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## Financial statements

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# Consolidated Statement of Financial Position

as of 31.12.2018

in € million	Notes	31.12.2018	31.12.2017 <sup>1)</sup>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	(11)	117.4	120.2
Other intangible assets	(12)	334.4	373.0
Property, plant and equipment	(13)	1,094.8	1,141.7
Investments in joint ventures and associates	(14)	21.8	21.4
Other non-current financial assets	(15)	18.0	25.1
Other non-current assets	(16)	34.3	24.2
Deferred tax assets	(17)	171.1	140.1
		<b>1,791.8</b>	<b>1,845.7</b>
<b>Current assets</b>			
Inventories	(18)	717.8	654.5
Trade and other current receivables	(19)	481.2	522.6
Income tax receivables	(20)	18.4	13.5
Other current financial assets	(21)	38.6	34.1
Cash and cash equivalents	(22)	491.2	442.4
		<b>1,747.2</b>	<b>1,667.1</b>
		<b>3,539.0</b>	<b>3,512.8</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	(23)	48.3	44.8
Group reserves	(24)	752.2	574.0
Equity attributable to shareholders of RHI Magnesita N.V.		800.5	618.8
Non-controlling interests	(25)	84.8	226.9
		<b>885.3</b>	<b>845.7</b>
<b>Non-current liabilities</b>			
Borrowings	(26)	844.8	983.8
Other non-current financial liabilities	(27)	49.5	55.5
Deferred tax liabilities	(17)	78.4	64.7
Provisions for pensions	(28)	304.3	308.7
Other personnel provisions	(29)	78.5	82.5
Other non-current provisions	(30)	109.2	115.7
Other non-current liabilities	(31)	10.3	9.0
		<b>1,475.0</b>	<b>1,619.9</b>
<b>Current liabilities</b>			
Borrowings	(26)	321.6	241.8
Other current financial liabilities	(27)	15.0	17.4
Trade payables and other current liabilities	(32)	756.9	678.2
Income tax liabilities	(33)	32.2	16.1
Current provisions	(34)	53.0	93.7
		<b>1,178.7</b>	<b>1,047.2</b>
		<b>3,539.0</b>	<b>3,512.8</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

# Consolidated Statement of Profit or Loss

from 01.01.2018 to 31.12.2018

in € million	Notes	2018	2017 <sup>1</sup>
Revenue	(35)	<b>3,081.4</b>	1,950.1
Cost of sales	(36)	<b>(2,344.5)</b>	(1,543.4)
<b>Gross profit</b>		<b>736.9</b>	<b>406.7</b>
Selling and marketing expenses	(37)	<b>(128.9)</b>	(101.2)
General and administrative expenses	(38)	<b>(208.4)</b>	(143.1)
Other income	(39)	<b>43.9</b>	10.4
Other expenses	(40)	<b>(44.9)</b>	(107.3)
<b>EBIT</b>		<b>398.6</b>	<b>65.5</b>
Interest income	(41)	<b>9.7</b>	5.6
Interest expenses on borrowings		<b>(48.5)</b>	(23.6)
Net expense on foreign exchange effects and related derivatives	(42)	<b>(81.3)</b>	(50.8)
Other net financial expenses	(43)	<b>(42.6)</b>	(13.6)
<b>Net finance costs</b>		<b>(162.7)</b>	<b>(82.4)</b>
Share of profit of joint ventures and associates	(14)	<b>10.1</b>	11.0
<b>Profit/(Loss) before income tax</b>		<b>246.0</b>	<b>(5.9)</b>
Income tax	(44)	<b>(58.9)</b>	(4.9)
<b>Profit/(Loss) after income tax</b>		<b>187.1</b>	<b>(10.8)</b>
attributable to shareholders of RHI Magnesita N.V.		<b>158.1</b>	(17.4)
attributable to non-controlling interests	(25)	<b>29.0</b>	6.6
<hr/>			
in €			
Earnings per share (basic and diluted)	(51)	<b>3.52</b>	(0.43)

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita and the changes in presentation.

# Consolidated Statement of Comprehensive Income

from 01.01.2018 to 31.12.2018

in € million	Notes	2018	2017 <sup>1)</sup>
<b>Profit/(Loss) after income tax</b>		<b>187.1</b>	<b>(10.8)</b>
Currency translation differences			
Unrealised results from currency translation	(7)	<b>(20.3)</b>	(49.3)
Deferred taxes thereon	(17)	<b>0.9</b>	1.7
Current taxes thereon		<b>0.0</b>	(0.4)
Reclassification to profit or loss		<b>0.0</b>	40.7
Deferred taxes thereon		<b>0.0</b>	(5.7)
Current taxes thereon		<b>0.0</b>	(0.5)
Cash flow hedges			
Unrealised fair value changes	(53)	<b>(6.8)</b>	0.6
Deferred taxes thereon	(17)	<b>1.8</b>	(0.1)
Reclassification to profit or loss	(53)	<b>0.0</b>	0.5
Deferred taxes thereon	(17)	<b>0.0</b>	(0.1)
Share of other comprehensive income of joint ventures and associates	(14)	<b>0.1</b>	0.0
<b>Items that will be reclassified subsequently to profit or loss, if necessary</b>		<b>(24.3)</b>	<b>(12.6)</b>
Remeasurement of defined benefit plans			
Remeasurement of defined benefit plans	(28)	<b>(11.5)</b>	(11.3)
Deferred taxes thereon	(17)	<b>3.0</b>	2.9
Share of other comprehensive income of joint ventures and associates	(14)	<b>0.0</b>	(0.1)
<b>Items that will not be reclassified to profit or loss</b>		<b>(8.5)</b>	<b>(8.5)</b>
<b>Other comprehensive (loss) after income tax</b>		<b>(32.8)</b>	<b>(21.1)</b>
<b>Total comprehensive income/(loss)</b>		<b>154.3</b>	<b>(31.9)</b>
attributable to shareholders of RHI Magnesita N.V.		<b>137.9</b>	(30.7)
attributable to non-controlling interests	(25)	<b>16.4</b>	(1.2)

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

# Consolidated Statement of Cash Flows

from 01.01.2018 to 31.12.2018

in € million	Notes	2018	2017 <sup>1)</sup>
Profit/(Loss) after income tax		187.1	(10.8)
Adjustments for			
income tax		58.9	4.9
depreciation		124.8	66.2
amortisation		28.6	13.4
impairment losses of property, plant and equipment and intangible assets		0.0	19.8
income from the reversal of investment subsidies		(0.5)	(1.2)
write-ups/ impairment losses on securities		0.3	1.9
losses from the disposal of property, plant and equipment		1.4	1.5
gains from the disposal of securities and shares		(0.7)	0.0
losses from the disposal of subsidiaries		0.0	19.3
net interest expense and derivatives		92.5	13.3
share of profit of joint ventures and associates		(10.1)	(11.0)
other non-cash changes		18.1	82.0
Changes in			
inventories		(56.7)	(89.3)
trade receivables		20.0	12.1
other receivables and assets		(29.5)	7.6
provisions		(59.4)	(15.2)
trade payables		55.1	111.1
prepayments received on orders		30.2	9.1
other liabilities		2.1	20.6
<b>Cash generated from operations</b>		<b>462.2</b>	<b>255.3</b>
Income tax paid less refunds		(67.9)	(41.9)
<b>Net cash inflow from operating activities</b>	(47)	<b>394.3</b>	<b>213.4</b>
Investments in subsidiaries net of cash acquired		0.0	45.1
Proceeds from the sale of subsidiaries net of cash disposed of		0.0	30.6
Investments in property, plant and equipment and intangible assets		(122.6)	(72.0)
Cash inflows from the sale of property, plant and equipment		2.9	2.7
Investments in/ cash inflows from non-current receivables		0.4	(0.2)
Investments in securities		(121.2)	(11.8)
Cash inflows from the sale of securities and shares		118.4	21.8
Dividends received from joint ventures and associates		11.0	10.8
Investment subsidies received		2.1	1.2
Interest received		8.2	5.1
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(100.8)</b>	<b>33.3</b>
Share issue costs		(6.2)	(3.0)
Capital contribution to associates		(1.4)	0.0
Proceeds from sale of non-controlling interests		9.2	0.0
Acquisition of non-controlling interests		(80.1)	(0.6)
Dividend payments to shareholders of the Group		(33.6)	(29.9)
Dividend payments to non-controlling interests		(1.1)	(1.1)
Proceeds from non-current borrowings and loans		489.8	459.8
Repayments of non-current borrowings and loans		(650.9)	(375.6)
Proceeds from current borrowings and loans		245.1	0.0
Repayments of current borrowings and loans		(151.0)	0.0
Changes in current borrowings		26.4	(8.3)
Interest payments		(71.1)	(24.9)
Cash flows from derivatives		(20.1)	8.2
<b>Net cash (outflow)/inflow from financing activities</b>	(48)	<b>(245.0)</b>	<b>24.6</b>
<b>Total cash flow</b>		<b>48.5</b>	<b>271.3</b>
<b>Change in cash and cash equivalents</b>		<b>48.5</b>	<b>271.3</b>
Cash and cash equivalents at beginning of year		442.4	182.9
Foreign exchange impact		0.3	(11.8)
Cash and cash equivalents at year-end	(22)	491.2	442.4

