revenue in the environment, energy and chemicals segment in 2004 was below the figure for the previous year.

In 2004 once again, RHI Refractories boosted worldwide sales volume substantially to 1.66 million tonnes of refractories and raw materials, a rise of 10.5%. All in all, RHI grew faster than the world refractories market overall, gaining market share above all in Asia, Russia and North America. Incoming orders were stable and satisfactory overall in 2004.

Heraklith's revenue increased by 8.7% in 2004. This illustrates the success of the shift in the group's product portfolio initiated in 2003, the focus on growth markets in Central and Eastern Europe and market achievements in exports with its new product group, Heradesign®. Furthermore, revenue benefited from the stabilisation of the construction market at a low level and the consequent opportunity to improve earnings in some areas. The lion's share of growth in revenue was accounted for by Eastern Europe and by exports.

The core markets of Germany and Austria are still very important; their share of revenue remained unchanged on the previous year. Growth in 2004 was mainly influenced by positive developments in sales of and revenue from stone wool in Eastern Europe and by success with special products in the key wood wool segment, acoustics, in Western Europe and Asia. Incoming orders were stable and satisfactory overall.

The economic effects of the continuing strength of the US dollar, which were negative for RHI, on balance, hit the global refractories business of RHI Refractories hardest. However, increases in sales volume to existing

customers and new market share clearly offset currency-related declines in revenue. RHI Refractories managed to compensate for the negative effects on margins by increasing output outside the euro zone and by procuring more materials and supplies, particularly raw materials, in US dollars. All in all, the US dollar / euro parity, which worsened in 2004 by a further 10% on 2003, put the brakes on growth in revenue and results for RHI Refractories in 2004.

## Revenue and earnings

RHI's consolidated revenue rose 5.2% in 2004 to € 1,297.3 million (prior year: € 1,232.6 million). Adjusted for the effects of the sale of waterproofing activities in 2003, the increase would have been 6.9%. Both RHI divisions increased revenue substantially in 2004.

### RHI Group: Revenue

in € million	2004	2003
Refractories	1,102.6	1,033.6
Insulating	181.5	166.9
Consolidation / Other	13.2	32.1
RHI Group	1,297.3	1,232.6

The core refractories business generated revenue of € 1,102.6 million (prior year: € 1,033.6 million) in 2004, a rise of 6.7%. Adjusted for translation differences, RHI Refractories revenue would have risen 8.6%. Revenue generated by RHI's second division, insulating, with Heraklith at its helm, was up 8.7% to € 181.5 million (prior year: € 166.9 million).

### RHI Group: Consolidated Revenue by Region

in %	2004	2003
Rest of EU	41	37
Asia/Pacific	21	19
North and South America	20	21
Other Europe	10	17
Austria	8	6

### RHI Group: Operating Result (EBIT)

in € million	2004	2003
Refractories	123.2	115.9
Insulating	10.1	7.1
Overhead / Other	2.3	-1.0
RHI Group	135.6	122.0

EBIT (operating result) amounted to € 135.6 million (prior year: € 122.0 million). RHI's EBIT margin went into double figures for the first time at 10.5% (prior year: 9.9%).

Refractories achieved EBIT of € 123.2 million (prior year: € 115.9 million) in 2004. Insulating improved EBIT again significantly to € 10.1 million (prior year: € 7.1 million) due to the restructuring in Germany and Austria completed in 2004 and by focusing on profitable growth in Eastern Europe. The EBIT contribution of overhead/other was positive at € 2.3 million (prior year: € -1.0 million). The costs incurred by the group's head office were offset in 2004 by earnings realised through the payment of USD 10 million effected in January 2005 by Halliburton.

**RHI Group: Income Statement**

in € million	2004	2003
Revenue	1,297.3	1,232.6
EBITDA	185.9	174.7
EBIT	135.6	122.0
Financial Result	-35.0	-30.2
Result from associates	5.4	4.5
Profit before income taxes	106.0	96.3
Income taxes	-6.3	-18.8
Profit for the year	99.7	77.5
Profit attributable to minority interest	-4.7	-4.6
Profit attributable to equity holders of RHI AG	95.0	72.9
Undiluted earnings per share (in €)	4.63	3.65
Diluted earnings per share (in €)	2.58	2.04

RHI's financial result amounted to € -35.0 million (prior year: € -30.2 million) in 2004, down year-on-year due to a contribution to results from sales of shares held in Germany. The operating interest result contained in this financial result was, at € -18.3 million (prior year: € -23.3 million), substantially up year-on-year due to a drop in interest obligations as a result of the conversions already made of tranche B of RHI's convertible bonds. The interest on personnel provisions also included in the financial result remained almost unchanged at € -17.2 million (prior year: € -17.3 million).

Profit before income taxes amounted to € 106.3 million in 2004 as a result of good operating results (prior year: € 96.3 million), a rise of 10.1 %. Income taxes were reduced significantly to € -6.3 million (prior year: € -18.8 million).

RHI Group profit consequently rose by 28.6% to € 99.7 million (prior year: € 77.5 million). Profit attributable to minority interest amounted to € 4.7 million (prior year: € 4.6 million), profit attributable to equity holders of RHI AG to € 95.0 million (prior year: € 72.9 million). Undiluted earnings per share amounted to € 4.63 (prior year: € 3.65), diluted earnings per share including all potential shares from the RHI convertible bonds amounted to € 2.58 (prior year: € 2.04).

**Assets and financial position****RHI Group: Cash Flow**

in € million	2004	2003
Cash flow from operating activities	107.5	100.2
Cash flow from investing activities	-82.9	-26.6
Free cash flow	24.6	73.6
Cash flow from financing activities	-26.0	-86.6
Change in cash and cash equivalents	-1.4	-13.0
Financial liabilities gross	290.3	296.6
Financial liabilities net (including cash and cash equivalents)	259.6	265.5

Cash flow from operating activities in 2004 amounted to € 107.5 million (prior year: € 100.2 million). Cash flow from investing activities in the RHI Group amounted to € -82.9 million (prior year: € -26.6 million). RHI invested € -73.4 million in 2004 (prior year: € -58.5 million) on property, plant and equipment and intangible assets. In addition, € -24.9 million (prior year: € -1.5 million) was invested in financial assets, particularly in Heraklith's acquisition of Eurovek and Termo. Free cash flow amounting to € 24.6 million (prior year: € 73.6 million) was used to repay financial liabilities, as planned, which were consequently reduced to € 290.3 million (prior year: € 296.6 million). Including cash and cash equivalents of € 30.7 million (prior year: € 31.1 million), net financial liabilities amounted to € 259.6 million (prior year: € 265.5 million).

## Capital structure of the RHI Group

There were no major changes to capital structure in 2004 in comparison to the previous year. Changes in the consolidated group and foreign currency translation did not have a material impact on the capital structure of the RHI Group at December 31, 2004.

At December 31, 2004, the RHI Group has negative equity amounting to € -310.5 million (December 31, 2003: € -422.7 million). This negative equity was first recorded in the 2001 financial statements and resulted from the deconsolidation of all US refractories companies. These companies are no longer considered subsidiaries of RHI AG, as RHI AG no longer exercises control over them due to the Chapter 11 proceedings.

RHI managed to avert insolvency measures at the beginning of 2002 through a comprehensive capital restructuring concept, based on a positive going-concern forecast. RHI negotiated a long-term, sustainable concept with its financing banks. The measures agreed with the banking consortium ensure the long-term solvency of the RHI Group. One element of the capital restructuring was the conversion of € 400.0 million of bank liabilities into subordinated liabilities to financial institutions that are interest-free and not redeemable until the end of 2006. A further element was the issue of subordinated convertible bonds amounting to a nominal of € 144.72 million in total. The consolidated balance sheet at December 31, 2004 thus has subordinated liabilities amounting to € 520.9 million (previous year: € 530.0 million).

The long-term core elements of the capital restructuring secure the liquidity of the RHI Group, enabling the group to optimise and extend its core refractories business, to implement a corporate policy geared towards cash flow and to build up equity capital long term. At December 31, 2004, the RHI Group had a revolving credit facility amounting to € 367.2 million in total (previous year: € 422.1 million).

## Research & Development

The success of research & development at RHI Refractories has for many years been founded on the commitment and qualifications of our employees, top quality management of R&D processes and on our speed-to-market. Once again in 2004, our technology centre in Leoben continued to create innovative products and solutions for our customers' benefit thanks to a concentration of R&D expertise, networking with business unit experts and through cooperation with universities and research laboratories.

Commitment to refractories R&D means constantly looking for new ideas, also in related scientific and technical disciplines, from which fundamentally innovative approaches can be derived. The continuous input for this comes from the coordination of R&D activities with the strategic and operative objectives of RHI Refractories, that keep R&D up-to-date on the latest development trends in customers' production processes, on changes in the global competitive climate and on further developments affecting raw materials, binding agents and additives for refractories. Last but not least, R&D activities are aligned with the objectives of environmental protection and sustainability.

Systematic innovation management has enabled us to continually extend our position as technology leader for refractory materials and solutions. Research & development challenge and enable RHI Refractories to constantly question classic approaches to refractories and its basic technologies. Developing new refractory products and system solutions requires an in-depth understanding of the physical properties of refractory materials, extensive knowledge of processes and product abrasion, and of the interplay between products and customer processes.

In 2004, RHI Refractories launched new, innovative development solutions in the following areas: magnesite shaped and unshaped products (basic bricks and basic mixes) slide gate refractories, non-basic bricks, non-basic mixes. RHI Refractories will continue to offer its customers innovative solutions to continually improve their processes in the future. RHI's own R&D team is working to ensure that.

## Revenue and earnings prospects for 2005

Economic forecasts at the beginning of 2005 point to a very inhomogeneous development, as in the previous year. Whereas sustainable growth in Western Europe can hardly be expected, growth in the US is expected to be strong, by contrast. Eastern Europe and Russia, in particular, as well as a few countries in Central and South America are likely to benefit from the positive trends in 2004. Growth in Asia in 2005 is, once again, going to be the decisive factor for the world economy overall, and particularly for exporting economies and industries. The vast majority of forecasts are predicting growth rates in the high single figures, especially for China and India, which is likely to boost growth in investment and output in these countries. One crucial and potentially limiting factor affecting prospects in Asia, however, will be the commercial availability of raw materials and energy.

The uninterrupted growth dynamics in key Asian markets will continue to be a decisive factor determining demand and capacity utilisation for key basic commodity industries in 2005. In this environment, the very high capacity utilisation in the steel and non-ferrous metals industries will remain constant at the very least. The relative shortage of key resources resulted in a further, significant rise in raw material costs at the beginning of 2005, and the steel industry consequently announced further price increases. Nevertheless, some analysts are predicting that the very high demand from Asia will already have levelled off by the end of 2005, or in 2006 at the latest. Steel prices for various grades had already fallen on the spot market by the beginning of the first quarter of 2005 and indicate a volatile price trend in 2005. RHI Refractories will continue to strengthen its presence in Asia by extending its own capacities, without, however, becoming overly dependent on market developments in China. All available growth options, i.e. extending RHI's own capacities, setting up joint ventures or taking over strong local specialists are under constant examination. In Europe, RHI will extend its service business for refractory linings. RHI will continue to develop existing key account concepts for global players in all RHI's customer industries, and will strengthen its position as a top-of-the-range generalist supplier of products, know-how and services. Business developments and incoming orders are satisfactory at the beginning of the financial year 2005, RHI Refractories expects the business climate for its customers to be comparable to the prior year, and business to continue to develop well in this environment. The continuing rise in raw materials prices and freight costs has somewhat dampened this optimistic outlook, however, and will mean further price increases in 2005, if we are to maintain the quality of operating results.

According to economic forecasts for the insulating division, economies are once again likely to develop inhomogeneously in 2005. In the core markets in Western Europe, particularly in Germany and Austria, sustainable growth still cannot be expected. Investments in building construction will remain at a low level, which will mean that growth in the insulating materials industry will be correspondingly low or wholly absent. Important, new export markets for Heraklith, and Eastern Europe, in particular, will be able to capitalise on the positive trends of prior years. The demand for high-grade insulating materials is continuing to rise significantly in Eastern Europe, particularly in Russia, thanks to a strong construction sector and a rise in energy prices. Business development and incoming orders are satisfactory at the beginning of the financial year 2005, although the construction industry has been adversely affected by the long, hard winter and the heavy snow. The business climate will be comparable to 2004 in Western Europe in Heraklith's view, whereas in Eastern Europe and Russia, markets are expected to develop well. Within this environment Heraklith is again expecting strong business development.

Forecasts for the RHI Group results in 2005 are positive overall, provided the world economy is not subjected to renewed recessionary or exchange rate pressures. RHI will continue to fulfill its capital restructuring objectives in the coming year and will continue to spur on the group's positive development with targeted investments.

## Risk management

The RHI Group is exposed to a wide variety of risks in conducting business activities around the world. In addition to the risks inherent to both divisions' ordinary operating activities, particularly market and investment risks, the Group is also exposed to financial risks, especially to credit, liquidity, foreign exchange and interest rate risk.

RHI has a central risk management system used throughout the group to limit these risks. In addition to identifying, analysing and assessing risks, decisions are made on the use of financial instruments, on the management of these risks, and the monitoring of these financial instruments by Group management.

Credit risk is the risk that one contractual party will not discharge its financial obligations resulting in a financial loss for the other party. Credit and default risks are constantly monitored; provisions are set up and valuation allowances made for occurring and identifiable risks. Existing insurance coverage, guarantees and letters of credit are taken into consideration when assessing overall risk. Due to the variety of business partners and customer industries, default risk is not concentrated on one group or sector.

Liquidity risk is the risk of having to raise sufficient funds required to settle liabilities within the stipulated time period. The group's financing policy is based on long-term financial planning and is controlled and monitored centrally at RHI. Based on cash flow planning, the liquidity of all RHI Group companies is secured contractually at all times by an adequate amount of unused, committed credit lines available at short notice.

Foreign exchange risk is the risk arising from fluctuations in the value of financial instruments, other balance sheet items (e.g. receivables and payables) and/or cash flows due to exchange rate fluctuations. This risk exists, in particular, where business transactions are made or could arise in the normal course of business in a currency other than the company's local currency (referred to as foreign currency below). The RHI Group is largely in a position to hedge its receivables and payables in foreign currencies naturally due to the balanced international structure of its operations. Receivables in foreign currencies such as the US dollar are hedged by payables with comparable terms in the same currency. The majority of invoicing and all procurement, for example, raw materials, supplies, and energy in euros and foreign currencies are the responsibility of a special department, due to the centralised nature of the RHI Group's operations. This ensures transparency regarding the main exchange rate risks from operations worldwide. The RHI Group's financial liabilities on which interest has to be paid at the balance sheet date are mainly in euros, which significantly reduces the foreign exchange risk.

Interest rate risk is the risk arising from the change in the value of financial instruments, other balance sheet items and/or interest-related cash flows due to fluctuations in market interest rates. The RHI Group finances itself with financial liabilities on which interest is payable and with subordinated convertible bonds. About 40 percent of its liabilities are fixed-interest, and 60 percent variable-interest financial instruments. Furthermore, subordinated financial liabilities amounting to € 400.0 million exist, on which no interest will be charged until the end of 2006. At the balance sheet date, interest rate risk is not hedged with derivative financial instruments due to the balanced financing structure of the group, secured long-term.

Derivative financial products are assessed and concluded centrally by RHI as part of its central financial risk management policy. Embedded derivatives exist where the economic characteristics and risks of the embedded derivative financial instruments are not closely related to the economic characteristics and risks of the host contract; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid financial instrument would be measured at fair value with changes in fair value not taken through profit or loss. The cases where such derivative financial instruments are used in the RHI Group are for outstanding orders and trade receivables in third currencies.



## Events after the balance sheet date

Details of events after the balance sheet date can be found in the notes.