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

# Consolidated Statement of Changes in Equity

from 01.01.2018 to 31.12.2018

in € million	Share capital	Additional paid-in capital	Mandatory reserve
Notes	(23)	(24)	(24)
<b>31.12.2017<sup>1)</sup></b>	<b>44.8</b>	<b>165.7</b>	<b>288.7</b>
Effects of initial application of IFRS 15 (net of tax)			
Effects of initial application of IFRS 9 (net of tax)			
<b>01.01.2018</b>	<b>44.8</b>	<b>165.7</b>	<b>288.7</b>
<b>Profit after income tax</b>	-	-	-
Currency translation differences	-	-	-
Market valuation of cash flow hedges	-	-	-
Remeasurement of defined benefit plans	-	-	-
Share of other comprehensive income of joint ventures and associates	-	-	-
<b>Other comprehensive income after income tax</b>	-	-	-
<b>Total comprehensive income</b>	-	-	-
Dividends	-	-	-
Issue of ordinary shares related to the mandatory tender offer of Magnesita	3.5	139.8	-
Sale of non-controlling interests without loss of control	-	-	-
Acquisition in non-controlling interests without change of control	-	-	-
Share-based payments	-	-	-
<b>Transactions with shareholders</b>	<b>3.5</b>	<b>139.8</b>	-
<b>31.12.2018</b>	<b>48.3</b>	<b>305.5</b>	<b>288.7</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

in € million	Share capital	Additional paid-in capital	Mandatory reserve
Notes	(23)	(24)	(24)
<b>01.01.2017</b>	<b>289.4</b>	<b>38.3</b>	-
<b>Profit after income tax</b>	-	-	-
Currency translation differences	-	-	-
Cash flow hedges	-	-	-
Remeasurement of defined benefit plans	-	-	-
Share of other comprehensive income of joint ventures	-	-	-
<b>Other comprehensive income after income tax</b>	-	-	-
<b>Total comprehensive income</b>	-	-	-
Dividends	-	-	-
Issue of ordinary shares related to business combinations	5.0	174.5	-
Share issue costs, net of tax	-	(8.8)	-
Change in non-controlling interests due to addition to consolidated companies	-	-	-
<b>Transactions with shareholders</b>	<b>5.0</b>	<b>165.7</b>	-
Disposal of defined benefit plans	-	-	-
Downstream merger from RHI AG to RHI Magnesita N.V.	(249.6)	(38.3)	288.7
<b>Reclassifications</b>	<b>(249.6)</b>	<b>(38.3)</b>	<b>288.7</b>
<b>31.12.2017<sup>1)</sup></b>	<b>44.8</b>	<b>165.7</b>	<b>288.7</b>

Group reserves							
Accumulated other comprehensive income							
Retained earnings	Cash flow hedges	Defined benefit plans	Currency translation	Equity attributable to shareholders of RHI Magnesita N.V.	Non-controlling interests	Total equity	
(24)	(24)	(24)	(24)		(25)		
<b>281.9</b>	<b>0.1</b>	<b>(107.7)</b>	<b>(54.7)</b>	<b>618.8</b>	<b>226.9</b>	<b>845.7</b>	
(6.0)				(6.0)	(0.6)	(6.6)	
1.8				1.8	-	1.8	
<b>277.7</b>	<b>0.1</b>	<b>(107.7)</b>	<b>(54.7)</b>	<b>614.6</b>	<b>226.3</b>	<b>840.9</b>	
<b>158.1</b>	-	-	-	<b>158.1</b>	<b>29.0</b>	<b>187.1</b>	
-	-	-	(8.5)	(8.5)	(10.9)	(19.4)	
-	(5.2)	-	-	(5.2)	0.2	(5.0)	
-	-	(6.6)	-	(6.6)	(1.9)	(8.5)	
-	-	-	0.1	0.1	-	0.1	
-	(5.2)	(6.6)	(8.4)	(20.2)	(12.6)	(32.8)	
<b>158.1</b>	<b>(5.2)</b>	<b>(6.6)</b>	<b>(8.4)</b>	<b>137.9</b>	<b>16.4</b>	<b>154.3</b>	
(33.6)	-	-	-	(33.6)	(1.2)	(34.8)	
-	-	-	-	143.3	-	143.3	
7.2	-	-	0.2	7.4	1.7	9.1	
(59.4)	0.1	0.1	(10.9)	(70.1)	(158.4)	(228.5)	
1.0	-	-	-	1.0	-	1.0	
<b>(84.8)</b>	<b>0.1</b>	<b>0.1</b>	<b>(10.7)</b>	<b>48.0</b>	<b>(157.9)</b>	<b>(109.9)</b>	
<b>351.0</b>	<b>(5.0)</b>	<b>(114.2)</b>	<b>(73.8)</b>	<b>800.5</b>	<b>84.8</b>	<b>885.3</b>	

Group reserves							
Accumulated other comprehensive income							
Retained earnings	Cash flow hedges	Defined benefit plans	Currency translation	Equity attributable to shareholders of RHI Magnesita N.V.	Non-controlling interests	Total equity	
(24)	(24)	(24)	(24)		(25)		
<b>331.0</b>	<b>(0.7)</b>	<b>(100.3)</b>	<b>(49.0)</b>	<b>508.7</b>	<b>15.3</b>	<b>524.0</b>	
<b>(17.4)</b>	-	-	-	<b>(17.4)</b>	<b>6.6</b>	<b>(10.8)</b>	
-	-	-	(5.7)	(5.7)	(7.8)	(13.5)	
-	0.8	-	-	0.8	0.1	0.9	
-	-	(8.3)	-	(8.3)	(0.1)	(8.4)	
-	-	(0.1)	-	(0.1)	-	(0.1)	
-	<b>0.8</b>	<b>(8.4)</b>	<b>(5.7)</b>	<b>(13.3)</b>	<b>(7.8)</b>	<b>(21.1)</b>	
<b>(17.4)</b>	<b>0.8</b>	<b>(8.4)</b>	<b>(5.7)</b>	<b>(30.7)</b>	<b>(1.2)</b>	<b>(31.9)</b>	
(29.9)	-	-	-	(29.9)	(1.2)	(31.1)	
-	-	-	-	179.5	-	179.5	
-	-	-	-	(8.8)	-	(8.8)	
-	-	-	-	0.0	214.0	214.0	
<b>(29.9)</b>	-	-	-	<b>140.8</b>	<b>212.8</b>	<b>353.6</b>	
(1.0)	-	1.0	-	-	-	-	
(0.8)	-	-	-	-	-	-	
<b>(1.8)</b>	-	<b>1.0</b>	-	-	-	-	
<b>281.9</b>	<b>0.1</b>	<b>(107.7)</b>	<b>(54.7)</b>	<b>618.8</b>	<b>226.9</b>	<b>845.7</b>	

# Notes

## to the Consolidated Financial Statements 2018

### PRINCIPLES AND METHODS

#### 1. General

RHI Magnesita N.V. (the "Company"), a public company with limited liability under Dutch law is registered with the Dutch Trade Register of the Chamber of Commerce under the number 68991665 and has its corporate seat in Arnhem, Netherlands. The administrative seat and registered office is located at Kranichberggasse 6, 1120 Vienna, Austria.

The Company and its subsidiaries, associates and joint ventures (the "Group") is a global industrial group whose core activities comprise of the development and production, sale, installation and maintenance of high-grade refractory products and systems used in industrial high-temperature processes exceeding 1,200°C. The Group supplies customers in the steel, cement, lime, glass and nonferrous metals industries. In addition, the Group's products are used in the environment (waste incineration), energy (refractory construction) and chemicals (petrochemicals) sectors.

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

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

The financial year of RHI Magnesita N.V. and the Group corresponds to the calendar year. If the financial years of subsidiaries included in the Consolidated Financial Statements do not end on 31 December due to local legal requirements, a special set of financial statements are prepared for the purpose of consolidation. The reporting date of the Indian subsidiaries is 31 March.

The Consolidated Financial Statements for the period from 1 January to 31 December 2018 were drawn up in accordance with all International Financial Reporting Standards (IFRSs) mandatory at the time of preparation as adopted by the European Union (EU). The presentation in the Consolidated Statement of Financial Position distinguishes between current and non-current assets and liabilities. Assets and liabilities are classified as current if they are due within one year or within a longer normal business cycle or if the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Inventories as well as trade receivables and trade payables are generally presented as current items. Deferred tax assets and liabilities as well as assets and provisions for pensions and termination benefits are generally presented as non-current items.

The Consolidated Statement of Profit or Loss is drawn up in accordance with the cost of sales method. Under this method, revenue is offset against the expenses incurred to generate it, which are allocated to the functions production, sales and administration.

With the exception of specific items such as derivative financial instruments and plan assets for defined benefit obligations, the Consolidated Financial Statements are prepared on a historical cost basis.

The preparation of the Consolidated Financial Statements in agreement with generally accepted accounting principles under IFRS, as adopted by the EU, requires the use of estimates and assumptions that influence the amount and presentation of assets and liabilities recognised as well as the disclosure of contingent assets and liabilities as of the reporting date and the recognition of income and expenses during the reporting period. Although these estimates reflect the best knowledge of the management based on experience from comparable transactions, the actual values recognised at a later date may differ from these estimates.

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

The Annual Report was authorised for issue on 26 March 2019 and is subject to adoption at the Annual General Meeting of shareholders on 6 June 2019.