# RHI Consolidated Balance Sheet 2004

in € million	Notes	31.12.2004	%	31.12.2003	%
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	(1)	469.6	37.4	453.8	38.8
Goodwill	(2)	17.4	1.4	17.3	1.5
Other intangible assets	(3)	9.7	0.8	7.9	0.7
Shares in associates	(4)	39.1	3.1	37.2	3.2
Financial assets	(5)	55.0	4.4	31.4	2.7
Non-current receivables	(6)	8.9	0.7	5.6	0.5
Deferred tax assets	(7)	52.7	4.2	60.3	5.1
		<b>652.4</b>	<b>52.0</b>	<b>613.5</b>	<b>52.5</b>
<b>Current assets</b>					
Inventories	(8)	250.1	19.9	223.6	19.1
Trade and other current receivables	(9)	300.7	24.1	275.8	23.5
Current portion of non-current receivables	(6)	2.4	0.2	4.7	0.4
Income tax receivables		14.8	1.2	16.8	1.4
Securities and shares		2.9	0.2	5.2	0.4
Cash and cash equivalents	(10)	30.7	2.4	31.1	2.7
		<b>601.6</b>	<b>48.0</b>	<b>557.2</b>	<b>47.5</b>
		<b>1,254.0</b>	<b>100.0</b>	<b>1,170.7</b>	<b>100.0</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to equity holders of RHI AG</b>					
Share capital	(11)	159.8	12.7	145.7	12.4
Group reserves	(11)	-506.5	-40.4	-602.0	-51.4
		<b>-346.7</b>	<b>-27.7</b>	<b>-456.3</b>	<b>-39.0</b>
<b>Minority interest</b>	(11)	<b>36.2</b>	<b>2.9</b>	<b>33.6</b>	<b>2.9</b>
		<b>-310.5</b>	<b>-24.8</b>	<b>-422.7</b>	<b>-36.1</b>
<b>Non-current liabilities</b>					
Subordinated liabilities to financial institutions	(12)	400.0	31.9	400.0	34.2
Subordinated convertible bond	(13)	120.9	9.6	130.0	11.1
Subordinated liabilities		520.9	41.5	530.0	45.3
Other non-current financial liabilities	(14)	246.3	19.6	227.3	19.4
Deferred tax liabilities	(7)	16.5	1.3	29.1	2.5
Personnel provisions	(15)	315.0	25.2	319.2	27.3
Other non-current provisions	(16)	2.5	0.2	2.5	0.2
Other non-current liabilities	(17)	44.5	3.6	57.4	4.9
		624.8	49.9	635.5	54.3
		<b>1,145.7</b>	<b>91.4</b>	<b>1,165.5</b>	<b>99.6</b>
<b>Current liabilities</b>					
Trade and other current payables	(17)	284.7	22.7	266.2	22.7
Current financial payables	(14)	44.0	3.5	69.3	5.9
Income tax payables		24.1	1.9	20.1	1.7
Current provisions	(16)	66.0	5.3	72.3	6.2
		<b>418.8</b>	<b>33.4</b>	<b>427.9</b>	<b>36.5</b>
		<b>1,254.0</b>	<b>100.0</b>	<b>1,170.7</b>	<b>100.0</b>

# RHI Consolidated Income Statement 2004

in € million	Notes	2004	%	2003	%
Revenue	(19)	1,297.3	100.0	1,232.6	100.0
Changes in inventories and other own work capitalised	(20)	2.1	0.2	6.9	0.6
Other income	(21)	35.7	2.8	30.4	2.5
Cost of material and other production services	(22)	-577.2	-44.5	-540.7	-43.9
Staff costs	(23)	-329.2	-25.4	-319.2	-25.9
Amortisation of goodwill		0.0	0.0	-1.2	-0.1
Amortisation of other intangible assets and depreciation of property, plant and equipment	(24)	-50.3	-3.9	-51.5	-4.2
Other expenses	(25)	-242.8	-18.7	-235.3	-19.1
<b>Operating result</b>		<b>135.6</b>	<b>10.5</b>	<b>122.0</b>	<b>9.9</b>
Financial result	(26)	-35.0	-2.7	-30.2	-2.5
Result from associates	(27)	5.4	0.4	4.5	0.4
<b>Profit before income taxes</b>		<b>106.0</b>	<b>8.2</b>	<b>96.3</b>	<b>7.8</b>
Income taxes	(28)	-6.3	-0.5	-18.8	-1.5
<b>Profit for the year</b>		<b>99.7</b>	<b>7.7</b>	<b>77.5</b>	<b>6.3</b>
Profit attributable to					
equity holders of RHI AG		95.0	7.3	72.9	5.9
minority interest		4.7	0.4	4.6	0.4
		99.7	7.7	77.5	6.3
in €					
Undiluted earnings per share	(33)	4.63		3.65	
Diluted earnings per share <sup>1)</sup>	(33)	2.58		2.04	

1) Diluted earnings per share assume a conversion of the convertible bonds issued by 2009.

# RHI Consolidated Statement of Changes in Equity 2004

	Notes	Share capital	Equity attributable to equity holders of RHI AG				Group reserves	Minority interest	Total equity
			Additional paid-in capital	Fair value reserves	Currency translation reserves	Accumulated results			
in € million									
<b>31.12.2003</b>		<b>145.7</b>	37.0	2.9	-45.9	-596.0	<b>-602.0</b>	<b>33.6</b>	<b>-422.7</b>
Change in methods of accounting						0.1	<b>0.1</b>		<b>0.1</b>
<b>31.12.2003 adjusted</b>		<b>145.7</b>	37.0	2.9	-45.9	-595.9	<b>-601.9</b>	<b>33.6</b>	<b>-422.6</b>
Currency translation differences					-0.2		<b>-0.2</b>	<b>0.1</b>	<b>-0.1</b>
Valuation gains recognised directly in equity				0.8			<b>0.8</b>		<b>0.8</b>
Other changes						0.3	<b>0.3</b>	<b>-0.1</b>	<b>0.2</b>
<b>Income/expense recognised directly in equity</b>		<b>0.0</b>	0.0	0.8	-0.2	0.3	<b>0.9</b>	<b>0.0</b>	<b>0.9</b>
Profit 2004						95.0	<b>95.0</b>	<b>4.7</b>	<b>99.7</b>
<b>Total recognised income for 2004</b>		<b>0.0</b>	0.0	0.8	-0.2	95.3	<b>95.9</b>	<b>4.7</b>	<b>100.6</b>
Dividend payments							<b>0.0</b>	<b>-2.1</b>	<b>-2.1</b>
Capital increase		<b>14.1</b>					<b>0.0</b>		<b>14.1</b>
Effects of convertible bonds			0.3			-0.8	<b>-0.5</b>		
<b>31.12.2004</b>	(11)	<b>159.8</b>	37.3	3.7	-46.1	-501.4	<b>-506.5</b>	<b>36.2</b>	<b>-310.5</b>

	Notes	Share capital	Equity attributable to equity holders of RHI AG				Group reserves	Minority interest	Total equity
			Additional paid-in capital	Fair value reserves	Currency translation reserves	Accumulated results			
in € million									
<b>31.12.2002</b>		<b>144.8</b>	37.0	10.4	-25.2	-668.1	<b>-645.9</b>	<b>34.9</b>	<b>-466.2</b>
Currency translation differences					-20.7		<b>-20.7</b>	<b>-1.4</b>	<b>-22.1</b>
Available-for-sale securities									
Valuation gains recognised directly in equity				3.1			<b>3.1</b>		<b>3.1</b>
Valuation gains transferred to profit on sale				-10.6			<b>-10.6</b>		<b>-10.6</b>
Other changes						-0.8	<b>-0.8</b>	<b>-2.2</b>	<b>-3.0</b>
<b>Income/expense recognised directly in equity</b>		<b>0.0</b>	0.0	-7.5	-20.7	-0.8	<b>-29.0</b>	<b>-3.6</b>	<b>-32.6</b>
Profit 2003						72.9	<b>72.9</b>	<b>4.6</b>	<b>77.5</b>
<b>Total recognised income for 2003</b>		<b>0.0</b>	0.0	-7.5	-20.7	72.1	<b>43.9</b>	<b>1.0</b>	<b>44.9</b>
Dividend payments							<b>0.0</b>	<b>-2.3</b>	<b>-2.3</b>
Capital increase		<b>0.9</b>					<b>0.0</b>		<b>0.9</b>
<b>31.12.2003</b>	(11)	<b>145.7</b>	37.0	2.9	-45.9	-596.0	<b>-602.0</b>	<b>33.6</b>	<b>-422.7</b>

# RHI Consolidated Cash Flow Statement 2004

in € million	Notes	2004	2003
<b>Cash flow from operating activities</b>	(29)	<b>107.5</b>	<b>100.2</b>
Investments in subsidiaries		0.0	-2.4
Disposal of subsidiaries		0.0	7.4
Investments in property, plant and equipment and in intangible assets		-73.4	-58.5
Disposal of property, plant and equipment and intangible assets		2.3	2.7
Investments in non-current receivables		-0.7	-1.3
Disposal of non-current receivables		4.5	2.3
Investments in financial assets		-24.9	-1.5
Disposal of financial assets and securities		2.1	16.6
Change in associates		3.7	3.0
Investment subsidies received		0.2	1.3
Interest received		3.2	3.7
Dividends received		0.1	0.1
<b>Cash flow from investing activities</b>	(30)	<b>-82.9</b>	<b>-26.6</b>
Dividends to minority shareholders		-2.1	-2.3
Premium from convertible bond issue		0.6	0.3
Convertible bond issue		2.8	2.7
Change in non-current borrowings		23.8	-39.4
Change in current borrowings		-25.3	-31.2
Change in group financial receivables		0.0	-0.2
Change in group financial liabilities		-0.1	0.4
Change in other financial receivables and liabilities		-4.1	5.1
Interest payments		-21.6	-22.0
<b>Cash flow from financing activities</b>	(31)	<b>-26.0</b>	<b>-86.6</b>
<b>Total cash flow</b>		<b>-1.4</b>	<b>-13.0</b>
<b>Change in cash and cash equivalents</b>		<b>-1.4</b>	<b>-13.0</b>
Cash and cash equivalents at beginning of year		31.1	45.7
Change in cash and cash equivalents due to currency translation		1.0	-1.6
Cash and cash equivalents at end of year		30.7	31.1

# RHI Notes to the Consolidated Financial Statement 2004

## The RHI Group

RHI is a global industrial group with its headquarters in Austria. Its business activities comprise the refractories and insulating divisions.

Refractories manufactures ceramic products used in high-temperature production processes exceeding 1,200°C. The refractories division supplies industries such as steel, non-ferrous metals, cement, lime, glass as well as the environment, chemicals and energy sectors.

Insulating manufactures and distributes products made of stone wool, wood-wool building boards and natural insulating materials.

The group's parent company is RHI AG, which has its headquarters in Austria at Wienerbergstraße 11, 1100 Vienna.

## Accounting principles, general

The consolidated financial statements were drawn up in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB).

The consolidated financial statements were compiled in keeping with the principle of cost, with the exception of derivative financial instruments and available-for-sale financial assets, which are measured at fair value at the balance sheet date.

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles under IFRS requires the use of estimates and assumptions, which influence the amount and presentation of assets and liabilities in the balance sheet, disclosed contingent assets and liabilities at the balance sheet date, and incomes and expenses recorded during the reporting period. Although these estimates are made by the Board of Management to the best of their knowledge and are based on current transactions, actual values may eventually differ from the estimates.

The Group has applied IFRS 3 "Business Combinations", and consequently, IAS 36 "Impairment of Assets" (revised 2004)" and IAS 38 "Intangible Assets" (revised 2004) early. The previous year's figures have not been adjusted due to the group's obligation to apply these standards prospectively.

IAS 1 "Presentation of Financial Statements" (revised 2003) was applied early in 2003.

## Principles of accounting and measurement

### A Principles of consolidation

The balance sheet date for all the financial statements included in consolidation is December 31, 2004.

#### Consolidated group

The consolidated financial statements include – in addition to RHI AG - 15 (31.12.2003: 16) Austrian and 67 (31.12.2003: 67) foreign subsidiaries, in which RHI AG holds either a direct or an indirect majority of voting rights, or exercises management control.

Seven companies, whose operating and financial policies are significantly influenced by group companies, (associates) are consolidated using the equity method.

The consolidated group developed as follows over the reporting period:

	Full consolidation	Equity method
<b>At 31.12.2003</b>	<b>84</b>	<b>7</b>
Additions	6	0
Disposals	7	0
<b>At 31.12.2004</b>	<b>83</b>	<b>7</b>

#### Fully consolidated subsidiaries

##### Additions

Additions to the consolidated group in 2004 in comparison to the previous year are the inclusion in consolidation or establishment of the following companies: C&G Verwaltungsgesellschaft mbH, Bad Berka, Germany; FC Technik AG, Winterthur, Switzerland; OOO RHI CIS, Moscow, Russia; RHI CHILE S.A., Santiago, Chile; RHI Rückversicherungs AG, Vaduz, Liechtenstein; Veitsch-Radex America Inc., Burlington, Ontario, Canada.

In the 2004 financial year, the group's share in its fully consolidated subsidiary, Didier-Werke AG, Wiesbaden, Germany, was increased by around 0.02 percent. Less than € 0.1 million was spent on this. The acquired goodwill was recognised as an intangible asset in the balance sheet and is tested annually for impairment. Cash paid for investments in subsidiaries amounted to € 2.4 million in 2003.

##### Disposals

Zimmermann & Jansen Beteiligungs-GmbH, Düren, Germany, is no longer part of the consolidated group due to its merger with another subsidiary.

The following six companies were liquidated or sold over the course of 2004: Construcciones Didier S.L., Madrid, Spain; Corrosion Technologies de México, S.A. de C.V., Monterrey, Mexico; Heraklith Consulting & Engineering GmbH, Ferndorf; RHI Refractories Spaeter (UK) Ltd., Cirencester, United Kingdom; Veitsch-Radex-Didier-Australia Pty. Ltd., Pymble, Australia; and VRD Holdings (Australia) Pty. Ltd., Pymble, Australia.

The effects of changes in subsidiaries on the consolidated balance sheet and income statement in comparison to the previous year are shown below:

in € million	Disposal
Revenue	-21.4
Operating result	-0.1
Result before income taxes	0.1

These effects are entirely due to the sale of Villas Austria GmbH, Fürnitz, and Villas Hungaria Kft., Zalaegerszeg, Hungary, in the previous year. These changes in the consolidated group have not had a material impact on the consolidated balance sheet.

**Subsidiaries not included in consolidation**

The option to include six subsidiaries was not exercised as they are deemed not to be of material importance in giving a true and fair view of the group's financial position, the results of its operations and its cash flows. The revenue of the subsidiaries concerned account for approx. 0.03 percent of total group revenue.

At the beginning of 2002, the lead companies of 49 former US subsidiaries of the RHI Group (particularly Harbison-Walker Refractories Co., AP Green Industries Inc. and North American Refractories Co.) filed for protection and reorganisation under Chapter 11 of the US Bankruptcy Code due to the steps taken by US management. As of December 31, 2001, these companies are no longer deemed subsidiaries of RHI AG, as RHI AG is no longer able to exercise control over these companies due to the Chapter 11 proceedings.

A comprehensive list of the consolidated group and the shareholdings of RHI AG can be found in Note 38.

**Methods of consolidation**

Capital consolidation is carried out in accordance with the provisions of IFRS 3. All business combinations are accounted for by applying the purchase method. This involves offsetting the cost of the shares in the entities plus any costs directly attributable to the acquisition against the share in net assets based on the fair values of the assets given and the liabilities incurred or assumed of these entities at the date of acquisition or transfer of control.

Identifiable intangible assets are recognised separately and amortised systematically or, if their useful life cannot be determined, are tested at least once annually for impairment, as in the case of goodwill. The remaining goodwill is attributed to cash-generating unit(s) and is tested for impairment at this level.

Negative differences are recognised immediately in profit or loss in accordance with the provisions of IFRS 3.

Intragroup receivables and payables as well as expenses and income are netted.

Unrealised gains and losses from intragroup transactions that are recognized in non-current assets and inventories are eliminated in full, unless they are deemed immaterial.

Deferred taxes required under IAS 12 are set up for temporary differences resulting from consolidation.

Associates are accounted for by the equity method. Associates are entities in which the group has 20 to 50 percent of the voting rights and can exercise significant influence. The cost of the investments accounted for by the equity method is adjusted annually by the change in the equity of the associate attributable to the RHI Group. The principles applicable to full consolidation are used to account for differences between the initial costs of the investment and the fair values of the group's share in the associate's equity.

Companies are deconsolidated on the day control ceases to exist.

**B Currency translation**

The consolidated financial statements are measured in euros. All amounts are given in million euros (€ million) unless otherwise stated.

Receivables and payables denominated in foreign currencies in the individual financial statements of group companies are measured at the exchange rate prevailing at the balance sheet date.



With the exception of Magnesit Anonim Sirketi, Istanbul, Turkey, and RHI CHILE S.A., Santiago, Chile, the financial statements of foreign subsidiaries are translated into euros using the functional currency concept. This is the currency of the country where the subsidiaries are located as the subsidiaries operate independently in financial, economic and organisational terms.

The financial statements of Magnesit Anonim Sirketi, Istanbul, Turkey, and RHI CHILE S.A., Santiago, Chile, are denominated in euros and US dollars respectively.

Assets and liabilities of foreign subsidiaries are translated at the mean rate at the balance sheet date, income statement items are translated at annual average rates. Translation differences resulting from this or from the currency translation of amounts carried forward from the previous year are recognised directly in equity and not taken through profit or loss. Cash flows are translated at annual average rates.