## 2. Initial application of new financial reporting standards

In 2018, the Group has applied for the first time a number of new standards and interpretations as well as amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018.

Standard	Title	Publication (EU endorsement) <sup>1)</sup>	Effects on RHI Magnesita Consolidated Financial Statements
<b>New standards and interpretations</b>			
IFRS 9	Financial Instruments	24.07.2014 (22.11.2016)	No material effects
IFRS 15	Revenue from Contracts with Customers	28.05.2014/ 11.09.2015 (22.09.2016)	Timing differences in revenue recognition
IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers	12.04.2016 (31.10.2017)	Timing differences in revenue recognition
IFRIC 22	Foreign Currency Transactions and Advance Consideration	08.12.2016 (28.03.2018)	No effect
Various	Annual improvements to IFRS Standards 2014–2016 Cycle	08.12.2016 (07.02.2018)	No effect
<b>Amendments of standards</b>			
IAS 40	Transfers of Investment Property	08.12.2016 (14.03.2018)	Not relevant
IFRS 2	Classification and Measurement of Share-based Payment Transactions	20.06.2016 (26.02.2018)	No effect
IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	12.09.2016 (03.11.2017)	Not relevant

1 According to EU Endorsement Status Report of 11.02.2019.

### IFRS 9 “Financial Instruments”

IFRS 9 was published in July 2014 and endorsed by the European Union on 22 November 2016. It is to be applied effective 1 January 2018. IFRS 9 includes revised guidance on classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. The standard replaces existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. RHI Magnesita implemented IFRS 9 on 1 January 2018 using the modified retrospective approach, meaning that the 2017 comparative numbers in the 2018 Consolidated Financial Statements are not restated. The impact of IFRS 9 as of 1 January 2018 amounting to €1.8 million was recognised in equity – additional information on that effect is disclosed in the table at the end of Note (2) summarising the effects of the initial application of IFRS 9 and IFRS 15. No reclassifications between different components of equity were required due to the initial application of IFRS 9.

With regard to the revised classification and measurement principles, IFRS 9 contains three classification categories: “measured at amortised cost”, “fair value through other comprehensive income” and “fair value through profit or loss”. The standard eliminates the existing IAS 39 categories: “loans and receivables”, “held to maturity” and “available-for-sale”. The resulting effect of the reclassification of the financial assets due to the adoption of IFRS 9 was immaterial.

Subsequent accounting differences may arise due to the new classification under IFRS 9. Shares in investment funds that were previously classified as “available-for-sale”, with respective changes in fair value accounted for through other comprehensive income, are now classified as “fair value through profit or loss” as the payments made in connection with the funds do not solely constitute payments of principal and interest. Changes in fair value are therefore recognised in profit or loss. In addition, equity instruments from the “at amortised cost” and “available-for-sale” categories were classified as “fair value through profit or loss”.

For the category “measured at amortised cost”, IFRS 9 replaces the previously applied incurred loss model under IAS 39 with the expected loss model. The expected loss model implies a three-stage model for financial assets. Stage 1 is applied when the credit risk has not risen significantly and an investment grade rating exists. Consequently, a risk provision for credit losses expected from possible default events within the next twelve months has to be recognised. Stage 2 is applied when the credit risk of receivables has risen significantly, in which case a risk provision amounting to the expected credit losses that result from all default events over the remaining term of the instrument has to be recognised. Stage 3 is equivalent to default. IFRS 9 requires a simplified impairment approach for trade receivables and contract assets that do not contain a significant financing component. With this simplified approach, the risk provision is to be

# Notes

## continued

recognised according to Stage 2. Therefore, the expected credit losses are recognised over the remaining term of the instrument. The initial application effect in equity resulting from the impairment of trade receivables after deduction of deferred taxes amounted to €1.8 million, which is shown in retained earnings.

In accordance with the transition provisions for hedge accounting laid out in IFRS 9, the Group applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 January 2018. The Group's qualifying hedging relationships in place as at 1 January 2018 also qualify for hedge accounting according to IFRS 9 and were therefore regarded as continuing hedging relationships.

The following table provides information about the impact of IFRS 9 only. It states each class of financial assets and financial liabilities as well as the respective carrying amounts under the original category IAS 39 compared to the new IFRS 9 category.

in € million <sup>1)</sup>	Original measurement category IAS 39 <sup>2)</sup>	Measurement category IFRS 9 <sup>2)</sup>	Carrying amount as per IAS 39 31.12.2017 <sup>3)</sup>	Carrying amount as per IFRS 9 01.01.2018
Interests in subsidiaries not consolidated (FAAC)	AC	FVPL	0.8	<b>0.8</b>
Available-for-sale investments (AfS)	FVOCI	FVPL	0.4	<b>0.4</b>
Available-for-sale securities (AfS)	FVOCI	FVPL	12.6	<b>12.6</b>
Available-for-sale shares (AfS)	FVOCI	FVPL	2.4	<b>2.4</b>
Securities designated as fair value through profit or loss (FAFVTPL)	FVPL	FVPL	2.3	<b>2.3</b>
Interest derivatives designated as cash flow hedges	-	-	1.5	<b>1.5</b>
Non-current receivables from disposal of subsidiaries (LaR)	AC	AC	2.6	<b>2.6</b>
Other non-current financial receivables (LaR)	AC	AC	2.5	<b>2.5</b>
Trade and other current receivables <sup>4)</sup> (LaR)	AC	AC	412.5	<b>414.9</b>
Other current financial receivables (LaR)	AC	AC	0.1	<b>0.1</b>
Financial assets held for trading - securities (FAHfT)	FVPL	FVPL	32.3	<b>32.3</b>
Financial assets held for trading - derivatives (FAHfT)	FVPL	FVPL	1.7	<b>1.7</b>
Cash and cash equivalents (LaR)	AC	AC	442.4	<b>442.4</b>
<b>Financial assets</b>			<b>914.1</b>	<b>916.5</b>
Liabilities to financial institutions (FLAAC)	AC	AC	953.0	<b>953.0</b>
Perpetual bonds (FLAAC)	AC	AC	215.3	<b>215.3</b>
Senior notes (FLAAC)	AC	AC	55.6	<b>55.6</b>
Other financial liabilities (FLAAC)	AC	AC	1.7	<b>1.7</b>
Financial liabilities held for trading - derivatives (FLHfT)	FVPL	FVPL	40.9	<b>40.9</b>
Liabilities to fixed-term or puttable non-controlling interests (FLAAC)	AC	AC	32.0	<b>32.0</b>
Contingent consideration for acquired subsidiaries (FLFVTPL)	FVPL	FVPL	0.6	<b>0.6</b>
Trade payables and other current liabilities <sup>5)</sup> (FLAAC)	AC	AC	507.0	<b>507.0</b>
<b>Financial liabilities</b>			<b>1,806.1</b>	<b>1,806.1</b>

1 FAAC: Financial assets at amortised cost.

AfS: Available for sale financial instruments.

LaR: Loans and receivables.

FAHfT: Financial assets held for trading.

FLAAC: Financial liabilities measured at amortised cost.

FLHfT: Financial liabilities held for trading.

FLFVTPL: Financial liabilities measured at fair value through profit or loss.

2 FVPL: Financial assets/financial liabilities measured at fair value through profit or loss.

AC: Financial assets/financial liabilities measured at amortised cost.

FVOCI: Financial assets measured at fair value through other comprehensive income.

3 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

4 Thereof non-financial receivables per 01.01.2018: €110.1 million.

5 Thereof non-financial liabilities per 01.01.2018: €171.2 million.

In addition to this table, a change took place for receivables from long-term construction contracts previously accounted for using the percentage of completion method according to IAS 11. These receivables were reclassified from non-financial receivables to financial receivables and are now included in trade and other current receivables in accordance with IFRS 15.

**IFRS 15 “Revenue from Contracts with Customers”**

IFRS 15 replaces IAS 18 “Revenue” and IAS 11 “Construction Contracts” as well as the corresponding interpretations. RHI Magnesita Group applied IFRS 15 using the modified retrospective approach with effect as of 1 January 2018. The cumulative effect of initial application was therefore recognised as an adjustment to the opening balance of retained earnings as of 1 January 2018 without restating the comparable period. Changes from the initial application of IFRS 15 arose in the following areas:

- Revenue from the delivery of products is recognised at the point in time when control over the products is passed to the customer, which is determined based on the individual Incoterms rules agreed in the customer contract. In the course of contracts for the delivery of refractory products, control of the goods is passed to the customer typically when physical possession has been transferred to the customer. Therefore, for the Incoterms rules CPT (Carriage paid to), CIP (Carriage and Insurance paid to) as well as for CFR (Cost and Freight) and CIF (Cost, Insurance and Freight) it was determined, that the time of passing control deviates from the time of transfer of significant risks and rewards. As a result, revenue will be recognised at a later point in time than previously under IAS 18. Therefore, the effect from the initial application of IFRS 15 resulted in a reduction of trade and other current receivables in the amount of €28.4 million and in an increase of inventories in the amount of €19.9 million. The negative equity effect from the reversal of revenue from the delivery of products, after deduction of deferred taxes, amounted to €6.6 million as of 1 January 2018.
- Changes in presentation of expected penalty fees were necessary. Previously, expected penalty fees were recognised as provisions, whereas according to IFRS 15 they are considered as variable consideration and therefore shown as either a contract liability or refund liability. Consequently, a total amount of €4.3 million was reclassified from current provisions to trade payables and other current liabilities as of 1 January 2018 in the Consolidated Statement of Financial Position.
- Receivables from long-term construction contracts in the amount of €11.7 million were reclassified to trade receivables within the same item of the Consolidated Statement of Financial Position trade and other current receivables as of 1 January 2018 because RHI Magnesita's right to consideration is unconditional.

The summary of the effects on the individual positions of the Statement of Financial Position from the initial application of IFRS 15 as of 1 January 2018 is shown in the table at the end of this Note. For the purpose of the transition to IFRS 15, the Group did not apply the available optional practical expedients.

The following tables show the effects of IFRS 15 for the Consolidated Statement of Financial Position as of 31 December 2018 and the Consolidated Statement of Profit or Loss from 1 January to 31 December 2018.

in € million	31.12.2018 as reported	Adjustments IFRS 15	31.12.2018 without application of IFRS 15
Inventories	717.8	(25.0)	692.8
Trade and other current receivables	481.2	25.6	506.8
Current assets	1,747.2	0.6	1,747.8
<b>ASSETS</b>	<b>3,539.0</b>	<b>0.6</b>	<b>3,539.6</b>
Group reserves	752.2	5.5	757.7
Equity attributable to the shareholders	800.5	5.5	806.0
Non-controlling interests	84.8	0.1	84.9
Equity	885.3	5.6	890.9
Trade payables and other current liabilities	756.9	(10.5)	746.4
Income tax liabilities	32.2	1.7	33.9
Current provisions	53.0	3.8	56.8
Current liabilities	1,178.7	(5.0)	1,173.7
<b>EQUITY AND LIABILITIES</b>	<b>3,539.0</b>	<b>0.6</b>	<b>3,539.6</b>

# Notes

continued

in € million	as reported	Adjustments IFRS 15	without application of IFRS 15
Revenue	3,081.4	32.3	3,113.7
Cost of sales	(2,344.5)	(25.0)	(2,369.5)
Gross profit	736.9	7.3	744.2
EBIT	398.6	7.3	405.9
Profit before income tax	246.0	7.3	253.3
Income tax	(58.9)	(1.7)	(60.6)
Profit after income tax	187.1	5.6	192.7
attributable to the shareholders	158.1	4.9	163.0
attributable to non-controlling interests	29.0	0.7	29.7

## Summary of the effects of the initial application of IFRS 9 and IFRS 15

in € million	31.12.2017 <sup>1)</sup>	Effects of the initial application of IFRS 9	Effects of the initial application of IFRS 15	01.01.2018
Deferred tax assets	140.1	(0.6)	1.7	<b>141.2</b>
Non-current assets	1,845.7	(0.6)	1.7	<b>1,846.8</b>
Inventories	654.5	0.0	19.9	<b>674.4</b>
Trade and other current receivables	522.6	2.4	(28.4)	<b>496.6</b>
Current assets	1,667.1	2.4	(8.5)	<b>1,661.0</b>
ASSETS	3,512.8	1.8	(6.8)	<b>3,507.8</b>
Group reserves	574.0	1.8	(6.0)	<b>569.8</b>
Equity attributable to the shareholders	618.8	1.8	(6.0)	<b>614.6</b>
Non-controlling interests	226.9	0.0	(0.6)	<b>226.3</b>
Equity	845.7	1.8	(6.6)	<b>840.9</b>
Deferred tax liabilities	64.7	0.0	(0.2)	<b>64.5</b>
Non-current liabilities	1,619.9	0.0	(0.2)	<b>1,619.7</b>
Trade payables and other current liabilities	678.2	0.0	4.3	<b>682.5</b>
Current provisions	93.7	0.0	(4.3)	<b>89.4</b>
EQUITY AND LIABILITIES	3,512.8	1.8	(6.8)	<b>3,507.8</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

### 3. Other changes in comparative information

#### Consolidated Statement of Financial Position

The Statement of Financial Position per 31 December 2017 was adjusted for the final fair values of the acquired assets and liabilities of Magnesita. The details of the effects are shown in Note (5) Group of consolidated companies under Acquisition of Magnesita.

#### Consolidated Statement of Profit or Loss

The Statement of Profit or Loss 2017 was adjusted for the effects of the subsequent measurement of the values determined in the final purchase price allocation of Magnesita.

Additionally, in order to improve comparability with other FTSE 350 companies and ensure better understanding of the entity's financial performance, certain items in the Statement of Profit or Loss 2017 were reclassified. As of 31 December 2017, the effect on revenue amounted to €4.0 million, on gross profit to €(23.3) million, on EBIT to €50.8 million and on net finance costs to €(50.8) million. Variable commissions in the amount of €(27.3) million as of 31 December 2017 were reclassified from selling and marketing expenses to cost of sales and the expenses for strategic and merger-related projects (2017: €24.4 million) are now presented in other expenses, instead of general and administrative expenses. Variable commissions are costs directly linked with revenue. This reclassification should ensure better interpretation of these costs. Foreign exchange gains and losses as well as the effects from derivatives were reclassified from other income and expenses to a separate line item in net finance costs which is called "Net expense on foreign exchange effects and related derivatives". This reclassification was done because the majority of foreign exchange effects are incurred due to financing activities and the effects from derivatives are related to foreign exchange effects.

Additionally, interest expenses on borrowings are now reported as a separate item due to its significance. Other net financial expenses include all remaining financial income and expenses. The information for the previous year was adjusted accordingly.

#### Consolidated Statement of Cash Flows

Cash flows from derivatives in the amount of €8.2 million were reclassified from cash flow from operating activities to net cash flow from financing activities because they are related to foreign exchange effects of financing activities.

#### Segment reporting

In 2018, RHI Magnesita reorganised its internal structure and reporting. The activities formerly concentrated in the Raw material segment are now split between the Steel and Industrial segment. Each segment serves different customers and generates exclusively external revenue. The gross profit serves the management of the RHI Magnesita Group for internal performance management. The profit of joint ventures and associates, net finance costs and income taxes are managed on a group basis and are not allocated. The information for the previous year was adjusted accordingly.

### 4. New financial reporting standards not yet applied

The Group has chosen to not early adopt the following new and revised IFRSs, that have been issued by the IASB, but are not yet mandatory:

Standard	Title	Publication (EU endorsement) <sup>1)</sup>	Mandatory application for RHI Magnesita	Expected effects on RHI Magnesita Consolidated Financial Statements
<b>New standards</b>				
IFRS 9	Prepayment Features with Negative Compensation	12.10.2017 (22.03.2018)	01.01.2019	No effect
IFRS 16	Leases	13.01.2016 (31.10.2017)	01.01.2019	Material effects expected
IFRIC 23	Uncertainty over Income Tax Treatments	07.06.2017 (23.10.2018)	01.01.2019	No effect
<b>Amendments of standards</b>				
IAS 28	Long-term Interests in Associates and Joint Ventures	12.10.2017 (08.02.2019)	01.01.2019	No effect

1 According to EU Endorsement Status Report of 11.02.2019.

# Notes

## continued

### IFRS 16 “Leases”

#### General impact of application of IFRS 16 Leases

The accounting standard IFRS 16, which was issued in January 2016, supersedes IAS 17 “Leases” and the related interpretations and is applicable to financial years beginning on or after 1 January 2019. Accounting for the lessor according to IFRS 16 is comparable to the current regulations. In contrast, accounting will change fundamentally for the lessee with the application of IFRS 16. In future, most leases will have to be recognised as assets and liabilities in the Statement of Financial Position of the lessee, regardless of whether they are considered operating or financing leases under the previous criteria of IAS 17.

According to IFRS 16, a lessee recognises a right of use, which represents his right to use the underlying asset, and a liability from the lease, which reflects the obligation of lease payments. Exemptions are provided for short-term leases and assets of minor value. Moreover, the type of expenses related to these leases will change since IFRS 16 replaces the straight-line expenses for operating leases with a depreciation charge for rights of use and interest expenses for liabilities from the lease. In the Consolidated Statement of Cash Flows, there is a shift from cash flow from operating activities to cash flow from financing activities since the repayment of leasing liabilities must in any case be shown as cash flow from financing activities.

RHI Magnesita has chosen the modified retrospective application of IFRS 16 in accordance with IFRS 16:C5(b). Consequently, the Group will not restate the comparative information.

RHI Magnesita will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

RHI Magnesita will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019.

#### Impact on Lessee Accounting

IFRS 16 has no economic impact on the Group. It has no effect on how the business is run, nor on cash flows for the Group. It does however have a significant impact on the way the assets, liabilities and the Statement of Profit or Loss of the Group are presented, as well as the classification of cash flows relating to lease contracts.

On initial application of IFRS 16, for all leases (except as noted below), RHI Magnesita will:

- Recognise right-of-use assets and lease liabilities in the Consolidated Statement of Financial Position, initially measured at the present value of the future lease payments;
- Recognise depreciation of right-of-use assets and interest on lease liabilities in the Consolidated Statement of Profit or Loss;
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Consolidated Statement of Cash Flows.