Goodwill arising from the acquisition of an economically independent subsidiary is attributed to the cash-generating unit on initial consolidation. Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate on the balance sheet date.

Unrealised exchange rate differences from non-current shareholder loans are offset against the adjusting item for currency translation and are recognised directly in equity.

The euro exchange rates of the main currencies are listed in the following table:

	Closing rate		Average rate	
	31.12.2004	31.12.2003	2004	2003
Pound sterling	0.70600	0.70750	0.67867	0.69216
Canadian dollar	1.64500	1.63000	1.61688	1.58229
Chilean peso	752.17000	746.45000	757.27417	779.76250
Croatian kuna	7.60000	7.63000	7.48804	7.56875
Mexican peso	15.11300	14.15000	14.03717	12.22183
Renminbi yuan	11.20500	10.42900	10.29591	9.36815
South African rand	7.71500	8.36800	8.00877	8.51847
Hungarian forint	244.50000	263.00000	251.63000	253.39667
US dollar	1.36620	1.26100	1.24398	1.13180

### C Property, plant and equipment

Property, plant and equipment are measured at cost less scheduled depreciation. Property, plant and equipment are depreciated systematically over the expected useful life of the assets. Depreciation is made pro-rata-temporis from the month following the asset's initial use.

Property, plant and equipment also include assets of lesser importance used to generate rental or leasing income or to create long-term value which are not used in production or for administrative purposes. These assets are measured at net carrying value or production cost.

Leased property, plant and equipment classified as finance leases are recognised as assets and liabilities in accordance with IAS 17 at the lower of the fair value of the leased property or the present value of the minimum lease payments. The leased assets are depreciated systematically over the asset's expected useful life. The future lease payments are discounted and recognised as liabilities. Current payments are split into the liability and the finance charge.

All other leasing contracts are treated as operating leases and are attributed to the lessor. Rental payments are recognised as an expense.

The production cost of self-constructed assets includes attributable direct costs plus prorated capitalised production overheads. Borrowing costs for property, plant and equipment, the production or purchase of which covers a longer period of time, are not capitalised.

Expected dismantling and disposal costs at the end of the assets' useful lives are capitalised as part of the cost of that asset and recorded in a provision. The criteria for recognition are that a legal or constructive obligation to third parties exists and that cost can be estimated reliably.

Scheduled depreciation is based on the following economic useful lives, which are uniform throughout the group:

Factory buildings	15 to 30 years
Other buildings	10 to 50 years
Land improvements	8 to 50 years
Technical equipment and machinery	4 to 60 years
Other plant, furniture and fixtures	3 to 20 years

Raw material deposits are depreciated using the units of production method.

Maintenance costs for property, plant and equipment are generally charged to the income statement. They are capitalised only if the costs significantly extend or improve the asset concerned.

Gains or losses resulting from the retirement or disposal of non-current assets arising from the difference between the net amount recovered and the carrying amount are recognised as profit or loss.

#### **D Goodwill, negative goodwill**

Goodwill is recognised as an asset under IFRS 3 and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Goodwill acquired up to December 31, 2003 was amortised systematically over its expected useful life not exceeding 18 years and was tested for impairment at each balance sheet date. In accordance with IFRS 3, the carrying amount of the related accumulated amortisation was eliminated with a corresponding decrease in the historical cost of the goodwill at January 1, 2004.

Fully amortised goodwill is presented in the schedule of non-current assets as a disposal.

Negative goodwill is recognised immediately as profit in accordance with IFRS 3.

Prior to the application of IFRS 3, negative goodwill was charged to the income statement over a maximum of four years. As of January 1, 2004, the carrying amount of negative goodwill is derecognised with a corresponding adjustment to the opening balance of consolidated retained earnings.

#### **E Other intangible assets**

Research costs are expensed in the year the costs are incurred.

Development costs also represent expenses for the period. Development costs can only be capitalised if the intangible asset will generate probable future economic benefits exceeding the development costs in addition to normal costs. In addition, all the recognition criteria under IAS 38 must be met.

Costs incurred in the internal development of software are recognised as current expenses as they arise, unless the costs primarily relate to maintaining existing software.

Expenses that can be directly and unequivocally attributed to individual programmes and constitute a significant extension or improvement on the original software are capitalised as production expenses and are credited to the cost of the software. These direct costs include the staff costs of the development team and appropriate prorated overheads.

Capitalised development costs are amortised systematically over their expected useful life for a maximum of five years.

Purchased intangible assets are recognised at cost including incidental acquisition costs, less systematic amortisation over their useful lives ranging from three to ten years.

## **F Impairment of non-current assets**

Property, plant and equipment and intangible assets including goodwill are examined for impairment if circumstances arise that could indicate that the carrying amount is no longer recoverable.

An asset is impaired if its recoverable amount is lower than its carrying amount. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use (present value of future cash flows).

If the reason for the impairment loss recognised in prior years no longer exists, the asset is written up to its net carrying amount.

Impairment tests are carried out for groups of assets which can be identified as cash-generating units.

## **G Financial instruments**

Material financial instruments consist of the financial assets presented in the balance sheet, non-current and current receivables, securities and shares, cash and cash equivalents, financial liabilities, and trade and other current payables.

Financial instruments are classified at acquisition as held-for-trading, held-to-maturity or available-for-sale, provided they are not loans extended by the company or receivables. The classification is re-examined on a regular basis.

Shares in non-consolidated subsidiaries, investments and securities are all classified as available-for-sale, as they are held neither for trading nor do they have a fixed term to maturity.

They are shown under non-current assets unless intended for sale within the next twelve months.

Available-for-sale financial instruments are measured at cost including any transaction costs at acquisition. Subsequent measurement is at fair value, with changes in fair value recognised directly in equity.

If circumstances arise that could indicate impairment, an impairment test is carried out for financial instruments. If impairment losses have been incurred, the carrying amounts of the assets are reduced accordingly through the use of an allowance account and the loss is recognised in the income statement. Assets are increased to their recoverable amount if the reasons for the impairment are no longer given.

Shares in non-consolidated subsidiaries and investments are also classified as available-for-sale financial instruments, but are measured principally at cost, as there is no active market for these companies and it would be too time-consuming and difficult to estimate the fair value reliably. If the fair value is known to be lower, the carrying amount is adjusted to the fair value.

All purchases and sales of financial assets are recognised at the date of settlement.

Non-current receivables are measured at amortised cost. Foreign currency receivables are measured at the exchange rate at the balance sheet date.

Non-current receivables that fall due within twelve months of the balance sheet date are shown under current assets.

## **H Deferred taxes**

Deferred taxes are recognised for temporary differences between the tax base and the IFRS carrying amount of assets and liabilities, for unused tax losses and for consolidation transactions.

Deferred tax assets are recognised in the RHI Group to the extent that it is probable that future taxable profit including results from reversing taxable temporary differences will be available in the plan period against which the deferred tax assets can be utilised.

Deferred taxes are calculated using the national tax rates of the individual countries that have been enacted or substantively enacted (15 to 40 percent) at the balance sheet date.

Deferred tax assets and liabilities relating to the same tax authorities are netted.

Deferred tax assets are shown under non-current assets, deferred tax liabilities under non-current liabilities.

Deferred taxes are recognised for all temporary differences relating to shares in subsidiaries and associates unless the parent company is able to control the timing of the reversal of the temporary differences and it is probable that these temporary differences will not reverse in the foreseeable future.

## **I Inventories**

Inventories are stated at the lower of cost or net realisable value at the balance sheet date. Cost is determined using the moving average cost method.

Unfinished products and work in progress are measured at the cost of conversion. Borrowing costs are not capitalised.

## **J Construction contracts**

Construction contracts are accounted for using the percentage-of-completion method, if the criteria under IAS 11 are met. This is not used for contracts that have an immaterial impact on RHI's consolidated financial statements.

Construction costs computed using the percentage-of-completion method plus a profit mark-up according to the stage of completion are shown under receivables from construction contracts and as revenue. The stage of completion is generally measured by reference to the relation contract costs incurred to date bear to expected total costs. Expected contract losses are covered by provisions, set up taking identifiable risks into consideration. Prepayments received are deducted from the receivables relating to construction contracts. Any resulting negative balance for a construction contract is recorded as a liability from construction contracts.

**K Receivables**

Receivables are shown at nominal value. Provisions for risk cover all identifiable credit and country risks.

Foreign currency receivables are measured at the mean exchange rate at the balance sheet date.

**L Cash and cash equivalents**

Cash and cash equivalents contain cash in hand, cheques and cash at banks. Cash and cash equivalents in foreign currencies are measured at the mean rate at the balance sheet date.

**M Convertible bonds**

Convertible bonds are financial instruments that consist of a debt and an equity component. The present value of the bond liability and the equity portion of the convertible bond are set at the date of issue. The present value of the bond liability is computed using a market interest rate for an equivalent, non-convertible bond. The remaining difference to the nominal value of the bond, which represents the value of the conversion option, is contained in additional paid-in capital. No deferred taxes are calculated for this difference due to the assumption that all part-convertible bonds will be converted.

The convertible bond liability is stated at its net carrying amount until redemption or conversion. The interest expense of the bond is calculated on the basis of an internal interest rate of around 7.3 percent.

**N Provisions****General**

Provisions are set up when the group has a present legal or constructive obligation to third parties as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Non-current provisions are measured at their discounted amount at the balance sheet date if the interest effect of the discount is significant.

**Personnel provisions****Provisions for pensions**

For post-employment benefits, differentiation is made between defined contribution plans and defined benefit plans.

With defined contribution plans, the enterprise's obligation is limited to its contributions to a defined contribution plan. The contributions are recognised in staff costs, no provision is set up. Defined contribution plans exist in Canada, the United Kingdom and in some cases in Austria.

In the case of defined benefit plans, the company is obliged to provide benefits to active and former employees and their dependents to which it has committed, with a differentiation being made between provision-financed and fund-financed pension systems. The majority of benefits are funded through provisions in Austria and Germany. Fund-financed defined benefit plans exist in Mexico, the United Kingdom and in some cases in Austria.

In the case of a fund-financed system, the assets held in the fund are deducted from the post-employment benefit obligations calculated according to the projected unit credit method. If the fund's assets do not cover the obligations, the net obligation is recognised as a liability under provisions for pensions. Provisions for pensions are calculated using actuarial methods in accordance with IAS 19. The present value of future benefits is calculated in line with years of service, expected salary development and pension adjustments.

The pension cost to be recognised in the period includes service cost, interest cost, expected income on plan assets and income from the amortisation of past-service costs and actuarial gains and losses.

Actuarial assumptions are made regarding the calculation of obligations, particularly regarding the interest rate used for discounting, but also the rate of increase of salaries and pensions, and finally, the pensionable age and probabilities regarding employee turnover and take-up.

Calculation is based on local biometrics.

The present value of future benefits is calculated using an interest rate based on the average yield on government bonds of the same maturity.

The rates of salary increases are based on an average of past years, provided this development is deemed realistic in future.

The discounts for employee turnover and the probability of benefits being claimed are based on figures for comparable prior periods.

In calculating post-employment benefits, expected retirements are based on the underlying commitments given.

Actuarial gains and losses are not taken into consideration, unless they exceed 10 percent of the obligation. The amount exceeding the corridor is charged to the income statement and recorded in the balance sheet over the average remaining service of the active staff.

#### **Provisions for termination benefits**

Provisions for termination benefits mainly relate to obligations to employees under Austrian law and to a small extent pursuant to other local legislation.

Termination benefits under Austrian law are lump-sum settlements that must be paid by the employer under labour legislation when an employee's contract is terminated by an employer, and regularly on retirement. The amount paid depends on the level of final remuneration and the number of years of service. The company therefore has direct commitments for which provisions have to be set up and measured in accordance with IAS 19 for staff joining the company before or during 2002.

The projected unit credit method is applied, taking the corridor regulation into consideration.

For employees who have joined an Austrian company since the beginning of 2003, the employer is obliged to pay a regular contribution of 1.53 percent of monthly remuneration and any additional payments into a "Mitarbeitervorsorgekasse" (statutory termination benefit scheme). The company has no obligations beyond this. The employees' entitlement to termination benefits is towards the "Mitarbeitervorsorgekasse," and current contributions to the scheme are shown in staff costs, in line with the treatment of defined contribution plans.

### **Other personnel provisions**

Other personnel provisions include provisions for anniversary bonuses, lump-sum settlements and payments to semi-retirees.

Anniversary bonuses are one-off special payments dependent on remuneration and years of service, which have to be paid by the employer due to collective agreements or company agreements once an employee has served a certain number of uninterrupted years with a company.

Provisions for anniversary bonuses, if a legal obligation to provide them exists, are calculated actuarially in accordance with the employees' years of service using an interest rate of 5.25 percent (31.12.2003: 5.5 percent) and taking salary increases of 3.5 percent (31.12.2003: 3.5 percent) into consideration.

Provisions for lump-sum settlements and payments to semi-retirees are set up for employees if required under local labour legislation or if similar regulations for individual group companies regarding other employee benefits exist.

### **Provisions for warranties**

Provisions for warranties are set up for individual contracts. The extent is calculated according to the amount of warranty claims expected or made.

### **O Liabilities**

Liabilities are measured at the higher of nominal value or amount repayable in accordance with the principle of higher of cost or market (net carrying amount). Foreign currency liabilities are measured at the mean rate at the balance sheet date.

### **P Subsidies**

Investment subsidies are shown as liabilities and are charged to the income statement over the useful life of the asset to which they are attributed.

This does not include subsidies granted as compensation for expenses or losses already incurred. These are immediately recorded as revenue.

### **Q Revenue and expenses**

Revenue is recognised upon delivery or when the risk passes to the customer, discounts and rebates are deducted. Revenue for construction contracts is recognised in accordance with the percentage-of-completion method, provided the conditions under IAS 11 are met.

Expenses are recognised in the income statement when the service is rendered or when the expenses are incurred.

Interest income and expenses are recognised in the period in which they are incurred.

Income taxes are recognised in line with local regulations for each company.

### **R Segment reporting**

The segmentation of the RHI Group into the refractories and insulating divisions is in line with its internal organisational and managerial structure and is thus the basis of primary segment reporting.

Secondary reporting is on a regional basis. Revenues are segmented by customer location and asset-related figures by the company's own locations.

Transfer prices between the divisions are based on market conditions.

## **S Financial risk management**

The RHI Group is exposed to a variety of financial risks, particularly credit risk, liquidity risk, foreign exchange risk and interest rate risk.

RHI has a central risk management system used throughout the group to limit these risks, which result from the group's operating activities worldwide and to the financing structure of the RHI Group.

In addition to identifying, analysing and assessing financial risks, decisions are made on the use of financial instruments and on the management of these risks at the group's headquarters. The possible use of derivative financial instruments in this context is subject to monitoring by management.

### **Risk factors**

#### **Credit risk**

Credit risk is the risk that one contractual party will not discharge its financial obligations resulting in a financial loss for the other party. Even if the creditworthiness of the contractual partner is first class, the risk of default inherent to the host contract is hedged as far as possible by credit insurance and bank security (guarantees, letters of credit). The creditworthiness criteria applied are stipulated in contracts with credit insurers and in internal guidelines. Credit and default risks are constantly monitored. Provisions are set up and valuation allowances made for occurring and identifiable risks.

Existing insurance coverage, guarantees and letters of credit are taken into consideration when assessing overall risk.

Default risk is not concentrated on one group or sector due to the variety of business partners and customer industries and to the group's existing credit insurance coverage.

#### **Liquidity risk**

Liquidity risk is the risk of having to raise sufficient funds required to settle liabilities within the stipulated time period. The group's financing policy is based on long-term financial planning and is controlled and monitored centrally at RHI.

In addition to cash flow planning, the liquidity of all RHI Group companies is secured at all times by an adequate amount of unused, committed credit lines available at short notice. These credit lines are available until the end of 2006 at least.

Subordinated liabilities to financial institutions are contractually available until 2013. These liabilities are not subordinated from 2007 onwards.

#### **Foreign exchange risk**

Foreign exchange risk is the risk arising from fluctuations in the value of financial instruments, other balance sheet items (e.g. receivables and payables) and/or cash flows due to exchange rate fluctuations. This risk exists, in particular, where business transactions are made or could arise in the normal course of business in a currency other than the company's local currency (referred to as foreign currency below).

The RHI Group is largely in a position to hedge its receivables and payables in foreign currencies naturally due to the balanced international structure of its operations. Receivables in foreign currencies such as the US dollar are hedged by payables with comparable terms in the same currency.



The majority of invoicing and all procurement, for example, raw materials, supplies, and energy in euros and foreign currencies are coordinated by special departments, due to the centralised nature of the RHI Group's operations. This ensures transparency regarding the main exchange rate risks from operations worldwide.