Furthermore, on initial application RHI Magnesita will make use of the following practical expedients:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relying on its assessment of whether leases are onerous immediately before the date of initial application as an alternative to performing impairment review;
- Treating leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the RHI Magnesita Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

Based on a preliminary assessment, it is expected that the RHI Magnesita Group will recognise right-of-use assets and corresponding lease liabilities of €62.0 million in respect of all these leases. The impact on profit or loss is estimated to be a decrease in other expenses by €13.3 million, an increase in depreciation by €12.6 million and an increase in interest expense by €0.6 million.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. Under IFRS 16, the cash generated by operating activities is expected to increase by €13.3 million and the net cash outflow in financing activities is expected to increase by the same amount.

For existing finance leases RHI Magnesita does not expect an impact on the amounts recognised in the Group's Consolidated Statement of Financial Position.

The following financial reporting standards were issued by the IASB, but had not yet been adopted by the EU at the time of the preparation of the RHI Magnesita Consolidated Financial Statements:

Standard	Title	Publication <sup>1)</sup>	Mandatory application for RHI Magnesita	Expected effects on RHI Magnesita Consolidated Financial Statements
<b>New standards and interpretations</b>				
IFRS 14	Regulatory Deferral Accounts	30.01.2014	No EU endorsement	Not relevant
IFRS 17	Insurance Contracts	18.05.2017	01.01.2021	Not relevant
<b>Amendments of standards</b>				
IAS 1, IAS 8	Definition of Material	31.10.2018	01.01.2020	No material effects
IAS 19	Plan Amendment, Curtailment or Settlement	07.02.2018	01.01.2019	No material effects
IFRS 3	Business Combinations	22.10.2018	01.01.2020	No effect
Various	Amendments to References to the Conceptual Framework in IFRS Standards	29.03.2018	01.01.2020	No effect
Various	Annual Improvements to IFRSs 2015–2017 Cycle	12.12.2017	01.01.2019	No effect

1 According to EU Endorsement Status Report of 11.02.2019.

# Notes

## continued

### 5. Group of consolidated companies

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

##### Acquisition of Magnesita

On 26 October 2017, RHI Magnesita N.V. via its indirect, wholly-owned subsidiary Dutch Brasil Holding B.V. obtained control in Magnesita Refratários S.A. and its subsidiaries (Magnesita) after acquiring 50% plus one share and corresponding voting rights in Magnesita Refratários S.A. The acquisition led to a cash inflow of €50.2 million (purchase price paid of €117.3 million less acquired cash and cash equivalents of €167.5 million).

The fair values of the acquired assets and liabilities at the acquisition date have been adjusted according to IFRS 3 compared to the Consolidated Financial Statements 2017 over the course of the measurement period. The final fair values of the assets and liabilities recognised as a result of the acquisition are presented as follows:

in € million	Preliminary fair value	Adjustments made	Final fair value
Property, plant and equipment	439.0	251.2	690.2
Other intangible assets	161.4	160.2	321.6
thereof customer relationships	122.0	(20.0)	102.0
thereof mining rights	0.0	185.1	185.1
Investments in joint ventures and associates	9.9	(9.1)	0.8
Other non-current financial assets	4.3	0.0	4.3
Other non-current assets	16.3	0.0	16.3
Deferred tax assets	49.9	(35.5)	14.4
Inventories	244.7	1.0	245.7
Trade and other current receivables	175.6	(7.4)	168.2
Income tax receivables	9.2	0.0	9.2
Other current financial assets	42.7	0.0	42.7
Cash and cash equivalents	166.2	0.0	166.2
Assets held for sale	33.6	0.0	33.6
Non-current financial liabilities	(550.8)	0.0	(550.8)
Deferred tax liabilities	(0.3)	(91.6)	(91.9)
Provisions for pensions	(81.0)	0.0	(81.0)
Other personnel provisions	(1.5)	0.0	(1.5)
Other non-current provisions	(51.7)	(62.9)	(114.6)
Other non-current liabilities	(2.0)	0.0	(2.0)
Current financial liabilities	(131.4)	0.0	(131.4)
Current derivative financial liabilities	(0.2)	0.0	(0.2)
Trade and other current liabilities	(238.4)	(6.8)	(245.2)
Income tax liabilities	(10.1)	0.0	(10.1)
Current provisions	(25.8)	(21.4)	(47.2)
Liabilities relating to assets held for sale	(9.4)	0.0	(9.4)
Net assets	250.2	177.7	427.9
Non-controlling interest	(125.1)	(88.9)	(214.0)
Proportional share of net assets acquired	125.1	88.8	213.9
Goodwill	171.7	(88.8)	82.9
Purchase price	296.8	0.0	296.8

The goodwill of €82.9 million essentially reflects expected synergies achieved by optimising production capacities and cost structure as well as new business of the enlarged Group. Goodwill is not deductible for tax purposes. The goodwill has been allocated to cash-generating unit Steel – Linings in the amount of €82.1 million and to cash-generating unit Industrial – Raw Material in the amount of €0.8 million.



The table below provides information on the carrying amount of goodwill:

in € million

Preliminary goodwill recognised per acquisition date as at 31 December 2017	171.7
Adjustments relating to business combination fair values	(88.8)
Exchange rate differences 2017	(1.4)
<b>Goodwill recognised as at 31 December 2017</b>	<b>81.5</b>
Exchange rate differences 2018	(1.7)
<b>Goodwill recognised as at 31 December 2018</b>	<b>79.8</b>

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

#### Material adjustments to final fair values since prior reporting date

Intangible assets arising from non-patented technology and customer relationships were recognised in the purchase price allocation to the amount of €11.5 million and €102.0 million respectively. Discounted cash flow models were applied to value these intangible assets. The reason for the fair value adjustment of customer relations was that higher quality information was obtained over the course of the reporting period. Furthermore, since the valuation of property, plant and equipment was not completed as of 31 December 2017, valuation of intangible assets arising from customer relationships could not be considered final. The increase in the value of property, plant and equipment in the measurement period reduced the fair value of the customer relationships to a varying degree because of the associated higher contributory asset charges.

As at the previous financial reporting date, the preliminary fair value of property, plant and equipment was approximated by using mainly historical book values because the technical valuation was not completed at the majority of the production sites. After completion of the valuation of property, plant and equipment within the measurement period, fair value amounts to €690.2 million and was determined by external appraisers applying a replacement cost approach.

As part of the business combination, the Group recognised intangible assets for mining rights arising from three significant mines in Brazil and the USA. These were initially not recognised as at 31 December 2017, as insufficient data was available at that time. After finalisation of the purchase price allocation fair value of the mining rights amounts to €185.1 million. The intangible assets arising from mining rights were valued using discounted cash flow models, based on the life-of-mine plans as at the acquisition date. Expected cash flows are based on estimates of future production, margins, operating costs and forecast capital expenditure. The value of PPE items that form part of the mines (but valued separately) was deducted from the value of the mining rights in order to avoid double counting.

The total amortisation of the acquired technology, mining rights, and customer relationships in the current reporting period amounts to €11.2 million (11-12/2017: €2.2 million). The total depreciation of property, plant and equipment increased by €37.1 million in 2018 (11-12/2017: €6.3 million) as a result of the fair value adjustments.

A liability for an unfavourable contract was recognised as at the previous reporting date, the value of which has been adjusted and finalised during the measurement period. The fair value of the liability amounts to €109.3 million. This value was calculated using a discounted cash flow model based on foregone profits compared to market conditions, the term of the contract, assumptions of future costs and an appropriate discount rate. The provision for an unfavourable contract has been amortised by €10.0 million (11-12/2017: €1.6 million) in other income and €(8.7) million (11-12/2017: €(1.0) million) were accrued as interest expense in the current reporting period.

The Group was required — in accordance with the share purchase agreement (SPA) and Brazilian laws and regulations — to make a mandatory public offer in Brazil which had to be addressed to all remaining Magnesita shareholders and had to be made on the same terms and conditions as those made available to the Sellers under the SPA, including as to purchase price and form of consideration. The Group decided to combine the mandatory offer with a so-called "delisting tender offer" in an Integrated Tender Offer (ITO) and has filed with the Brazilian Securities Commission the respective request. The launch of the ITO was communicated to the minority shareholders on 10 November 2018.

Magnesita shareholders received the option of selling each Magnesita share in exchange of:

- (i) R\$18.46, adjusted by SELIC (the Brazilian benchmark interest rate) from 26 October 2017 until the date of the settlement of the auction of the Integrated Tender Offer, plus 0.1998 RHI Magnesita shares or
- (ii) a cash-only alternative consideration.

# Notes

## continued

The consideration of the cash-only alternative offer was the highest between:

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

In the course of the first close of the ITO, the Group acquired an additional 35.2% of shares in Magnesita, increasing its ownership from 50% plus one share to 85.2% as of 31 December 2018. The fair value of the consideration is €228.5 million and includes a cash part in the amount of €85.2 million, including transaction costs, and the issue of 3,518,008 new ordinary shares of RHI Magnesita N.V. These shares were delivered to the minority shareholders and admitted to trading on the London Stock Exchange's main market on 17 December 2018. The closing price of £36.62 per share on that day was used for the determination of the fair value of the issued ordinary shares totalling up to €143.3 million. The cash part of the consideration has been settled on 20 December 2018 and 35.2% of the Magnesita shares were transferred to the Group. The carrying amount of Magnesita's net assets in the Group's Consolidated Financial Statements on the date of acquisition was €450.0 million. Consequently, the carrying amount of non-controlling interests acquired amounts to €158.4 million. This transaction results in a decrease in equity attributable to shareholders of RHI Magnesita N.V. in the amount of €70.1 million.