Foreign exchange positions are not hedged by derivative financial instruments due to the minimal remaining net risk outstanding at the balance sheet date. Regular positive foreign exchange positions in US dollars are managed centrally by RHI and are used for regular repayments of non-current financial liabilities in US dollars.

The RHI Group's financial liabilities on which interest has to be paid at the balance sheet date are mainly in euros, which significantly reduces the foreign exchange risk.

### **Interest rate risk**

Interest rate risk is the risk arising from the change in the value of financial instruments, other balance sheet items and/or interest-related cash flows due to fluctuations in market interest rates. The interest rate risk contains the present value risk for fixed-interest balance sheet items and the cash flow risk for variable-interest balance sheet items.

A market rate for the whole term to maturity is fixed for financial instruments with fixed interest rates. The risk is that the market rate of the financial instrument (present value of future cash flows, i.e. interest and repayment of principal, discounted at the market interest rate applicable to the remaining term to maturity at the balance sheet date) may change. The interest-related market risk will result in a loss or a profit if the fixed-interest financial instrument is sold prior to maturity. The interest rate is regularly adjusted for variable-interest financial instruments and generally follows the market rate. The risk here is that the market interest rate will fluctuate and that interest payments will change as a result.

The RHI Group finances itself with financial liabilities on which interest is payable and with subordinated convertible bonds. About 40 percent of its liabilities are fixed-interest, and 60 percent variable-interest financial instruments. Furthermore, subordinated financial liabilities amounting to € 400.0 million exist, on which no interest will be charged until the end of 2006.

At the balance sheet date, interest rate risk is not hedged with derivative financial instruments due to the balanced financing structure of the group, secured long-term.

### **Derivative financial instruments**

Derivative financial products are assessed and concluded centrally by RHI as part of its central financial risk management policy.

Embedded derivatives exist where the economic characteristics and risks of the embedded derivative financial instruments are not closely related to the economic characteristics and risks of the host contract; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid financial instrument is measured at fair value with changes in fair value not taken through profit or loss.

The cases where such derivative financial instruments are used in the RHI Group are for outstanding orders and trade receivables in third currencies. The host contracts are primary financial instruments measured at net carrying amounts. The derivative financial instruments are separated from each host contract, measured at fair value and recognised in other expenses/other income.

**Fair values**

The trade receivables, other receivables and payables, and cash and cash equivalents shown in RHI's balance sheet largely correspond to fair values due to their short term to maturity.

The fair values of financial liabilities are calculated as the present value of discounted future cash flows using market rates applicable to financial liabilities with a corresponding term to maturity and risk structure.

**T Assumption and estimates**

In preparing its consolidated financial statements in accordance with generally accepted accounting principles, the RHI Group has made assumptions and estimates on non-current assets, writedowns of inventories, receivables, provisions and deferred taxes. These assumptions and estimates are based on the future to a certain extent. Actual values may eventually differ from the assumptions and estimates made.

**Impairment of goodwill**

The effect of an adverse change in the interest rate of plus 10 percent or in contribution to profit of minus 10 percent as estimated at December 31, 2004 would not result in an impairment loss on goodwill recognised in the balance sheet.

Under IAS 36, if the actual interest rate is lower or the contribution to profit is higher than management has assumed, impairment losses recognised in previous years may not be reversed.

**Deferred taxes**

If future taxable profits within the defined plan period for accounting for deferred taxes are more than 10 percent higher or lower than the assumptions made at the balance sheet date, the net position of deferred taxes would have to be adjusted by € 4.1 million.

Changes in estimates and assumptions regarding all the other balance sheet items would not have a material impact on the group's financial position, the results of its operations and its cash flows for the following financial year.

## Notes on individual balance sheet items

### Assets

#### Non-current assets

The development of non-current assets is broken down into the main individual categories.

The assets of foreign companies at the beginning and end of the year are translated into euros at rates prevailing on the balance sheet date, changes during the year at annual average rates. Exchange rate differences resulting from different translation rates are shown separately.

#### (1) Property, plant and equipment

Property, plant and equipment have changed as follows:

in € million	Real estate, land and buildings	Raw material deposits	Technical equipment and machinery	Other plant and office equipment	Prepayments made and plant under construction	Total
Cost at 31.12.2003	368.5	30.2	725.2	218.1	33.1	1,375.1
Currency translation	-1.1	0.1	-0.5	0.1	-1.8	-3.2
Additions	7.7	0.1	9.8	3.4	49.8	70.8
Retirements and disposals	-3.4	0.0	-33.3	-20.3	0.0	-57.0
Reclassifications	4.1	0.0	24.5	1.5	-32.1	-2.0
<b>Cost at 31.12.2004</b>	<b>375.8</b>	<b>30.4</b>	<b>725.7</b>	<b>202.8</b>	<b>49.0</b>	<b>1,383.7</b>
Accumulated depreciation at 31.12.2003	202.8	20.8	517.2	180.5	0.0	921.3
Currency translation	0.0	0.0	0.1	0.2	0.0	0.3
Depreciation charge	8.3	0.4	28.4	9.0	0.0	46.1
Impairment losses	0.9	0.0	0.4	0.2	0.0	1.5
Retirements and disposals	-3.0	0.0	-32.2	-19.9	0.0	-55.1
Reclassifications	0.0	0.0	4.0	-4.0	0.0	0.0
<b>Accumulated depreciation at 31.12.2004</b>	<b>209.0</b>	<b>21.2</b>	<b>517.9</b>	<b>166.0</b>	<b>0.0</b>	<b>914.1</b>
<b>Carrying amounts at 31.12.2004</b>	<b>166.8</b>	<b>9.2</b>	<b>207.8</b>	<b>36.8</b>	<b>49.0</b>	<b>469.6</b>
Carrying amounts at 31.12.2003	165.7	9.4	208.0	37.6	33.1	453.8

Assets classified as finance leases are included in property, plant and equipment and amount to € 2.2 million (31.12.2003: € 2.5 million); acquisition costs amount to € 5.0 million (31.12.2003: € 4.8 million). These are mainly technical equipment and machinery.

The market value of assets held to generate rental and leasing income or to increase value long-term that are not used in production or for administrative purposes largely correspond to their carrying amounts. This is € 2.6 million (31.12.2003: € 3.1 million) at year-end. Rental income of € 0.2 million (2003: € 0.2 million) was generated in the reporting period, matched by expenses that remain unchanged at € 0.1 million.

The marketability of real estate amounting to € 28.8 million (31.12.2003: € 28.8 million) is limited by its use as collateral.

## (2) Goodwill

Goodwill and negative goodwill developed over the business year as follows:

in € million	Goodwill	Negative goodwill	Total
Cost at 31.12.2003	21.3	-0.3	21.0
Early adoption of IFRS 3	-3.9	0.3	-3.6
<b>Cost at 31.12.2004</b>	<b>17.4</b>	<b>0.0</b>	<b>17.4</b>
Accumulated amortisation at 31.12.2003	3.9	-0.2	3.7
Early adoption of IFRS 3	-3.9	0.2	-3.7
<b>Accumulated amortisation at 31.12.2004</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Carrying amounts at 31.12.2004</b>	<b>17.4</b>	<b>0.0</b>	<b>17.4</b>
Carrying amounts at 31.12.2003	17.4	-0.1	17.3

## (3) Other intangible assets

Other intangible assets developed as follows:

in € million	Internally generated software	Other intangible assets	Total
Cost at 31.12.2003	0.8	38.7	39.5
Currency translation	0.0	-0.1	-0.1
Additions	0.9	1.7	2.6
Retirements and disposals	0.0	-4.0	-4.0
Reclassifications	0.0	2.0	2.0
<b>Cost at 31.12.2004</b>	<b>1.7</b>	<b>38.3</b>	<b>40.0</b>
Accumulated amortisation at 31.12.2003	0.1	31.5	31.6
Amortisation charge	0.2	2.5	2.7
Retirements and disposals	0.0	-4.0	-4.0
<b>Accumulated amortisation at 31.12.2004</b>	<b>0.3</b>	<b>30.0</b>	<b>30.3</b>
<b>Carrying amounts at 31.12.2004</b>	<b>1.4</b>	<b>8.3</b>	<b>9.7</b>
Carrying amounts at 31.12.2003	0.7	7.2	7.9

Expenditure on research and development recorded as an expense in 2004 amounts to € 18.6 million (2003: € 16.0 million).

## (4) Shares in associates

Shares in associates have developed as follows:

in € million	2004	2003
<b>Carrying amount at beginning of year</b>	<b>37.2</b>	<b>36.6</b>
Currency translation	0.2	-0.6
Share in profit (after tax)	5.4	4.2
Dividends	-3.7	-3.0
<b>Carrying amount at end of year</b>	<b>39.1</b>	<b>37.2</b>

The amount recognised in the balance sheet at December 31, 2004 contains goodwill amounting to € 5.1 million, unchanged on the prior year, after eliminating the related accumulated amortisation amounting to € 0.6 million with a corresponding decrease in the original cost, in accordance with IFRS 3.

**(5) Financial assets**

Financial assets have developed as follows:

in € million	Available-for-sale shares in subsidiaries	shares in other companies	securities	Prepayments on investments	Total
Cost at 31.12.2003	3.0	2.3	33.9	0.0	39.2
Additions	0.0	0.0	2.2	20.0	22.2
Fair value changes recognised in equity	0.0	0.7	0.1	0.0	0.8
<b>Cost/fair value at 31.12.2004</b>	<b>3.0</b>	<b>3.0</b>	<b>36.2</b>	<b>20.0</b>	<b>62.2</b>
Accumulated depreciation at 31.12.2003	2.9	1.8	3.1	0.0	7.8
Reversal of impairment losses	0.0	0.0	-0.6	0.0	-0.6
<b>Accumulated depreciation at 31.12.2004</b>	<b>2.9</b>	<b>1.8</b>	<b>2.5</b>	<b>0.0</b>	<b>7.2</b>
<b>Carrying amounts at 31.12.2004</b>	<b>0.1</b>	<b>1.2</b>	<b>33.7</b>	<b>20.0</b>	<b>55.0</b>
Carrying amounts at 31.12.2003	0.1	0.5	30.8	0.0	31.4

In December 2004, a prepayment was made on a fifty-percent share in Eurovek d.o.o., Ljubljana, Slovenia. The contract of sale provides for the complete takeover of Eurovek d.o.o. by 2008 at the latest. With this purchase, Heraklith will indirectly acquire further shares in Termo d.d., Skofja Loka, Slovenia, and in its shareholdings in Termika d.o.o., Novi Marof, Croatia, und Izomat a.s., Nova Bana, Slovakia. Heraklith exercised control over these companies at the end of January 2005.

Put/call options for the seller and the buyer respectively were arranged as part of the contract of sale. The premium from the valuation of both options, which are presented under non-current receivables and liabilities, reduces the prepayment on the share in Eurovek d.o.o..

**(6) Non-current receivables and current portion of non-current receivables**

These balance sheet items are broken down as follows:

in € million	31.12.2004	31.12.2003
<b>Non-current receivables</b>		
- from associates	2.9	4.5
- from others	6.0	1.1
	<b>8.9</b>	<b>5.6</b>
<b>Current portion of non-current receivables</b>		
- from associates	2.0	2.5
- from others	0.4	2.2
	<b>2.4</b>	<b>4.7</b>
<b>Total</b>	<b>11.3</b>	<b>10.3</b>

Other non-current receivables amounting to € 0.4 million (31.12.2003: € 0,6 million) are secured by real estate.

The fair values and carrying amounts of non-current receivables only differ slightly from one another.

**(7) Deferred taxes**

The following deferred tax assets and liabilities are shown in the balance sheet:

in € million	31.12.2004	31.12.2003
Deferred tax assets	52.7	60.3
Deferred tax liabilities	16.5	29.1
<b>Net position</b>	<b>36.2</b>	<b>31.2</b>

The net position from the group's deferred taxes developed as follows during the business year:

in € million	2004	2003
<b>Net position at beginning of year</b>	<b>31.2</b>	<b>27.2</b>
Currency translation	-0.2	0.3
Charge to income statement during financial year	21.6	2.9
Disposal of subsidiaries	0.0	0.1
Effect of changes in tax rates	-16.4	0.7
<b>Net position at year-end</b>	<b>36.2</b>	<b>31.2</b>

The Austrian Federal Parliament passed the 2005 tax reform on May 6, 2004. Among other points, this provides for a decrease in the corporate income tax rate applicable to companies from 34 to 25 percent, effective from January 1, 2005.

The corresponding adjustment was made at December 31, 2004. The net deferred tax asset position of the Austrian companies consequently fell by € 16.8 million.

Deferred taxes result from the following types of temporary differences and tax loss carryforwards:

#### Deferred tax assets

in € million	Personnel provisions	Other provisions	Tax loss carryforwards	Other	Total
<b>31.12.2003</b>	<b>35.1</b>	<b>8.3</b>	<b>44.6</b>	<b>2.1</b>	<b>90.1</b>
Currency translation	0.0	0.1	-0.1	0.0	0.0
Charge to income statement during financial year	4.4	2.5	4.3	1.2	12.4
Effect of changes in tax rates	-6.8	-2.3	-10.2	-0.9	-20.2
<b>31.12.2004</b>	<b>32.7</b>	<b>8.6</b>	<b>38.6</b>	<b>2.4</b>	<b>82.3</b>

#### Deferred tax liabilities

in € million	Accelerated tax depreciation	Other	Total
<b>31.12.2003</b>	<b>50.2</b>	<b>8.7</b>	<b>58.9</b>
Currency translation	0.1	0.1	0.2
Charge to income statement during financial year	-10.5	1.3	-9.2
Effect of changes in tax rates	-2.3	-1.5	-3.8
<b>31.12.2004</b>	<b>37.5</b>	<b>8.6</b>	<b>46.1</b>

The RHI Group has tax loss carryforwards amounting to € 1,281.8 million (31.12.2003: € 1,209.5 million) at December 31, 2004. No deferred taxes were set up for € 1,127.3 million (31.12.2003: € 1,067.5 million). The main portion of tax losses can be carried forward indefinitely. € 0.8 million must be used by 2008, € 0.6 million by 2009, € 0.3 million by 2010, € 5.8 million by 2011, € 0.2 million each year by 2012, 2013 and 2014, and € 0.6 million by 2024.

Furthermore, no deferred tax assets were set up for temporary differences amounting to € 2.3 million (31.12.2003: € 5.5 million) in total.

Taxable temporary differences associated with shares in subsidiaries amounting to € 158.3 million (31.12.2003: € 160.6 million) and deductible temporary differences amounting to € 142.9 million (31.12.2003: € 78.7 million) were not recognised, because corresponding profit distributions and sales of investments are not planned in the foreseeable future.

The temporary differences in connection with associates are not significant.

The current portion of the net deferred tax position amounts to approx. € 5.9 million (31.12.2003: € 5.6 million).

**Current assets****(8) Inventories**

The inventories shown in the balance sheet are broken down as follows:

in € million	31.12.2004	31.12.2003
Raw materials and supplies	73.6	59.4
Unfinished products	34.8	32.6
Finished products and goods	124.7	111.4
Work in progress	6.9	8.6
Prepayments made	10.1	11.6
<b>Inventories</b>	<b>250.1</b>	<b>223.6</b>

€ 20.9 million (31.12.2003: € 24.2 million) of the inventories on hand at December 31, 2004 are shown at the net market value.

All finished products stored currently and in future at the warehouses of Veitsch-Radex GmbH & Co, Vienna, are subject to disposal restrictions as they are assigned as security. These restrictions affect € 7.4 million (31.12.2003: € 8.7 million) at the balance sheet date.

**(9) Trade and other current receivables**

Trade and other current receivables shown in the balance sheet are broken down as follows:

in € million	31.12.2004	31.12.2003
Trade receivables	241.9	219.9
Receivables from construction contracts	3.2	3.2
Receivables from associates	1.8	2.2
Other current receivables	53.8	50.5
<b>Trade and other receivables</b>	<b>300.7</b>	<b>275.8</b>

Other current receivables are broken down as follows:

in € million	31.12.2004	31.12.2003
Other taxes	25.4	25.3
Receivables employees	0.8	0.8
Prepaid expenses	2.3	7.0
Other	25.3	17.4
<b>Other current receivables</b>	<b>53.8</b>	<b>50.5</b>

Receivables amounting to a nominal value of € 151.0 million in total (31.12.2003: € 146.1 million) are assigned.

There are no significant differences between carrying amounts shown and fair values for trade and other receivables due to their short terms to maturity.

**(10) Cash and cash equivalents**

These balance sheet items are broken down as follows:

in € million	31.12.2004	31.12.2003
Cash on hand	0.1	0.2
Cheques	1.3	1.0
Cash at banks	29.3	29.9
<b>Cash and cash equivalents</b>	<b>30.7</b>	<b>31.1</b>

## Equity and liabilities

### (11) Equity

The share capital of RHI AG amounts to € 159,753,341.14 and consists of 21,982,539 bearer shares.

The company had no treasury stock at the balance sheet date.

At the balance sheet date, 21,982,539 shares were in circulation (31.12.2003: 20,052,039).

The RHI share is a member of the ATX and the Prime Market of Vienna Stock Exchange.

At the extraordinary general meeting of February 15, 2002, the Board of Management of RHI AG was authorised to increase capital conditionally by up to € 72,305,836.31 (conditional capital) by issuing up to 9,949,500 bearer shares with voting rights at an issue price of € 7.27.

Within a period of five years of registration of the change in the company's articles, the Board of Management was authorised at the Extraordinary General Meeting of February 15, 2002, with the consent of the Supervisory Board, to increase share capital without requiring the further consent of shareholders and excluding shareholder rights on one or several occasions up to a maximum amount of € 72,305,836.31 in total (authorised capital) by the issue of 9,949,500 bearer shares with voting rights at an issue price of € 7.27.

The capital increase is in the form of a contribution in kind of the claims of convertible bond holders.

The part convertible bonds of tranche B in the number listed below were converted at a rate of € 7.27 on February 15, 2002, on the basis of Board of Management resolutions listed below with the Supervisory Board's consent.

Board of Management Resolution of	Consent of Supervisory Board of	Number of part convertible bonds	Number of shares
March 16, 2004	March 22, 2004	2	11,000
June 14, 2004	June 21, 2004	18	99,000
September 13, 2004	September 20, 2004	309	1,699,500
December 13, 2004	December 17, 2004	22	121,000
		<b>351</b>	<b>1,930,500</b>

Unused authorised capital:

	Number of shares	€
<b>31.12.2003</b>	<b>9,817,500</b>	<b>71,346,554.90</b>
Conversion in March	-11,000	-79,940.12
Conversion in June	-99,000	-719,461.06
Conversion in September	-1,699,500	-12,350,748.17
Conversion in December	-121,000	-879,341.29
<b>31.12.2004</b>	<b>7,887,000</b>	<b>57,317,064.26</b>

	Number of shares	€
<b>31.12.2002</b>	<b>9,949,500</b>	<b>72,305,836.31</b>
Conversion in September	-82,500	-599,550.88
Conversion in December	-49,500	-359,730.53
<b>31.12.2003</b>	<b>9,817,500</b>	<b>71,346,554.90</b>

Additional paid-in capital consists of premiums from the issue of shares and convertible bonds by RHI AG and cannot be distributed due to statutory provisions.



Changes in the present value of available-for-sale securities and investments have to be recorded in fair value reserves.

Accumulated foreign currency translation differences from investments in foreign group companies are shown in the currency translation reserves.

The item accumulated results contains the past results of the companies included in the consolidated financial statements that have not been distributed.

As part of the capital restructuring in 2001, it was decided that, in the case of a dividend payout during the entire term of the subordinated liabilities to financial institutions, an amount three times the sum of the dividend payout of the subordinated liabilities to financial institutions would have to be reconverted into financial liabilities and repaid. Furthermore, interest amounting to the 3-month EURIBOR plus 200 basis points p.a. has to be paid for each year in which a dividend is distributed.

Distributable profits and dividends mainly relate to the accumulated profit of RHI AG, computed in accordance with Austrian Commercial Code (HGB).

Minority shares mainly relate to minority interests in the equity of Didier-Werke AG Group, Wiesbaden, Germany; Dolomite Franchi S.p.A., Brescia, Italy; FC Technik AG, Wintherthur, Switzerland, RHI Refractories Liaoning Co. Ltd, Bayuquan, China; Izomat a.s., Nova Bana, Slovakia, and Termika d.d., Novi Marof, Croatia.

#### **(12) Subordinated liabilities payable to financial institutions**

As of December 31, 2001, € 400.0 million of liabilities payable to financial institutions were subordinated until the end of 2006. The financial institutions have no rights to interest and repayment over this period.

The fair value of subordinated liabilities payable to financial institutions is € 27.0 million (31.12.2003: € 24.7 million) under its carrying value. The interest rate used in calculating fair value is 3.56 percent (31.12.2003: 2.15 percent).

#### **(13) Subordinated convertible bond**

The conditional capital increase is used for the subordinated convertible tranche A bond with a total nominal value of € 72,360,000, divided into 1,809 part convertible bonds, each with a nominal value of € 40,000, maturing on December 31, 2009, convertible for the first time from January 1, 2007 at a ratio of 1 : 5,500 RHI AG shares, interest payable at 6 % p.a., depending on results. Tranche A was fully subscribed by banks.

Authorised capital is used to service the subordinated convertible bond tranche B. Tranche B with a total nominal value of € 72,360,000, split into 1,809 part convertible bonds, each with a nominal value of € 40,000, maturing on December 31, 2009, convertible for the first time from January 1, 2003 until January 1, 2007 at a ratio of 1 : 5,500 RHI AG shares, interest payable at 6 % p.a., depending on results, was offered for subscription from April 8, to April 30, 2002.

Parts of tranche B were placed privately as tranche C in August 2002 at unchanged convertible bond conditions. At December 31, 2002, 1,064 parts of tranche B and 537 parts of tranche C had been subscribed. Tranches B and C merged again on June 30, 2003.

On December 31, 2004, 3,173 part convertible bonds (31.12.2003: 3,454) had been issued, 70 parts of tranche B had not been subscribed (31.12.2003: 140). These 70 parts are reserved for an option plan for the Board of Management and the Group's senior management.

The following table shows the bond's development:

in € million	Units	Nominal	Discount	Total
<b>31.12.2003</b>	<b>3,454</b>	<b>138.2</b>	<b>-8.2</b>	<b>130.0</b>
Conversion	-351	-14.0	0.0	-14.0
Issue	70	2.8	0.2	3.0
Interest				
- through income statement			1.1	1.1
- through equity			0.8	0.8
<b>31.12.2004</b>	<b>3,173</b>	<b>127.0</b>	<b>-6.1</b>	<b>120.9</b>

in € million	Units	Nominal	Discount	Total
<b>31.12.2002</b>	<b>3,410</b>	<b>136.4</b>	<b>-9.6</b>	<b>126.8</b>
Conversion	-24	-0.9	0.0	-0.9
Issue	68	2.7	0.3	3.0
Interest - through income statement			1.1	1.1
<b>31.12.2003</b>	<b>3,454</b>	<b>138.2</b>	<b>-8.2</b>	<b>130.0</b>

The following interest expenses are deferred for convertible bonds at the balance sheet date under other current liabilities:

in € million	2004	2003
<b>Balance at beginning of year</b>	<b>8.5</b>	<b>4.8</b>
Interest expense	7.8	8.5
Interest paid	-8.6	-4.8
<b>Balance at year-end</b>	<b>7.7</b>	<b>8.5</b>

#### (14) Financial liabilities

Financial liabilities contain all other non-current and current interest obligations of the RHI Group existing at the balance sheet date.

in € million	31.12.2004		31.12.2003	
	Carrying amount	Fair value	Carrying amount	Fair value
Liabilities to financial institutions	242.0	239.7	226.8	225.0
Liabilities from finance leases	0.3	0.3	0.5	0.5
Other loans	4.0	4.0	0.0	0.0
<b>Other non-current financial liabilities</b>	<b>246.3</b>	<b>244.0</b>	<b>227.3</b>	<b>225.5</b>
Liabilities to financial institutions	41.2	41.2	69.3	69.3
Other loans	2.8	2.8	0.0	0.0
<b>Current financial liabilities</b>	<b>44.0</b>	<b>44.0</b>	<b>69.3</b>	<b>69.3</b>
<b>Financial liabilities</b>	<b>290.3</b>	<b>288.0</b>	<b>296.6</b>	<b>294.8</b>

The remaining term of long-term liabilities to financial institutions is between one and five years, as in the previous year.

Interest commitments and conditions of long-term and current financial liabilities to financial institutions are listed below:

in € million

31.12.2004				31.12.2003			
Interest terms fixed until <sup>1)</sup>	Weighted average interest rate	Currency	Financial liabilities <sup>2)</sup>	Interest terms fixed until <sup>1)</sup>	Weighted average interest rate	Currency	Financial liabilities <sup>2)</sup>
2005	EURIBOR + 50 BP <sup>3)</sup>	EUR	215.7	2004	EURIBOR + 50 BP <sup>3)</sup>	EUR	214.7
	EURIBOR + margin	EUR	14.5		EURIBOR + margin	EUR	11.0
	LIBOR + 50 BP	USD	9.4		LIBOR + 50 BP	USD	15.9
	LIBOR + 150 BP	USD	8.1		LIBOR + 150 BP	USD	11.7
	Prime Rate	CAD	0.5	2005	4.50%	EUR	4.7
	Interbank Rate + margin	CLP	1.1		7.55%	EUR	17.9
	4.49%	EUR	2.0	2007	3.90%	EUR	4.4
	7.55%	EUR	17.9		4.00%	EUR	9.0
2007	3.90%	EUR	3.2	2009	3.21%	EUR	6.8
	4.00%	EUR	0.7				
2009	3.47%	EUR	6.1				
2010	1.68%	EUR	4.0				
<b>283.2</b>				<b>296.1</b>			

1) In some cases, the terms to maturity of the contracts are substantially longer than the period during which interest terms are fixed.

2) Financial liabilities not including finance leases and other loans

3) BP = Basis points

Liabilities to financial institutions contain export financing (including financing of acquisitions) amounting to € 109.3 million (31.12.2003: € 132.5 million).

€ 259.0 million (31.12.2003: € 273.5 million) of the financial liabilities shown are secured by real estate liens and other collateral.

Other collateral pledged consists of:

Pledging of all shares and investments held in Didier-Werke AG, Wiesbaden, Germany; Veitsch-Radex GmbH, Vienna; Veitsch-Radex GmbH & Co, Vienna; Veitsch-Radex Vertriebsgesellschaft mbH, Vienna; RHI Non Ferrous Metals Engineering GmbH (former: Veitsch-Radex-Didier Vertriebsgesellschaft m.b.H.), Leoben; Radex Vertriebsgesellschaft m.b.H., Radenthein; Veitsch-Radex Immobilien GmbH, Vienna; Heraklith AG, Ferndorf; VRD Americas B.V., Arnhem, The Netherlands; Refrattari Italiana S.p.A., Genova, Italy; Lokalbahn Mixnitz-St.Erhard AG, Vienna, and RHI Finance A/S, Hellerup, Denmark;

Pledging of all brand and patent rights of Veitsch-Radex GmbH & Co, Vienna, and RHI AG, Vienna;

Assignment as security of all goods held currently and in future in the warehouses of Veitsch-Radex GmbH & Co, Vienna; and assignment of receivables.

At December 31, 2004, the RHI Group had a total of € 367.2 million (31.12.2003: € 422.1 million) available in credit lines.

Leasing agreements that are classified as finance leases in accordance with IFRS will give rise to payments of around € 0.3 million (31.12.2003: € 0.6 million) in subsequent years. The interest portion included here amounts to less than € 0.1 million (31.12.2003: € 0.1 million).

in € million	31.12.2004	31.12.2003
<b>Leasing payments</b>		
Up to one year	0.0	0.2
1 to 5 years	0.3	0.4
	0.3	0.6
Future interest expense	0.0	-0.1
<b>Liabilities from finance leases</b>	<b>0.3</b>	<b>0.5</b>

Leasing liabilities are broken down as follows according to the lease terms:

in € million	31.12.2004	31.12.2003
Up to one year	0.0	0.2
1 to 5 years	0.3	0.3
<b>Liabilities from finance leases</b>	<b>0.3</b>	<b>0.5</b>

### (15) Personnel provisions

The following non-current provisions are recorded under personnel provisions:

in € million	31.12.2004	31.12.2003
Pensions	240.9	249.1
Termination benefits	48.9	46.2
Other personnel provisions	25.2	23.9
<b>Personnel provisions</b>	<b>315.0</b>	<b>319.2</b>

### Provisions for pensions

Provisions for pensions, derived from the scope of the obligation and taking fair values of external plan assets into consideration, are broken down as follows:

in € million	2004	2003
Present value of unfunded pension obligations	220.6	231.0
Present value of wholly or partly funded pension obligations	65.7	61.8
Fair value of plan assets	-51.9	-48.2
Unrecognised actuarial gains	6.5	4.5
<b>Amount recognised in the balance sheet at December 31</b>	<b>240.9</b>	<b>249.1</b>

The pension cost recognised in the income statement arising from the change in provisions for pensions in comparison to the previous year is broken down as follows in 2004:

in € million	2004	2003
Current service cost	2.2	3.2
Interest cost	14.4	14.6
Expected return on plan assets	-0.6	-1.2
Net actuarial gains	-0.1	0.0
<b>Pension cost</b>	<b>15.9</b>	<b>16.6</b>

The individual components of pension cost are shown in staff costs, with the exception of the interest portion, which is shown in the financial result.

Expected income from external plan assets mainly corresponds to actual income.

The following table shows the development of the net liability for the reporting period and the previous year:

in € million	2004	2003
<b>Amount shown in balance sheet at beginning of year</b>	<b>249.1</b>	<b>257.9</b>
Currency translation	-0.1	-0.4
Disposal of subsidiaries	0.0	-0.5
Pension cost	15.9	16.6
Direct pension payments	-19.6	-16.6
Contributions to/from external funds	-4.4	-7.9
<b>Amount shown in balance sheet at year-end</b>	<b>240.9</b>	<b>249.1</b>

The amount of the pension obligation is calculated using actuarial methods and is based on the following assumptions, partly depending on the economic situation in each country:

	31.12.2004	31.12.2003
Interest rate	5.0 % - 6.0 %	5.0 % - 5.5 %
Expected yield on plan assets	4.0 % or 7.0 %	4.0 % or 7.0 %
Salary increase	1.5 % - 3.0 %	1.5 % - 3.0 %
Pension increase	2.0 % - 5.0 %	2.0 % - 5.0 %
Discounts for employee turnover	2.2 %	2.2 %
Retirement age	54 – 65 years	54 – 66 years
Mortality tables		
- Austria	AVÖ-P 1999, Ang	AVÖ-P 1999, Ang
- Germany	Heubeck 1998	Heubeck 1998
- United Kingdom	PA92(base)-3/-1	PA92(base)-3/-1

### Provisions for termination benefits

The amounts for provisions shown in the balance sheet at December 31, 2004 and December 31, 2003 are derived from the respective scope of the obligation as follows:

in € million	2004	2003
Present value of unfunded termination benefit obligations	51.8	47.2
Unrecognised actuarial losses	-2.9	-1.0
<b>Amount shown in balance sheet at December 31</b>	<b>48.9</b>	<b>46.2</b>

The termination benefit cost shown in the income statement for 2004 and 2003 is broken down as follows. All expense components are shown in staff costs, with the exception of the interest portion shown in the financial result:

in € million	2004	2003
Current service cost	3.2	3.3
Interest cost	2.6	2.4
Net actuarial gains	-0.1	0.0
<b>Termination benefit cost</b>	<b>5.7</b>	<b>5.7</b>

The following table shows the development of the net liability recognised in the balance sheet at year-end 2004 and 2003:

in € million	2004	2003
<b>Amount shown in balance sheet at beginning of year</b>	<b>46.2</b>	<b>46.4</b>
Disposal of subsidiaries	0.0	-2.1
Termination benefit cost	5.7	5.7
Termination benefit payments	-3.9	-3.4
Transferred assets	0.0	-0.4
Reclassifications	0.9	0.0
<b>Amount shown in balance sheet at year-end</b>	<b>48.9</b>	<b>46.2</b>

The values recognised in provisions for termination benefits are calculated using the same methods as for provisions for pensions, based on actuarial assumptions that are partly based on country specifics:

	31.12.2004	31.12.2003
Interest rate	4.0 % - 8.5 %	4.75 % - 9.5 %
Salary increase	1.5 % - 8.5 %	1.5 % - 10.0 %
Discounts for employee turnover	2.0 % - 10.0 %	2.2 %
Retirement age	54 – 65 years	54 – 66 years
Mortality tables / Austria	AVÖ-P 1999, Ang	AVÖ-P 1999, Ang

### Other personnel provisions

Other personnel provisions developed in the reporting period as follows:

in € million	Anniversary bonuses	Lump-sum settlements	Payments to semi-retirees	Total
<b>31.12.2003</b>	<b>19.0</b>	<b>1.1</b>	<b>3.8</b>	<b>23.9</b>
Currency translation	0.1	0.0	0.0	0.1
Use	-0.3	-0.8	-1.5	-2.6
Reversal	-0.2	0.0	0.0	-0.2
Addition	0.9	1.2	2.8	4.9
Reclassifications	0.0	-0.9	0.0	-0.9
<b>31.12.2004</b>	<b>19.5</b>	<b>0.6</b>	<b>5.1</b>	<b>25.2</b>

### (16) Other provisions

The development of non-current and current provisions is shown in the following table:

in € million	Non-current provisions	Demolition, disposal and environmental damage	Warranties	Current provisions			Legal disputes	Total current provisions
	for demolition and disposal costs			Guarantees given	Compensation claims			
31.12.2003	2.5	8.2	15.5	21.3	26.9	0.4	72.3	
Currency translation	0.0	0.0	-0.1	0.0	0.0	0.0	-0.1	
Use	0.0	-1.7	-9.0	0.0	-1.0	-0.2	-11.9	
Reversal	0.0	0.0	-0.6	-1.7	-2.1	-0.1	-4.5	
Addition	0.0	0.2	9.7	0.0	0.2	0.1	10.2	
31.12.2004	2.5	6.7	15.5	19.6	24.0	0.2	66.0	

### Demolition and disposal costs

Provisions were set up for the demolition and disposal of buildings and plant no longer required, in keeping with legal obligations. The non-current provisions recorded in the balance sheet are recognised at the expected amount payable of approx. € 2.5 million, as the interest effect of discounting is deemed immaterial.