Subsequent to the first close of the ITO, the remaining shareholders had three months to elect from the two options ("Supervening Acquisition Period"), which ended on 10 March 2019. These effects are disclosed in Note (63).

### Companies of the RHI Magnesita Group

The main operating companies of the RHI Magnesita Group and their core business activities are as follows:

Name and registered office of the company	Country of core activity	Core business activity
Didier-Werke Aktiengesellschaft, Germany	Germany	Production
Magnesit Anonim Sirketi, Turkey	Turkey	Mining, production, sales
Magnesita Mineração S.A., Brazil	Brazil	Mining
Magnesita Refractories Company, USA	USA	Mining, production, sales
Magnesita Refractories GmbH, Germany	Germany	Production
Magnesita Refratários S.A., Brazil	International	Production, sales
Orient Refractories Limited, India	India	Production, sales
RHI Canada Inc., Canada	Canada	Production, sales, provision of services
RHI Magnesita GmbH, Austria	International	Sales, R&D, financing
RHI GLAS GmbH, Germany	International	Sales
RHI Refractories (Dalian) Co., Ltd., PR China	PR China	Production
RHI US Ltd., USA	USA	Production, sales, provision of services
RHI-Refmex, S.A. de C.V., Mexico	Latin America	Sales
Veitsch-Radex GmbH & Co OG, Austria	Austria	Mining, production

## 6. Methods of consolidation

### Subsidiaries

Subsidiaries are companies over which RHI Magnesita N.V. exercises control. Control exists when the company has the power to decide on the relevant activities, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The acquisition method is used to account for all business combinations. The purchase price for shares is offset against the proportional share of net assets based on the fair value of the acquired assets and liabilities at the date of acquisition or when control is obtained. Intangible assets which were previously not recognised in the separate Financial Statements of the company acquired are also measured at fair value. Intangible assets identified when a company is acquired, including for example technology, mining rights and customer relations, are only measured separately at the time of acquisition if they are identifiable and are in the control of the company and a future economic benefit is expected.

For acquisitions where less than 100% of shares in companies are acquired, IFRS 3 allows an accounting policy choice whereby either goodwill proportionate to the share held or goodwill including the share accounted for by non-controlling interests can be recognised.

This accounting policy choice can be exercised for each acquisition. For the acquisition of Magnesita, non-controlling interests have been measured at their proportionate share of Magnesita's identifiable net assets.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted within twelve months of the acquisition to reflect new information about facts and circumstances that existed as of the acquisition date.

After completing the purchase price allocation, the determined goodwill is allocated to the relevant cash-generating unit and tested for impairment. In accordance with the provisions of IFRS 3, negative goodwill is immediately recognised to profit or loss in other income after renewed measurement of the identifiable assets, liabilities and contingent liabilities.

Net assets of subsidiaries not attributable to RHI Magnesita N.V. are shown separately under equity as non-controlling interests. The basis for non-controlling interests is the equity after adjustment to the accounting and measurement principles of the RHI Magnesita Group and proportional consolidation entries.

Transaction costs which are directly related to business combinations are expensed as incurred. Contingent consideration included in the purchase price is recorded at fair value at initial consolidation.

When additional shares are acquired in entities already included in the Consolidated Financial Statements as subsidiaries, the difference between the purchase price and the proportional carrying amount in the subsidiary's net assets is offset against shareholders' equity. Gains and losses from the sale of shares are recorded in equity unless they lead to a loss of control.

For step acquisitions the difference between the carrying amount to be transferred and the fair value at initial full consolidation, is realised through profit or loss.

All intragroup results are fully eliminated.

In accordance with IAS 12, deferred taxes are calculated on temporary differences arising from the consolidation.

Subsidiaries are deconsolidated on the day control ends.

#### **Joint ventures and associates**

Shares in joint ventures and associates are accounted for using the equity method. A joint venture is a joint arrangement between the RHI Magnesita Group and one or several other partners whereby the parties that have joint control over the arrangement have rights to the net assets of the arrangement.

An associate is an entity over which the RHI Magnesita Group has significant influence. Significant influence is the power to participate in the investee's financial and operating policy decisions without control or joint control. There is the rebuttable presumption that if a company holds directly or indirectly 20% of the shares of the investee or has other abilities (e.g. through seats in the supervisory board) to influence the company's financial and operating policy decisions it has significant influence.

At the date of acquisition, a positive difference between the acquisition costs and the share in the fair values of identified assets and liabilities of the joint ventures and associates is determined and recognised as goodwill. Goodwill is shown as part of investments in joint ventures and associates in the Statement of Financial Position.

The acquisition cost of investments accounted for using the equity method is adjusted each year to reflect the change in the equity of the individual joint venture or associate that is attributable to the RHI Magnesita Group. Unrealised intragroup results from transactions are offset against the carrying amount of the investment on a pro-rata basis during consolidation, if material.

RHI Magnesita examines at every reporting date whether there exist any objective indications of an impairment of the shares in joint ventures and associates. If such indications exist, the required impairment is determined as the difference between the recoverable amount and the carrying amount of the joint ventures and associates and recognised in profit and loss in the item share of profit of joint ventures and associates.

The Financial Statements of the companies accounted for using the equity method are prepared in accordance with uniform accounting and measurement methods throughout the Group.

# Notes

## continued

### 7. Foreign currency translation

#### Functional currency and presentation currency

The Consolidated Financial Statements are presented in Euro, which represents the functional and presentation currency of RHI Magnesita N.V.

The items included in the Financial Statements of each group company are based on the currency of the primary economic environment in which the company operates (functional currency).

#### Foreign currency transactions and balances

Foreign currency transactions in the individual Financial Statements of Group companies are translated into the functional currency based on the exchange rate in effect on the date of the transaction. Gains and losses arising from the settlement of such transactions and the measurement of monetary assets and liabilities in foreign currencies at the closing rate are recognised in profit or loss under net expense on foreign exchange effects and related derivatives. Unrealised currency translation differences from monetary items which form part of a net investment in a foreign operation are recognised in other comprehensive income in equity. Non-monetary items in foreign currency are carried at historical rates.

#### Group companies

The Annual Financial Statements of foreign subsidiaries that have a functional currency differing from the Group presentation currency are translated into Euros as follows:

Assets and liabilities are translated at the closing rate on the reporting date of the Group, while monthly income and expenses and consequently the profit for the year as presented in the Statement of Profit or Loss are translated at the respective closing rates of the previous month. Differences resulting from this translation process and differences resulting from the translation of amounts carried forward from the prior year are recorded under other comprehensive income without recognition to profit or loss. Monthly cash flows are translated at the respective closing rates of the previous month. Goodwill and adjustments to the fair value of assets and liabilities related to the purchase price allocations of a subsidiary outside the European currency area are recognised as assets and liabilities of the respective subsidiary and translated at the closing rate.

RHI Magnesita has evaluated the effect of applying IAS 29 "Financial Reporting in Hyperinflationary Economies" in Argentina with the conclusion that the effect on the Consolidated Financial Statements is considered immaterial to the Group.

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

Currencies	1 € =	Closing rate		Average rate <sup>1)</sup>	
		31.12.2018	31.12.2017	2018	2017
Argentine Peso	ARS	<b>43.10</b>	22.93	<b>32.58</b>	18.65
Brazilian Real	BRL	<b>4.44</b>	3.96	<b>4.29</b>	3.60
Canadian Dollar	CAD	<b>1.56</b>	1.50	<b>1.53</b>	1.46
Chilean Peso	CLP	<b>793.69</b>	735.00	<b>753.18</b>	733.37
Chinese Renminbi Yuan	CNY	<b>7.87</b>	7.78	<b>7.81</b>	7.61
Indian Rupee	INR	<b>79.88</b>	76.40	<b>80.45</b>	73.36
Mexican Peso	MXN	<b>22.49</b>	23.56	<b>22.70</b>	21.27
Norwegian Krone	NOK	<b>9.94</b>	9.85	<b>9.62</b>	9.30
Pound Sterling	GBP	<b>0.90</b>	0.89	<b>0.89</b>	0.87
Swiss Franc	CHF	<b>1.13</b>	1.17	<b>1.15</b>	1.11
South African Rand	ZAR	<b>16.46</b>	14.75	<b>15.45</b>	15.02
US Dollar	USD	<b>1.14</b>	1.20	<b>1.18</b>	1.12

1 Arithmetic mean of the monthly closing rates.

## 8. Principles of accounting and measurement

### Goodwill

Goodwill is recognised as an asset in accordance with IFRS 3. It is tested for impairment at least once each year, or when events or a change in circumstances indicate that the asset could be impaired.

In accordance with IFRS 3, negative goodwill is recognised through profit or loss immediately after a new assessment of the identified assets, liabilities and contingent liabilities.

### Other intangible assets

Mining rights were recognised in the course of the purchase price allocation for Magnesita and are amortised based on the depletion of the related mines. Depletion is calculated based on the volume mined in the period in proportion to the total estimated volume.

Customer relations were recognised in the course of purchase price allocations of acquired subsidiaries and are amortised on a straight-line basis over the expected period of useful life.

Research costs are expensed in the year incurred and included under general and administrative expenses.