### Demolition and disposal costs, environmental damage

Current provisions for demolition and disposal costs shown in the balance sheet amount to around € 3.4 million (31.12.2003: € 3.5 million). € 3.3 million (31.12.2003: € 4.7 million) of claims due to environmental damage are expected due to contractual and legal obligations.

### Warranties

Provisions for warranties contain provisions resulting from claims on warranties and other similar obligations.

### Guarantees given

This item shows obligations from guarantees and sureties given to banks and insurance companies in Austria and abroad.

### Compensation claims

This item contains provisions for possible claims relating to contractual or constructive obligations from compensation claims and similar payments.

### Legal disputes

Provisions were set up for expected costs relating to ongoing or probable legal disputes, court or arbitration proceedings. The amounts set up as provisions were computed on the basis of information provided by and cost estimates made by the group's lawyers and cover all estimated legal costs, fees and possible settlements.

### (17) Trade and other current payables

Other non-current liabilities amounting to € 44.5 million (31.12.2003: € 57.4 million) mainly consist of a covered foreign exchange hedging transaction amounting to € 35.1 million (31.12.2003: € 44.3 million). The current portion of this non-current liability amounting to € 11.2 million (31.12.2003: € 12.7 million) is shown under other current liabilities. The foreign exchange transaction comprised three US dollar swap transactions, covered by forward contracts of the same amount in 2003. The liability is compounded and the interest charged to the income statement.

Furthermore, subsidies granted by third parties amounting to € 7.2 million (31.12.2003: € 7.4 million) are shown under other non-current liabilities, and mainly relate to investment promotion. The current portion of subsidies recorded under liabilities amounting to € 0.7 million (31.12.2003: € 1.2 million) is part of other current liabilities. Investment subsidies are reversed with an effect on revenue over the useful life of the plant and equipment concerned in accordance with IAS 20. Evidence that the qualifying conditions have been met – i.e. achievement of certain capital expenditure targets or creation and retention of jobs – has been given to the providers of subsidies.

Trade and other current payables shown in the balance sheet consist of the following:

in € million	31.12.2004	31.12.2003
Trade payables	167.0	131.5
Prepayments received on orders	10.8	8.7
Accounts payable to subsidiaries	0.0	0.1
Accounts payable to associates	1.5	1.6
Other current payables	105.4	124.3
<b>Trade and other payables</b>	<b>284.7</b>	<b>266.2</b>

The remaining current liabilities are broken down as follows:

in € million	31.12.2004	31.12.2003
Other taxes	12.1	15.2
Liabilities employees and board members	39.6	37.3
Deferred charges	0.8	1.0
Other	52.9	70.8
<b>Other current payables</b>	<b>105.4</b>	<b>124.3</b>

The carrying amounts of trade and other current payables largely correspond to fair values.

### (18) Contingencies and other financial obligations

The following obligations exist at the balance sheet date:

in € million	31.12.2004	31.12.2003
Contingencies	22.0	21.5
Capital commitments	19.1	19.7
Other financial obligations	41.5	37.3
<b>Contingencies and other financial obligations</b>	<b>82.6</b>	<b>78.5</b>

No provisions are set up for the following contingent liabilities recognised at nominal values, because the risk of the events occurring is deemed less probable:

in € million	31.12.2004	31.12.2003
Liabilities from sureties	4.5	5.0
Liabilities from guarantees	11.8	11.7
Other contingencies	5.7	4.8
<b>Contingencies</b>	<b>22.0</b>	<b>21.5</b>

Associates account for € 1.7 million (31.12.2003: € 1.5 million) of this figure. No liabilities are assumed for non-consolidated subsidiaries.

Other financial obligations consist of the following:

in € million	Total	Remaining term		
	31.12.2004	up to 1 year	1 to 5 years	over 5 years
Obligations from rental and leasing contracts	33.5	8.3	22.7	2.5
Sundry financial obligations	8.0	2.5	5.5	0.0
<b>Other financial obligations</b>	<b>41.5</b>	<b>10.8</b>	<b>28.2</b>	<b>2.5</b>

in € million	Total	Remaining term		
	31.12.2003	up to 1 year	1 to 5 years	over 5 years
Obligations from rental and leasing contracts	34.1	9.3	20.2	4.6
Sundry financial obligations	3.2	0.6	2.6	0.0
<b>Other financial obligations</b>	<b>37.3</b>	<b>9.9</b>	<b>22.8</b>	<b>4.6</b>

Other financial obligations to associates amount to € 7.4 million (31.12.2003: € 1.9 million) in total.



## Notes on individual items in the income statement

### (19) Revenue

Revenue is broken down as follows:

in € million	2004	2003
Revenue (not including construction contracts)	1,290.6	1,224.6
Revenue from construction contracts	6.7	8.0
<b>Revenue</b>	<b>1,297.3</b>	<b>1,232.6</b>

### (20) Change in inventories and other own work capitalised

This item is broken down as follows:

in € million	2004	2003
Changes in inventories	-10.2	-1.4
Other own work capitalised	12.3	8.3
<b>Changes in inventories and other own work capitalised</b>	<b>2.1</b>	<b>6.9</b>

Changes in inventory comprise the change on the previous year in work in progress and finished goods and services not yet invoiced.

### (21) Other income

Other income includes:

in € million	2004	2003
Gains from the disposal of intangible assets and property, plant and equipment	3.0	2.5
Income from reversal of impairment losses on property, plant and equipment	0.0	0.1
Costs passed on and incidental revenue	10.4	8.8
Foreign exchange gains	0.0	3.3
Grants	2.6	2.2
Reversal of grants recognised as liabilities	0.9	1.2
Damage claims	0.2	0.5
Reversal of negative goodwill	0.0	0.1
Other	18.6	11.7
<b>Other income</b>	<b>35.7</b>	<b>30.4</b>

Foreign exchange gains contain netted profits and losses resulting from exchange rate fluctuations between the time of occurrence (monthly average rate) and the time of payment (spot rate), and from the exchange rate effects of measurement at the prevailing rate on the balance sheet date. If the balance is negative, the exchange losses are presented in other expenses.

Other income contains compensation payments amounting to around € 8.0 million made in the reporting period due to the completion of the Chapter 11 proceedings of DII Industries, LLC, Houston, USA (former owner of Harbison Walker Refractories Co.).

**(22) Cost of material and other production services**

This item is broken down as follows:

in € million	2004	2003
<b>Cost of material</b>		
Raw materials and supplies	423.9	408.8
Merchandise	53.2	35.1
Other	2.1	4.4
	479.2	448.3
<b>Cost of production services</b>		
Energy	53.5	51.6
External services	22.7	21.6
Other	21.8	19.2
	98.0	92.4
<b>Cost of material and other production services</b>	<b>577.2</b>	<b>540.7</b>

**(23) Staff costs**

Staff costs are broken down as follows:

in € million	2004	2003
Wages	116.4	113.6
Salaries	132.6	127.3
Termination benefits		
- Defined benefit plans	3.1	3.3
- Defined contribution plans	0.1	0.0
- Voluntary payments	1.0	0.7
Pensions		
- Defined benefit plans	1.5	2.0
- Defined contribution plans	1.4	0.9
Expenses for social security and payroll-related taxes and contributions	66.6	65.6
Fringe benefits	6.5	5.8
<b>Staff costs</b>	<b>329.2</b>	<b>319.2</b>

**(24) Amortisation of other intangible assets and depreciation of property, plant and equipment**

Impairments in 2004 amounted to € 1.5 million (2003: € 3.9 million). These impairments related to obsolete buildings, plant and machinery, which were written down to their probable net recoverable amount. In 2003 impairment losses were also made for real estate of limited resaleability.

The smallest cash-generating unit for the refractories division is each production plant, for the insulating division, each product group. The impairment test is based on value in use. This is computed by discounting future cash flows using the terminal value, a growth rate of 1.5 percent and an interest rate of 6.4 percent.

The impairment losses amounting to € 1.5 million relate wholly to the refractories division.

**(25) Other expenses**

Other expenses consist of:

in € million	2004	2003
Shipping expenses	76.5	80.4
Commission expenses	26.0	25.0
Other external services	25.5	22.0
Foreign exchange losses	4.9	0.0
Travel expenses	19.3	18.3
Entertainment expenses	1.0	1.2
External repairs	15.3	16.9
Rental costs and leasing expenses	14.5	14.5
Legal, auditing and consulting fees	9.8	11.7
Insurance premiums	9.5	9.3
Office and administrative expenses	10.8	10.7
IT expenses	6.7	6.6
Impairment losses on receivables	2.1	5.1
Gains from the reversal of impairment losses on receivables	-3.1	-1.8
Other distribution expenses	8.0	8.8
Postage and telephone charges	5.5	5.2
Credit card and bank charges	4.3	4.4
Taxes not included in income taxes	1.9	3.1
Other expenses	8.8	9.2
Gains from the reversal of provisions	-4.5	-15.3
<b>Other expenses</b>	<b>242.8</b>	<b>235.3</b>

Foreign exchange losses contain netted profits and losses from changes in exchange rates between the rate on initial recognition (monthly average rate) and at the time of payment (spot rate), and exchange rate effects from measurement at the balance sheet date. If the balance is positive, these foreign exchange gains are presented under other income.

**(26) Financial result**

The financial result includes the interest result and the other financial result.

in € million	2004	2003
Interest result	-35.5	-40.6
Other financial result	0.5	10.4
<b>Financial result</b>	<b>-35.0</b>	<b>-30.2</b>

The interest result is computed as follows:

in € million	2004	2003
Gains from securities and non-current receivables	1.4	1.7
Other interest and similar income	1.8	1.8
Interest and similar expenses	-38.7	-44.1
<b>Interest result</b>	<b>-35.5</b>	<b>-40.6</b>

Interest and similar expenses include the interest portion of personnel provisions amounting to € 17.2 million in total (2003: € 17.3 million), and the interest portion of finance leasing amounting to € 0.0 million (2003: € 0.1 million). No interest expense was incurred from compounding non-current provisions, as in the previous year.

The other financial result is broken down as follows:

in € million	2004	2003
Income from investments	0.1	0.1
Losses from investments	-0.2	0.0
Gains from the disposal of and writeup to financial assets and current securities	0.6	11.3
Writedowns on other financial assets and current securities	0.0	-0.1
Losses on the disposals of current securities	0.0	-0.9
<b>Other financial result</b>	<b>0.5</b>	<b>10.4</b>

Gains from the disposal of and writeup to financial assets and current securities include € 0.0 million (2003: € 10.6 million) reclassified due to the disposal of available-for-sale financial instruments shown in equity to recognition in the income statement.

### (27) Result from associates

The contribution to profit after income taxes of shares in associates, over which significant control is exercised, and which are consolidated using the equity method, is € 5.4 million (2003: € 4.5 million).

In contrast to the previous year, results from associates are shown after income taxes.

From January 1, 2004 in accordance with IFRS 3, goodwill is no longer amortised systematically (2003: € 0.3 million).

### (28) Income taxes

Income taxes comprise taxes on income and earnings paid or owed by the individual companies and deferred taxes.

The breakdown is as follows:

in € million	2004	2003
Current tax expense	11.5	22.4
Deferred tax (income) / expense relating to the origination and reversal of		
- temporary differences	-11.1	-6.5
- tax losses	5.9	2.9
	-5.2	-3.6
<b>Income taxes</b>	<b>6.3</b>	<b>18.8</b>

The income tax expense for 2004 amounting to € 6.3 million is € 29.7 million lower than the arithmetic tax expense of € 36.0 million resulting from application of the corporate income tax rate of 34 percent on the group's pre-tax result. The reasons for the difference between the arithmetic and the recognised tax expense for the group are as follows:

in € million	2004	2003
<b>Profit before income taxes</b>	<b>106.0</b>	<b>96.3</b>
<b>Arithmetic tax expense</b>	<b>36.0</b>	<b>32.7</b>
Different foreign tax rates	-0.1	-0.5
Expenses not deductible for tax purposes	6.2	3.0
Income not subject to tax	-12.2	-8.1
Amortisation of goodwill not deductible for tax purposes and reversal of negative goodwill not subject to tax	0.0	0.5
Reduction in actual income tax expense due to utilisation of previously unrecognised tax losses and temporary differences	-27.2	-14.1
Reduction in deferred income tax expense due to utilisation of previously unrecognised tax losses and temporary differences	-12.2	-18.7
Deferred tax expenses/(income) due to changes in tax rates or to the imposition of new taxes	16.4	-0.7
Current income tax relating to prior periods	-4.2	4.8
Other	3.6	19.9
<b>Recognised tax expense</b>	<b>6.3</b>	<b>18.8</b>

## Notes on the cash flow statement

The cash flow statement, which is derived from the consolidated financial statements of RHI AG using the indirect method, includes cash inflows and outflows from operating activities, investing activities and from financing activities.

The cash flow statement cannot be derived directly from changes in balance sheet items, as the effects of changes to the consolidated group and currency translation are non-cash items. The changes in balance sheet items of companies reporting in foreign currencies are translated at annual average exchange rates.

### (29) Cash flow from operating activities

Cash flow from operating activities shows the inflow of cash and cash equivalents, based on profit after income taxes, adjusted for non-cash expenses and income (mainly depreciation and amortisation), and for results attributable to cash flow from investing or financing activities, and to tax receipts and payments after the change in funds tied up in working capital.

in € million	2004	2003
Profit after income taxes	99.7	77.5
Adjustments for		
Income taxes	6.3	18.8
Depreciation and amortisation of non-current assets	48.8	48.8
Impairment losses on non-current assets	1.5	3.9
Writeups to non-current assets	-0.6	-0.3
Proceeds from sale of property, plant and equipment and intangible assets	-0.2	-1.7
Proceeds from sale of financial assets	0.0	-0.3
Interest result	35.5	40.6
Dividend income	-0.1	-0.1
Result from associates	-5.4	-4.2
Other	0.8	-11.7
Change in working capital		
Inventories	-27.9	-9.4
Trade receivables	-23.5	13.2
Trade payables	36.0	-1.8
Other receivables and assets	-4.2	2.2
Provisions	-25.7	-39.2
Other liabilities	-27.9	-17.2
<b>Cash flow from operating activities</b>	<b>113.1</b>	<b>119.1</b>
Income taxes paid	-5.6	-18.9
<b>Net cash from operating activities</b>	<b>107.5</b>	<b>100.2</b>

### (30) Cash flow from investing activities

Cash flow from investing activities shows inflows and outflows relating to disposals of and additions to non-current assets.

Cash effects relating to the acquisition and sale of shares in fully consolidated subsidiaries (net change in cash and cash equivalents from initial consolidation and deconsolidation) are shown separately.

The cash flow from the disposal of subsidiaries amounting to € 7.4 million shown last year results from the sale price realised less cash and cash equivalents of the sold entities amounting to € 1.3 million.

Interest and dividend payments are attributed to cash flow from investing activities.

**(31) Cash flow from financing activities**

Cash flow from financing activities includes outflows in the form of dividend payments, the change in the convertible bond due to issue and conversion, the change in liabilities to financial institutions and changes in other financial receivables and financial liabilities to financial institutions.

The conversion of convertible bonds to a value of € 14.1 million (2003: € 0.9 million) is not presented separately in the cash flow statement, as this is a non-cash transaction.

Interest payments are attributed to cash flow from financing activities, although the interest portion of social capital is shown as a non-cash change in personnel provisions.