Development costs are only capitalised if the allocable costs of the intangible asset can be measured reliably during its development period. Moreover, capitalisation requires that the product or process development can be clearly defined, is feasible in technical, economic and capacity terms and is intended for own use or sale. In addition, future cash inflows which cover not only normal costs but also the related development costs must be expected. Capitalised development costs are amortised on a straight-line basis over the expected useful life, however, with a maximum useful life of ten years, and recognised in cost of sales.

The development costs for internally generated software are expensed as incurred if their primary purpose is to maintain the functionality of existing software. Expenses that can be directly and conclusively allocated to individual programmes and represent a significant extension or improvement over the original condition of the software are capitalised as production costs and added to the original purchase price of the software. These direct costs include the personnel expenses for the development team as well as a proportional share of overheads. Software is predominantly amortised on a straight-line basis over a period of four years.

Purchased intangible assets are measured at acquisition cost, which also includes acquisition-related costs, less accumulated amortisation and impairments. Intangible assets with a finite useful life are amortised on a straight-line basis over the expected period of useful life. The following table shows the most important useful lives:

Customer relationships	6 to 15 years
Patents	7 to 18 years
Brand rights	20 years
Land use rights	30 to 65 years
Software	4 years

### Property, plant and equipment

Property, plant and equipment is measured at acquisition or production cost, less accumulated depreciation and accumulated impairments. These assets are depreciated on a straight-line basis over the expected useful life, calculated pro rata from the month the asset is available for use.

Leased property, plant and equipment that qualifies as a finance lease, is capitalised at the market value of the asset or the lower present value in accordance with IAS 17. The leased assets are depreciated on a systematic basis over the useful life. The payment obligations resulting from future lease instalments are discounted and recorded as liabilities. Current lease payments are apportioned between a finance charge and the amortisation of the outstanding liability. As of the reporting date, the amount of property, plant and equipment leased through finance leases is low. All other leases are treated as operating leases with payments expensed.

Production costs of internally generated assets comprise direct costs as well as a proportionate share of capitalisable overheads and borrowing costs. If financing can be specifically allocated to an investment, borrowing costs are capitalised as production costs. If no direct connection can be made, the average rate on borrowed capital of the Group is used as the capitalisation rate due to the central funding of the Group.

# Notes

## continued

Expected demolition and disposal costs at the end of an asset's useful life are capitalised as part of acquisition cost and recorded as a provision. The criteria for this treatment are a legal or constructive obligation towards a third party and the ability to prepare a reliable estimate.

Real estate, land and plant under construction are not depreciated. Depreciation of other material property, plant and equipment is based on the following useful lives in the RHI Magnesita Group:

Factory and office buildings	15 to 50 years
Land improvement	8 to 30 years
Crusher machines and mixing facilities	8 to 20 years
Presses	10 to 12 years
Tunnel, rotary and shaft kilns	50 years
Other calcining and drying kilns	20 to 30 years
Cars, other plant, furniture and fixtures	3 to 35 years

The residual values and economic useful lives are reviewed regularly and adjusted if necessary.

When components of plant or equipment have to be replaced at regular intervals, the relevant replacement costs are capitalised as incurred if the criteria per IAS 16 have been met. The carrying amount of the replaced components is derecognised. Regular maintenance and repair costs are expensed as incurred.

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

### **Impairment of property, plant and equipment, goodwill and other intangible assets**

Property, plant and equipment and intangible assets, including goodwill, are tested for impairment if there is any indication that the value of these items may be impaired. Intangible assets with an indefinite useful life and goodwill are tested for impairment at least annually.

An asset is considered to be impaired if its recoverable amount is less than the carrying amount. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use (present value of future cash flows). If the carrying amount is higher than the recoverable amount, an impairment loss equivalent to the resulting difference is recognised in the Statement of Profit or Loss. If the reason for an impairment loss recognised in the past for property, plant and equipment and for other intangible assets ceases to exist, a reversal of impairment on the amortised acquisition and production costs is recognised to profit or loss.

In the case of impairments related to cash-generating units (CGU) which contain goodwill, existing goodwill is initially reduced. If the required impairment exceeds the carrying amount of goodwill, the difference is apportioned proportionately to the remaining non-current tangible and intangible assets of the CGU. Reversals of impairment losses recognised on goodwill are not permitted and are therefore not considered. The effects of impairment tests at the CGU level are shown separately in the Statement of Profit or Loss.

If there is an indication for an impairment of a specific asset, only this specific asset will be tested for impairment. The recoverable amount is determined through fair value. If the fair value is lower than the carrying amount, an impairment loss is recorded in EBIT or, in the case of restructuring, in restructuring costs.

### *Cash-generating units (CGU)*

In the RHI Magnesita Group the individual assets do not generate cash inflows independent of one another: therefore, no recoverable amount can be presented for individual assets. As a result, the assets are combined in CGUs, which largely generate independent cash inflows. These units are combined in strategic business units and reflect the market presence and the market appearance and are as such responsible for cash inflows. CGU's are determined based on group of assets that can generate cash inflows independent of other assets.

The organisational structures of the Group reflect these units. In addition to the joint management and control of the business activities in each unit, the sales know-how, the knowledge of RHI Magnesita's long-standing customer relationships or knowledge of the customer's production facilities and processes further support these units. Product knowledge is manifested in the application-oriented knowledge of chemical, physical and thermal properties of RHI Magnesita products. The services offered extend over the life cycle of RHI Magnesita products at the customer's plant, from the appropriate installation and support of optimal operations, to environmentally sound disposal with the customer or the sustainable reuse in RHI Magnesita's production process. These factors determine cash inflow to a significant extent and consequently form the basis for the CGU structures of RHI Magnesita.

The CGUs of the strategic business unit Steel are Linings and Flow Control. These two units are determined according to the production stages in the process of steel production.

In the Industrial Division, each industry line of business (glass, cement/lime, non-ferrous metals and environment, energy, chemicals) forms a separate CGU. All raw material producing facilities with the exception of Norway are combined in one CGU.

The plant in Porsgrunn, Norway, is not included in the raw materials unit, but treated as a separate CGU because a management team was installed specifically for the coordination and implementation of the optimisation measures due to the dimension and the special situation at the Porsgrunn plant. This organisation goes beyond plant management and also includes sub-tasks of the administration processes.

As in the previous year, the impairment test is based on the value in use; the recoverable amount is determined using the discounted cash flow method and incorporates the terminal value. The detailed planning of the first five years is congruent with the strategic business and financial planning. Based on the detailed planning period, it is geared to a steady-state business development, which balances out possible economic or other non-sustainable fluctuations in the detailed planning period and forms the basis for the calculation of the terminal value. As in the previous year, the terminal value is based on a growth rate derived from the difference of the current and the possible degree of utilisation of the assets.

The net cash flows are discounted using a discount rate that is calculated taking into account the weighted average cost of capital of comparable companies (peer group); the corresponding parameters are derived from capital market information. In addition, country-specific risk premiums are considered in the weighted average cost of capital. The discount rate ranges between 10.1% and 13.0% in the year 2018. In the previous year, the discount rates ranged between 5.7% and 8.6%. The increase of the discount rate resulted from annual update of the peer group parameters as well as considering the location of the CGU's assets (as a cash outflows originator) in the discount rate determination methodology.

#### *Composition of estimated future cash flows*

The estimates of future cash flows include forecasts of the cash flows from continued use. If assets are disposed at the end of their useful life, the related cash flows are also included in the forecasts.

A simplified statement of cash flows serves to determine the cash flows on the basis of strategic business and financial planning. The forecasts include cash flows from future maintenance investments. Expansion investments are only taken into account when there has been a significant cash outflow or significant payment obligations have been entered into due to services received and it is sufficiently certain that the investment measure will be completed. All other expansion investments are not considered; this applies in particular to expansion investments that have been decided on but not begun.

Working capital is included in the carrying amount of the CGU; therefore, the recoverable amount only takes into account changes in working capital.

#### *Basis for Planning*

Basis for the impairment test was the Long Term Plan 2019 to 2025, which was approved by the Board, and developed with the growth rates used in the forward-looking business plan. To forecast the CGUs' cash flows, management predicts the growth rate using external sources for the development of the customer's industries and expert assumptions. This includes forecasts about the regional growth of the steel production and the output of the non-steel clients. In combination with the development of the specific refractory consumption, which considers also technological improvements, the growth rates for the individual CGUs are determined.

	2018			2017		
	Discount rate before Tax	Perpetual annuity growth rate	Goodwill in € million	Discount rate before tax	Perpetual annuity growth rate	Goodwill in € million
Steel Division - Linings	11.3%	0.9%	88.4	8.6%	0.9%	90.1
Steel Division - Flow Control	11.3%	0.9%	27.3	8.5%	0.9%	28.3

The remaining goodwill of €1.7 million (31.12.2017: €1.8 million) is spread among the remaining CGU's, all of them having sufficient headroom.



# Notes

## continued

### *Result of impairment test*

Based on the impairment test conducted in the financial year 2018, the recoverability of the assets was demonstrated in all CGUs.

As in the previous year, no reversals of impairments were made in the financial year 2018.

### **Other financial assets and liabilities**

Financial assets are classified as at amortised cost, if the contractual cash flows of the financial asset include solely payments of principal and interest and they are held in order to collect the contractual cash flows. If the contractual cash flows of financial assets include solely payments of principal and interest, but they are held in order to both collect the contractual cash flows and sell the financial asset, then the financial assets are classified as at fair value through other comprehensive income. If the contractual cash flows of financial assets do not solely include payments of principal and interest, then these financial assets are classified as at fair value through profit or loss.