## Other disclosures

### (32) Segment reporting

#### Primary segmentation by division in 2004

The RHI Group is engaged in the refractories and the insulating segments. The remaining activities of its former waterproofing division in 2003 and 2004 and overhead and consolidation measures are presented under elimination/other.

	Refractories	Insulating	Elimination/ Other	RHI Group
in € million				
External revenue	1,098.6	181.5	17.2	<b>1,297.3</b>
Intragroup revenue	4.0	0.0	-4.0	<b>0.0</b>
<b>Segment revenue</b>	<b>1,102.6</b>	<b>181.5</b>	<b>13.2</b>	<b>1,297.3</b>
Operating result	123.2	10.1	2.3	<b>135.6</b>
Financial result				<b>-35.0</b>
Result from associates	3.8	1.6		<b>5.4</b>
Profit before income taxes				<b>106.0</b>
Income taxes				<b>-6.3</b>
<b>Profit after income taxes</b>				<b>99.7</b>
Profit attributable to equity holders of RHI AG				<b>95.0</b>
minority interest				<b>4.7</b>
Investments in associates	16.0	23.1		<b>39.1</b>
Other assets	939.7	163.5	-55.9	<b>1,047.3</b>
Unattributed assets				<b>167.6</b>
<b>Total assets</b>				<b>1,254.0</b>
Debt	814.8	149.9	-56.0	<b>908.7</b>
Unattributed debts				<b>655.8</b>
<b>Total debt</b>				<b>1,564.5</b>
Investments	66.0	7.3	0.1	<b>73.4</b>
Prepayments on investments		20.0		<b>20.0</b>
Depreciation and amortisation	39.6	9.1	0.1	<b>48.8</b>
Impairment	1.5			<b>1.5</b>
Employees (average)	5,936	1,713	158	<b>7,807</b>



## Primary segmentation by division in 2003

	Refractories	Insulating	Elimination/ Other	RHI Group
in € million				
External revenue	1,030.2	166.9	35.5	<b>1,232.6</b>
Intragroup revenue	3.4	0.0	-3.4	<b>0.0</b>
<b>Segment revenue</b>	<b>1,033.6</b>	<b>166.9</b>	<b>32.1</b>	<b>1,232.6</b>
Operating result	115.9	7.1	-1.0	<b>122.0</b>
Financial result				<b>-30.2</b>
Result from associates	1.9	2.6		<b>4.5</b>
Profit before income taxes				<b>96.3</b>
Income taxes				<b>-18.8</b>
<b>Profit after income taxes</b>				<b>77.5</b>
Profit attributable to equity holders of RHI AG				<b>72.9</b>
minority interest				<b>4.6</b>
Investments in associates	15.5	21.7		<b>37.2</b>
Other assets	848.4	164.8	-33.6	<b>979.6</b>
Unattributed assets				<b>153.9</b>
<b>Total assets</b>				<b>1,170.7</b>
Debt	798.0	133.5	-29.2	<b>902.3</b>
Unattributed debts				<b>691.1</b>
<b>Total debt</b>				<b>1,593.4</b>
Investments	48.0	10.2	0.3	<b>58.5</b>
Acquisitions	2.2	0.1	0.1	<b>2.4</b>
Depreciation and amortisation	39.2	9.0	0.6	<b>48.8</b>
Impairment	3.9			<b>3.9</b>
Employees (average)	5,764	1,712	360	<b>7,836</b>

## Secondary segmentation by region

Secondary segment reporting is based on geographical regions. Revenues are segmented by customer location and asset-related figures by the company's own locations.

	01.01. - 31.12.2004			01.01. - 31.12.2003		
in € million	Revenue	Investments	Assets	Revenue <sup>1)</sup>	Investment <sup>1)</sup>	Assets <sup>1)</sup>
Austria	102.5	21.7	451.6	78.8	17.9	409.4
Rest of the EU	536.6	22.2	337.5	530.3	20.9	339.9
Other Europe	124.9	0.4	16.5	135.7	0.9	21.5
North and South America	261.7	2.6	156.5	256.4	10.4	126.5
Asia-Pacific, Africa	271.6	26.5	108.8	231.4	8.4	73.7
Consolidation	0.0	0.0	183.1	0.0	0.0	199.7
<b>Total</b>	<b>1,297.3</b>	<b>73.4</b>	<b>1,254.0</b>	<b>1,232.6</b>	<b>58.5</b>	<b>1,170.7</b>

1) Previous year has been adjusted due to the EU accession of 10 states.

### (33) Earnings per share

Earnings per share are calculated under IAS 33 by dividing the profit attributable to equity holders of RHI AG by the weighted number of shares issued.

	2004	2003
Profit attributable to equity holders of RHI AG (in € million)	95.0	72.9
Weighted average number of shares	20,537,271	19,940,834
<b>Undiluted earnings per share (in €)</b>	<b>4.63</b>	<b>3.65</b>
Profit attributable to equity holders of RHI AG (in € million)	95.0	72.9
Plus interest expense of convertible bonds	8.9	9.6
Less current taxes	-3.0	-3.3
Adjusted result for the period	100.9	79.2
Weighted average number of shares	20,537,271	19,940,834
Potential number of shares from convertible bonds	18,608,544	18,904,721
Number of diluted shares	39,145,815	38,845,555
<b>Diluted earnings per share (in €)</b>	<b>2.58</b>	<b>2.04</b>

### (34) Derivative financial instruments

Derivates in orders or embedded in trade receivables in third currencies are presented as a separate liability item and amount to approx. € 0.8 million (31.12.2003: separate asset item amounting to approx. € 0.1 million and separate liability item amounting to € 0.6 million). The effect on the income statement is € -0.3 million (2003: € -0.4 million).

### (35) Notes on related party transactions

Related party transactions are treated as transactions with independent third parties.

The volume of services rendered to or provided by, and the outstanding receivables from and payables to the main related parties are broken down as follows:

in € million	2004		2003	
	Volume of services rendered	Receivables	Volume of services rendered	Receivables
<b>Associates</b>				
<b>Non-current and current portion of non-current receivables</b>				
DCD Ideal spol. s.r.o., Dynin, Czech Republic	0.1	1.8	0.1	2.3
Termo d.d., Skofja Loka, Slovenia	0.1	3.1	0.2	4.7
	0.2	4.9	0.3	7.0
<b>Trade receivables</b>				
Magnomin S.A., Athens, Greece	0.0	0.0	0.0	0.1
Società Dolomite Italiana SDI S.p.A., Gardone Val Trompia, Italy	0.0	0.0	0.0	0.2
Stopinc AG, Hünenberg, Switzerland	0.7	0.1	0.0	0.0
Termo d.d., Skofja Loka, Slovenia	6.8	1.0	7.1	1.0
<b>Other</b>				
MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	1.6	0.4	1.6	0.3
Magnomin S.A., Athens, Greece	0.1	0.2	0.0	0.3
Stopinc AG, Hünenberg, Switzerland	0.2	0.1	0.2	0.0
Termo d.d., Skofja Loka, Slovenia	0.0	0.0	0.1	0.3
	9.4	1.8	9.0	2.2
<b>Related party transactions</b>	<b>9.6</b>	<b>6.7</b>	<b>9.3</b>	<b>9.2</b>

in € million	2004		2003	
	Volume of services provided by related parties	Payables	Volume of services provided by related parties	Payables
<b>Subsidiaries</b>				
<b>Trade payables</b>				
Dolomite Franchi GmbH, Hattingen, Germany	0.0	0.0	0.4	0.0
<b>Other</b>				
Dr.-Ing.-Petri & Co. Unterstützungs-Gesellschaft mbH, Duisburg, Germany	0.0	0.0	0.0	0.1
	0.0	0.0	0.4	0.1
<b>Associates</b>				
<b>Trade payables</b>				
MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	0.0	0.6	0.0	0.5
Stopinc AG, Hünenberg, Switzerland	0.1	0.6	0.0	0.3
Termo d.d., Skofja Loka, Slovenia	0.4	0.3	0.1	0.4
<b>Other</b>				
Stopinc AG, Hünenberg, Switzerland	2.3	0.0	2.2	0.0
Termo d.d., Skofja Loka, Slovenia	0.0	0.0	0.3	0.4
	2.8	1.5	2.6	1.6
<b>Related party transactions</b>	<b>2.8</b>	<b>1.5</b>	<b>3.0</b>	<b>1.7</b>

The income statement includes expenses for the Board of Management in 2004 amounting to € 2.9 million (2003: € 2.8 million). Liabilities and provisions for the Board of Management amount to € 1.7 million (31.12.2003: € 2.6 million). Total Board of Management remuneration in the past financial year amounted to € 3.5 million (2003: € 3.0 million).

Remuneration of former members of the Board of Management and their dependents amounted to € 0.6 million (2003: € 0.3 million).

Remuneration of Supervisory Board members amounted to € 0.1 million in 2004 (2003: € 0.1 million). These emoluments were recognised as an expense in the reporting period.

At the balance sheet date, neither loans to members of the Board of Management or the Supervisory Board nor contingent liabilities credited to these persons existed.

### (37) Option plan Options granted

At the Supervisory Board Meeting of RHI AG of January 21, 2003, the convertible bond management stock option plan published in the Wiener Zeitung on 3/4 January 2003, based on the joint report of the Board of Management and the Supervisory Board in accordance with §§ 95 (6) and 159 (2) line 3 AktG, was adopted.

The convertible bond management stock option plan comprises options to acquire a total of 210 part convertible bearer bonds. Each option entitles the holder to acquire one part.

The options can be exercised in three identical tranches in 2003, 2004 and 2005, within three months of the date on which the consolidated financial statements are published for each past business year.

The exercise price for the acquisition of a part convertible bond for 2003 is set at the nominal amount of the part convertible bond, i.e. € 40,000 per part convertible bond. The exercise price for 2004 is € 44,000, for 2005 € 48,000.

60 options have been allocated to RHI AG and Heraklith AG Management Board members. Each of the four Management Board members of RHI AG and Heraklith AG is entitled to purchase a maximum of 5 options each year. 150 options are allocated to senior management, each person being entitled to acquire a maximum of two options per year. No options were granted to the Supervisory Board.

	Total number of options granted	Number of options granted in reporting period	Number of options exercised/lapsed in reporting period	Number of options outstanding at balance sheet date	Estimated value of options at balance sheet date in €
2004					
RHI AG Board of Management:					
DI Dr. Helmut Draxler	15	0	-5	5	510,000
DI Dr. Andreas Meier	15	0	-5	5	510,000
Mag. Dr. Eduard Zehetner	15	0	-5	5	510,000
Heraklith AG Board of Management:					
Mag. Roland Platzer	15	0	-5	5	510,000
Senior Management	150	0	-50	50	5,100,000
<b>Options granted</b>	<b>210</b>	<b>0</b>	<b>-70</b>	<b>70</b>	<b>7,140,000</b>

		Number of options granted in reporting period	Number of options exercised/lapsed in reporting period	Number of options outstanding at balance sheet date	Estimated value of options at balance sheet date in €
2003					
RHI AG Board of Management:					
DI Dr. Helmut Draxler		15	-5	10	800,000
DI Dr. Andreas Meier		15	-5	10	800,000
Mag. Dr. Eduard Zehetner		15	-5	10	800,000
Heraklith AG Board of Management:					
Mag. Roland Platzer		15	-5	10	800,000
Senior Management		150	-50	100	8,000,000
<b>Options granted</b>		<b>210</b>	<b>-70</b>	<b>140</b>	<b>11,200,000</b>

Option rights are not transferable and are therefore not subject to a holding period.

A part convertible bond can be converted into 5,500 RHI AG shares.

### Options exercised

	Number of options exercised in reporting period	Exercise price in €	Value when exercised in €
2004			
RHI AG Board of Management:			
DI Dr. Helmut Draxler	5	220,000	400,000
DI Dr. Andreas Meier	5	220,000	400,000
Mag. Dr. Eduard Zehetner	5	220,000	400,000
Heraklith AG Board of Management:			
Mag. Roland Platzer	5	220,000	400,000
Senior Management	44	1,936,000	3,520,000
<b>Options exercised</b>	<b>64</b>	<b>2,816,000</b>	<b>5,120,000</b>

2003	Number of options exercised in reporting period	Exercise price in €	Value when exercised in €
RHI AG Board of Management:			
DI Dr. Helmut Draxler	5	200,000	220,000
DI Dr. Andreas Meier	5	200,000	220,000
Mag. Dr. Eduard Zehetner	5	200,000	220,000
Heraklith AG Board of Management:			
Mag. Roland Platzer	0	0	0
Senior Management	40	1,600,000	1,760,000
<b>Options exercised</b>	<b>55</b>	<b>2,200,000</b>	<b>2,420,000</b>

Neither the market value nor the intrinsic value of the options granted is recognised in the income statement as a compensation expense.

### (37) Events after the balance sheet date

RHI made a prepayment for a fifty percent share in Eurovek d.o.o., Ljubljana, Slovenia in December 2004. The shares in the entity were acquired at the end of January 2005 once all conditions had been met.

Via its fully consolidated subsidiary, Didier-Werke AG, Wiesbaden, Germany, the RHI Group owns a 33.33 percent share in MARVO Feuerungs- und Industriebau GmbH, whose headquarters are in Kerpen, Germany. This company specialises in supplying industrial kilns with refractory products. On February 11, 2005, Didier-Werke AG concluded a contract of sale for the complete takeover of all parts of the business. The complete takeover of MARVO Feuerungs- und Industriebau GmbH, Kerpen, Germany, also included the takeover of its subsidiary, MARVO Feuerungs- und Industriebau GmbH in Apfelborn, Germany. The transaction was approved under anti-trust law on March 7, 2005.

As the opening balance sheets of the acquired entities are not yet available, no detailed information can be provided as to the effects on the consolidated balance sheet at this point.

The RHI Group does not expect any further financial loss or adverse effect on results to ensue from the continuation and conclusion of the Chapter 11 proceedings concerning its former US subsidiaries. The Chapter 11 proceedings are still ongoing.

**(38) RHI Group Companies at December 31, 2004**

The following table lists all the interest held by the RHI Group:

	Type of consolidation	Parent	Currency	Nominal capital in local currency	Share in group companies %
1. RHI AG, Vienna, Austria	F		EUR	159,753,341	
<b>Refractories Division</b>					
2. Betriebs- und Baugesellschaft mbH, Wiesbaden, Germany	F	7.	EUR	894,761	100.00
3. Corrosion Technology Peru, S.A. i.L., Lima, Peru	F	13.	PEN	31,021	100.00
4. D.S.I.P.C.-Didier Société Industrielle de Production et de Constructions, Breuille, France	F	7.	EUR	1,735,990	99.88
5. Didier Belgium N.V., Evergem, Belgium	F	56.	EUR	74,368	99.99
6. Didier Vertriebsgesellschaft mbH, Wiesbaden, Germany	F	7.	EUR	178,952	100.00
7. Didier-Werke AG, Wiesbaden, Germany	F	1. , 21.	EUR	63,000,000	97.54
8. Dolomite Franchi S.p.A., Brescia, Italy	F	28.	EUR	5,940,000	60.00
9. Dutch MAS B.V., Arnhem, Netherlands	F	7.	EUR	30,000	100.00
10. FC Technik AG, Winterthur, Switzerland	F	36.	CHF	100,000	51.00
11. Full Line Supply Africa (PTY) Limited, Sandton, South Africa	F	21.	ZAR	100	100.00
12. Gen-X Technologies Inc., Burlington, Ontario, Canada	F	31.	CAD	20	100.00
13. GIX International Limited, Wakefield, Great Britain	F	15.	GBP	1,004	100.00
14. INDRESCO U.K. Ltd., Wakefield, Great Britain	F	13.	GBP	10,029,218	100.00
15. Latino America Refractories ApS, Copenhagen, Denmark	F	65.	EUR	20,000	100.00
16. Lokalbahn Mixnitz-St.Erhard AG, Vienna, Austria	F	62.	EUR	119,397	100.00
17. Magnesit Anonim Sirketi, Istanbul, Turkey	F	9.	TRL	8,392,999,999,500	100.00
18. Magnesitwerk Aken Vertriebsgesellschaft mbH, Aken, Germany	F	7.	EUR	130,000	100.00
19. OOO RHI CIS, Moscow, Russia	F	1. , 21.	RUB	1,929,487	100.00
20. Oy Tulenkestävät Tilet AB, Helsinki, Finland	F	50.	EUR	5,046	100.00
21. Radex Vertriebsgesellschaft mbH, Radenthein, Austria	F	61.	EUR	36,336	100.00
22. REFEL S.p.A., San Vito al Tagliamento, Italy	F	7.	EUR	5,200,000	100.00
23. Refmex, S. de R.L. de C.V., Ramos Arizpe, Mexico	F	24., 65.	MXN	28,202,541	100.00
24. Refractarios Green, S. de R.L. de C.V., Ramos Arizpe, Mexico	F	15., 65.	MXN	152,692,434	100.00
25. Refractarios RHI CHILE LTDA., Santiago, Chile (former: RHI CHILE S.A.)	F	13., 65.	CLP	12,073,359,422	100.00
26. Refractory Intellectual Property GmbH, Vienna, Austria	F	1.	EUR	35,000	100.00
27. Refractory Intellectual Property GmbH & Co KG, Vienna, Austria	F	1. , 26.	EUR	10,000	100.00
28. Refrattari Italiana S.p.A., Genova, Italy	F	21.	EUR	4,160,000	100.00
29. RHI Africa Investment Holdings (Pty) Ltd., Sandton, South Africa	F	7.	ZAR	215,705	100.00
30. RHI Argentina S.R.L., Buenos Aires, Argentina	F	15., 65.	ARS	10,000	100.00
31. RHI Canada Inc., Burlington, Ontario, Canada	F	65.	CAD	10,704,750	100.00
32. RHI CHILE S.A., Santiago, Chile	F	13., 65.	CLP	12,774,407,413	100.00
33. RHI Dinaris GmbH, Wiesbaden, Germany	F	56.	EUR	500,000	100.00
34. RHI Finance A/S, Hellerup, Denmark	F	1.	EUR	70,000	100.00
35. RHI GLAS GmbH, Wiesbaden, Germany (former: VRD-Glas GmbH)	F	56.	EUR	500,000	100.00
36. RHI Non Ferrous Metals Engineering GmbH, Leoben, Austria	F	1.	EUR	36,336	100.00
37. RHI-REFMEX, S.A. de C.V., Ramos Arizpe, Mexico	F	24., 65.	MXN	83,937,649	100.00
38. RHI Refractories Africa (Pty) Ltd., Sandton, South Africa	F	29.	ZAR	10,000	100.00
39. RHI Refractories Andino C.A., Puerto Ordaz, Venezuela	F	65.	VEB	1,600,000,594	100.00
40. RHI Refractories Asia Ltd., Hong Kong, PR China	F	57.	HKD	1,000	100.00
41. RHI Refractories Asia Pacific Pte. Ltd., Singapore	F	1.	SGD	300,000	100.00
42. RHI Refractories (Dalian) Co., Ltd., Dalian, PR China	F	1.	CNY	99,323,820	100.00
43. RHI Refractories España, S.A., Lugones, Spain	F	9.	EUR	1,200,000	100.00
44. RHI Refractories France S.A., Breuille, France	F	57.	EUR	703,800	100.00
45. RHI Refractories Holding Company, Dover, Delaware, USA	F	65.	USD	1	100.00
46. RHI Refractories Ibérica, S.L., Madrid, Spain	F	57.	EUR	30,050	100.00
47. RHI Refractories Italiana s.r.l., Brescia, Italy	F	57.	EUR	110,000	100.00
48. RHI Refractories Liaoning Co. Ltd, Bayuquan, Yingkou Liaoning, PR China	F	62.	CNY	180,000,000	60.00
49. RHI Refractories Mercosul Ltda, Sao Paulo, Brasil	F	65.	BRL	49,250	99.50
50. RHI Refractories Nord AB, Stockholm, Sweden	F	57.	SEK	1,000,000	100.00
51. RHI Refractories Site Services GmbH, Wiesbaden, Germany	F	7.	EUR	1,025,000	100.00
52. RHI Refractories (Site Services) Ltd., Cirencester, Great Britain	F	53.	GBP	2	100.00
53. RHI Refractories Spaeter GmbH, Urmitz, Germany	F	7.	EUR	256,157	66.67
54. RHI Refractories UK Limited, Clydebank, Great Britain	F	7.	GBP	8,875,000	100.00
55. RHI Rückversicherungs AG, Vaduz, Liechtenstein	F	21.	CHF	900,000	100.00
56. RHI Urmitz AG & Co KG, Urmitz, Germany	F	6., 7.	EUR	2,454,250	100.00
57. SAPREF AG für feuerfestes Material, Basel, Switzerland	F	65.	CHF	4,000,000	100.00
58. Veitsch-Radex America Inc., Burlington, Ontario, Canada	F	31.	CAD	1	100.00
59. Veitsch-Radex America Inc., Wilmington, Delaware, USA	F	31.	USD	100	100.00
60. Veitsch-Radex GmbH, Vienna, Austria	F	1.	EUR	35,000	100.00

	Type of consolidation	Parent	Currency	Nominal capital in local currency	Share in group companies %
61. Veitsch-Radex GmbH & Co, Vienna, Austria	F	1. ,60.	EUR	106,000,000	100.00
62. Veitsch-Radex Immobilien GmbH, Vienna, Austria	F	1. ,21.	EUR	35,000	100.00
63. Veitsch-Radex Vertriebsgesellschaft mbH, Vienna, Austria	F	1.	EUR	36,336	100.00
64. Veitscher Vertriebsgesellschaft mbH, Vienna, Austria	F	1.	EUR	36,336	100.00
65. VRD Americas B.V., Arnhem, Netherlands	F	1. ,21.	EUR	34,033,970	100.00
66. Zimmermann & Jansen GmbH, Düren, Germany	F	7.	EUR	3,835,000	100.00
67. Didier (Zambia) Ltd., Kitwe, Zambia	N	7.	ZMK	200,000	80.00
68. Dolomite Franchi GmbH, Hattingen, Germany	N	8.	EUR	25,564	100.00
69. Dr.-Ing.-Petri & Co. Unterstützungs-Gesellschaft mbH, Duisburg, Germany	N	7.	DEM	50,000	100.00
70. RHI Réfractaires Algérie E.U.R.L., Sidi Amar, Algeria	N	44.	DZD	100,000	100.00
71. Thor Ceramics Limited, Clydebank, Great Britain	N	7.	GBP	0	100.00
72. Dolomite di Montignoso S.p.A. i.L., Genova, Italy	E	28.	EUR	743,600	28.56
73. MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	E	1. ,76.	EUR	9,447,468	50.00
74. Società Dolomite Italiana SDI S.p.A., Gardone Val Trompia, Italy	E	28.	EUR	208,000	50.00
75. Stopinc AG, Hünenberg, Switzerland	E	7.	CHF	1,000,000	50.00
76. MAGNIFIN Magnesiaprodukte GmbH, St. Jakob, Austria	I	1.	EUR	35,000	50.00
77. MARVO Feuerungs- und Industriebau GmbH, Sindorf-Kerpen, Germany	I	7.	EUR	513,450	33.33
78. Treuhandgesellschaft Feuerfest mbH, Bonn, Germany	I	7.	DEM	50,000	28.00
79. Zimmermann & Jansen Siam Co. Ltd., Rayong, Thailand	I	66.	THB	4,000,000	39.80

#### Insulating Division

80. C&G Verwaltungsgesellschaft mbH, Bad Berka, Germany	F	89.	EUR	26,000	100.00
81. Deutsche Heraklith GmbH, Simbach, Germany	F	83.	EUR	4,857,400	100.00
82. Global B&C d.o.o., Ljubljana, Slovenia	F	93.	SIT	2,100,000	100.00
83. Heraklith AG, Ferndorf, Austria	F	61.,62.	EUR	7,500,000	100.00
84. Heraklith Consulting & Engineering GmbH, Färnitz, Austria	F	83.	EUR	17,500	100.00
85. Heraklith España S.L., Gijon, Spain	F	89.	EUR	3,005	100.00
86. Heraklith Hungaria Kft., Zalaegerszeg, Hungary	F	83.	HUF	100,000,000	100.00
87. Heraklith Nederland B.V., Bussum, Netherlands	F	89.	EUR	18,151	100.00
88. Heraklith Polska Sp.z.o.o., Sroda, Poland	F	83.	PLN	100,000	100.00
89. Heraklith VerwaltungsgmbH, Simbach, Germany	F	83.	EUR	26,000	100.00
90. IDEAL - Baustoffwerk Mathias Reichenberger Gesellschaft m.b.H. & Co. KG., Frankenmarkt, Austria	F	83.,93.	EUR	5,087	100.00
91. Izomat a.s., Nova Bana, Slovakia	F	83.,99.	SKK	499,476,000	
92. Nobasil CZ spol. s.r.o., Brno, Czech Republic	F	91.	CZK	200,000	100.00
93. Mathias Reichenberger Gesellschaft m.b.H., Frankenmarkt, Austria	F	83.	EUR	18,168	100.00
94. Termika d.o.o., Novi Marof, Croatia	F	93.,99.	HRK	37,882,800	
95. Thüringer Dämmstoffwerke GmbH & Co KG, Bad Berka, Germany	F	80.,89.	EUR	932,596	100.00
96. Heraklith South Africa (Pty) Ltd. i.L., Johannesburg, South Africa	N	83.	ZAR	4,000	49.00
97. DCD Ideal spol. s.r.o., Dynin, Czech Republic	E	93.	CZK	180,000,000	50.00
98. Magnomin S.A., Athens, Greece	E	83.	EUR	1,024,536	49.00
99. Termo d.d., Skofja Loka, Slovenia	E	82.,83.	SIT	1,706,620,000	
100. Lipka spol. s.r.o., Pecky, Czech Republic	I	81.	CZK	102,000	50.00

#### Other

101. Isolit Isolier GmbH, Vienna, Austria	F	84.	EUR	646,788	100.00
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*i.l. ....in liquidation*

*F....full consolidation*

*E....equity consolidation*

*N....non-consolidation*

*I....investments*

## Exemption to compile consolidated financial statements in accordance with § 245 a HGB (Austrian Commercial Code)

### Reporting in accordance with International Financial Reporting Standards (IFRS)

The consolidated financial statements at December 31, 2004 were drawn up according to International Financial Reporting Standards (IFRS). Pursuant to § 245 a HGB, these statements prepared in accordance with IFRS need not be compiled in accordance with HGB. Consequently, additional disclosures are required pursuant to § 245 a Sec. 1 lines 1 – 3 HGB.

### Notes on significant differences between IFRS and the 7th EU Directive

Due to the EU Regulation passed on September 29, 2003 by the EU Commission relating to the adoption of certain international financial reporting standards that are compatible with the EU Regulation of the European Parliament and the Council of July 19, 2002 and with the EU Directive passed by the European Parliament and the Council on June 18, 2003 amending the fourth and seventh EU Directives, there are no significant discrepancies between IFRS and the seventh EU Directive.

### Notes on the main differences between IFRS and Austrian reporting requirements (HGB)

#### Consolidated group

The subsidiary Lokalbahn Mixnitz-St.Erhard AG, Vienna, would be recorded at equity in the HGB consolidated financial statements as its business activities differ from those of the group. This company is fully consolidated under IFRS.

#### Capital consolidation

With the introduction of IFRS 3 “Business Combinations” as the successor to IAS 22, goodwill is no longer systematically amortised but is tested annually for impairment, if the goodwill results from an acquisition which was agreed on or after March 31, 2004. In accordance with HGB, the goodwill can be offset against accumulated profit or can be amortised systematically over its useful life.

#### Internally generated intangible assets

Internally generated intangible assets are capitalised under IFRS if all the criteria of IAS 38 are met, and are amortised over their estimated useful lives.

#### Securities

According to Austrian reporting requirements, current and non-current securities are recognised at the lower of cost or market. Measurement of available-for-sale securities according to IFRS, by contrast, is at fair value, with unrealised gains/losses using the option in IAS 39 (revised 2000) to be recognised directly in equity.

#### Revenue recognition by reference to stage of completion of construction contracts / services rendered

According to IAS 11 / IAS 18, the profit from construction contracts / services rendered is recognised as soon as it can be reliably estimated, according to the stage of completion. According to HGB, recognition over and above production cost is only permitted for long-term construction contracts in the amount of the proportionate administrative and distribution costs.

#### Foreign currency translation

There is a difference between both reporting systems regarding the recognition of unrealised gains from foreign currency translation at the balance sheet date. According to Austrian law, only unrealised losses are recognised in keeping with the imparity principle, whereas unrealised gains must also be recognised under IFRS.

#### Deferred taxes

In contrast to HGB, deferred tax assets are recognised for loss carryforwards in accordance with IFRS, provided these tax loss carryforwards will probably be used against future taxable income.



## Provisions

Under IFRS, provisions may only be set up for obligations to third parties. Provisions for expenses are not permissible.

## Presentation requirements

Under IFRS, current and non-current items are classified separately in the balance sheet. In contrast to the requirements of the HGB, amounts that would be classified as a provision under Austrian law are recorded under current liabilities.

Prepaid expenses and deferred charges are shown as the final assets and liabilities item respectively under § 224 HGB. These items are summarised under other receivables or liabilities under IFRS.

## Additional disclosures pursuant to § 245 a Sec.1 line 3 HGB

### Expenses for termination benefits including payments to “Mitarbeitervorsorgekassen” (statutory termination benefits scheme) and for pensions

Expenses for termination benefits including payments to “Mitarbeitervorsorgekassen” (statutory termination benefit scheme) and for pensions are broken down as follows:

in € million	2004	2003
Board of Management and Senior Management	0.7	1.0
Other employees	6.1	5.4
<b>Expenses for termination benefits including payments to “Mitarbeitervorsorgekasse” (statutory termination benefit scheme)</b>	<b>6.8</b>	<b>6.4</b>

Expenses for termination benefits including payments to “Mitarbeitervorsorgekassen” (statutory termination benefit scheme) contain expenses for termination benefits amounting to € 6.7 million (2003: € 6.4 million).

in € million	2004	2003
Board of Management and Senior Management	3.1	4.0
Other employees	14.2	13.5
<b>Expenses for pensions</b>	<b>17.3</b>	<b>17.5</b>

## Headcount

Average headcount was:

	2004	2003
Salaried employees	2,984	2,932
Waged workers	4,823	4,904
<b>Total</b>	<b>7,807</b>	<b>7,836</b>

Headcount at the balance sheet date was:

	31.12.2004	31.12.2003
Salaried employees	3,002	2,874
Waged workers	4,772	4,763
<b>Total</b>	<b>7,774</b>	<b>7,637</b>

## Members of the Board of Management and the Supervisory Board

The following served on the parent company's Board of Management in the reporting period:

DI Dr. Helmut Draxler, Vienna, CEO  
DI Dr. Andreas Meier, Niklasdorf, Deputy CEO  
Mag. Dr. Eduard Zehetner, Vienna

The following served on the Supervisory Board:

Dkfm. Michael Gröller, Vienna, Chairman  
Dipl.Bw. Gerd Peskes, Düsseldorf, Germany, Deputy Chairman  
DI Maximilian Ardelt, Munich, Germany  
August François von Finck, Vienna (since May 27, 2004)  
Ing. Gerd Klaus Gregor, Berndorf  
Dr. Cornelius Grupp, Lilienfeld  
Dr. Walter Ressler, Villach (until May 27, 2004)  
Stanislaus Prinz zu Sayn-Wittgenstein-Berleburg, Munich, Germany  
DDr. Erhard Schaschl, Vienna

Employee representatives:

Georg Eder, Ferndorf (until October 21, 2004)  
Josef Horn, Trieben  
Ing. Günther Lippitsch, Villach (since November 17, 2004)  
DI Leopold Miedl, Vienna  
Karl Wetzelhütter, Breitenau am Hochlantsch

Vienna, March 16, 2005

Board of Management

DI Dr. Helmut Draxler  
m.p.

DI Dr. Andreas Meier  
m.p.

Mag. Dr. Eduard Zehetner  
m.p.

## Auditor's Report

To the Board of Management and the Members of the Supervisory Board of RHI AG

We have audited the accompanying consolidated financial statements of RHI AG, Vienna, at December 31, 2004, prepared in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB). These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with internationally accepted auditing standards (International Standards on Auditing (ISA)) issued by the International Federation of Accountants (IFAC) and in accordance with Austrian Standards of Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements give a true and fair view of the financial position of RHI AG, Vienna, at December 31, 2004 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

According to the provisions of the Austrian Commercial Code, we have a duty to audit the group management report and to confirm that the legal requirements governing exemption from the obligation to compile consolidated financial statements in accordance with Austrian law have been met.

We certify that the group management report corresponds with the consolidated financial statements and that the legal requirements for exemption from the obligation to prepare consolidated financial statements in accordance with Austrian law have been met.

Vienna, March 16, 2005

PwC INTER-TREUHAND GmbH  
Wirtschaftsprüfungs- und  
Steuerberatungsgesellschaft

Signed:  
Dkfm. Hans Ulrich Wessely  
Certified Public Accountant

Signed:  
Mag. Gerhard Prachner  
Certified Public Accountant



2004