The Group initially recognises securities on the trading date when the entity becomes a party to the contractual provisions of the instruments. All other financial assets and financial liabilities are initially recognised on the date when they are originated. Financial instruments, except for trade receivables, are initially recognised at fair value. Financial assets are derecognised if the entity transfers substantially all the risks and rewards or if the entity neither transfers nor retains substantially all the risks and rewards and has not retained control. Financial liabilities are derecognised when the contractual obligations are settled, withdrawn or have expired.

The item other financial assets in the Consolidated Statement of Financial Position of RHI Magnesita includes shares in non-consolidated subsidiaries and other investments, securities, financial receivables and positive fair values of derivative financial instruments.

The item other financial liabilities includes negative fair values of derivative financial instruments as well as liabilities to fixed-term or puttable non-controlling interests.

Shares in non-consolidated subsidiaries, investments in other companies as well as securities are classified as at fair value through profit or loss in the RHI Magnesita Group. For materiality reasons if such financial assets are of minor significance cost serves as an approximation of fair value. Directly attributable transaction costs are recognised in profit or loss as incurred. Securities at fair value through profit or loss are measured at fair value and changes therein, including any interest income, are recognised in profit or loss.

Financial receivables are measured at amortised cost applying the effective interest method. Any doubt concerning the collectability of the receivables is reflected in the use of the lower present value of the expected future cash flows according to the impairment model described below. Foreign currency receivables are translated at the closing rate.

Derivative financial instruments, which are not part of an effective hedging relationship in accordance with IFRS 9 or do not meet the hedge accounting requirements, must be classified as at fair value through profit or loss and measured at fair value through profit or loss. In the RHI Magnesita Group, this measurement category includes derivatives related to purchase obligations, forward exchange contracts, embedded derivatives in open orders that are denominated in currencies other than the functional currency as well as derivative financial instruments in the form of interest rate swaps.

Derivative financial instruments relating to purchase obligations are accounted for in accordance with IFRS 9 and concern a long-term power supply contract which provides for the purchase of fixed amounts of electricity at fixed prices. The measurement is made taking into account quoted electricity prices in the futures market. Based on the fixed amounts of electricity, the cash flows for the entire term of the contract are initially determined as the difference between forward rates and contractually fixed prices and discounted at the reporting date using a cost of borrowing rate corresponding to the term. The measurement effects resulting from this electricity derivative are shown as gain or loss from derivatives from supply contracts in the Statement of Profit or Loss.

The measurement of forward exchange contracts and embedded derivatives in open orders denominated in a currency other than the functional currency is made on a case-by-case basis at the respective forward rate on the reporting date. These forward rates are based on spot rates, and also include forward premiums and discounts. Unrealised valuation gains or losses and results from the realisation are recognised to the Statement of Profit or Loss under net expense of foreign exchange effects and related derivatives. The underlying transactions for the derivatives are carried at amortised cost.

For derivative financial instruments, which are incorporated in an effective hedging relationship in accordance with IFRS 9, the provisions regarding hedge accounting are applied. RHI Magnesita has concluded derivative financial instruments in the form of interest rate swaps to hedge the cash flow risk of financial liabilities carrying variable interest. Hedging transactions are shown as part of cash flow hedge accounting. The interest rate swaps as hedging instruments are measured at fair value, which corresponds to the amount which RHI Magnesita would receive or has to pay on the reporting date when the financial instrument is terminated. The fair value is calculated using the interest rates and yield curves relevant on the reporting date. The effective part of the fair value changes is initially recorded in other comprehensive income as an unrealised gain or loss. Only at the time of the realisation of the underlying transaction, the contribution of



the hedging instrument is shown in the Statement of Profit or Loss. Ineffective parts of the fair value changes of cash flow hedges are recognised immediately in the Statement of Profit or Loss. If the underlying transaction is no longer expected to take place, the accumulated amount previously recorded in other comprehensive income is reclassified to the Statement of Profit or Loss.

Capital shares of non-controlling interests in subsidiaries with a fixed term are recognised under other financial liabilities in the Consolidated Statement of Financial Position in accordance with IAS 32. The liabilities are measured at amortised cost. The share of profit attributable to non-controlling interests is recognised under other net financial expenses in the Statement of Profit or Loss. Dividend payments to non-controlling interests reduce liabilities.

Furthermore, the RHI Magnesita Group has entered into purchase obligations with non-controlling shareholders of a subsidiary. Based on these agreements, the shareholders receive the right to tender their shares at any time on previously defined conditions. In this case, IAS 32 provides for carrying a liability in the amount of the probable future exercise price. The difference between the estimated liability and the carrying amount of the non-controlling interest was recognised to equity at the time of initial recognition without affecting profit or loss. Subsequently, the liability to puttable non-controlling interests is measured at amortised cost and changes are recorded in net finance costs.

#### *Impairment of financial assets*

Impairment of financial instruments is based on expected credit losses (ECL). Expected credit losses are defined as the difference between all contractual cash flows the entity is entitled to according to the contract and the cash flows that the entity expects to receive. The measurement of expected credit losses is generally a function of the probability of default, loss given default and the exposure at default.

RHI Magnesita recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group recognises lifetime ECL for trade receivables and contract assets by applying the simplified approach. The expected credit losses on these financial assets are generally estimated using a provision matrix based on the Group's historical credit loss experience for customer groups located in different geographic regions. Forward-looking information is incorporated in the determination of the applicable loss rates for trade receivables. For the Group, the general economic development of the countries in which it sells its goods and services is the relevant for the determination if adjustment of the historical loss rates is necessary.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

RHI Magnesita takes use of the practical expedient that if a financial instrument has an 'investment grade' rating that it is assumed to be of low credit risk and no significant increase in the credit risk took place and the expected credit loss is calculated using the 12 month ECL. Among other factors the Group considers a significant increase in credit risk to have taken place when contractual payments are more than 30 days past due.

The Group considers the following as constituting an event of default, hence leading to a credit-impaired financial asset:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower concessions that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties.

In addition to these factors, RHI Magnesita applies the presumption in regards to trade receivables, that a default event has occurred when such receivables are 180 days past due unless the Group has reasonable and supportable information for anything different. 180 days past due are used as an objective evidence of default as this is presumed to reflect the Group's customer industry.

# Notes

## continued

For those financial instruments where objective evidence of default is present an individual assessment on expected credit losses takes place.

Generally, financial instruments are written off when there is no reasonable expectation of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

### Deferred taxes

Deferred taxes are recognised on temporary differences between the tax base and the IFRS carrying amount of assets and liabilities, tax-loss carryforwards and consolidation entries.

Deferred tax assets are recognised on temporary differences to the extent it is probable that sufficient deferred tax liabilities exist or that sufficient taxable income before the reversal of temporary differences is available for the settlement of deductible temporary differences.

Deferred taxes are recognised on temporary differences relating to shares in subsidiaries and joint ventures, unless the parent company is in a position to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse. No temporary differences are recognised for financial instruments which were issued by subsidiaries to non-controlling interests and which are classified as a financial liability in accordance with IFRS.

The calculation of deferred taxes is based on the tax rate expected in the individual countries at the time the deferred tax asset is realised or the liability is settled and generally reflects the enacted or substantively enacted tax rate on the reporting date. As in the previous year, deferred taxes of the Austrian group companies are determined at the corporation tax rate of 25.0%. Deferred tax assets and liabilities of the Brazilian group companies are measured mainly at 34.0%. Tax rates from 12.5% to 34.9% (31.12.2017: 12.5% to 35.0%) were applied to the other companies.

Deferred tax assets and liabilities are offset if there is an enforceable right to offset current tax receivables against current tax liabilities, and if the deferred taxes relate to income taxes due from/to the same tax authorities.

### Inventories

Inventories are stated at the lower of cost or net realisable value as of the reporting date. The determination of acquisition cost of purchased inventories is based on the average cost. Finished goods and work in process are valued at fixed and variable production cost. The net realisable value is the estimated selling price in the ordinary course of business minus any estimated cost to complete and to sell the goods. Impairments due to reduced usability are reflected in the calculation of the net realisable value.

### Trade and other current receivables

Trade receivables are initially measured at the transaction price according to IFRS 15 and subsequently carried at amortised cost minus any valuation allowances. Valuation allowances are calculated in accordance with the simplified approach of the impairment model for financial instruments (see impairment of financial assets above).

Receivables denominated in foreign currencies are translated using the closing rate.

### Emission certificates

Emission certificates acquired for a consideration are carried at cost and recognised to profit and loss in cost of sales when used up, written down to fair value or sold. In the case of a shortfall, a provision is recognised equivalent to the fair value of the lacking emission certificates.

Emission certificates allocated free of charge are not accounted for. Proceeds from the sale of these rights are recognised as income.

### Cash and cash equivalents

Cash and cash equivalents includes cash on hand, cheques received and cash at banks with an original term of a maximum of three months. Moreover, shares in money market funds, which are only exposed to insignificant value fluctuations due to their high credit rating and investments in extremely short-term money market instruments and can be converted to defined cash amounts within a few days at any time, are also recorded under cash equivalents under IAS 7.

Cash and cash equivalents denominated in foreign currencies are translated at the closing rate.

**Disposal groups held for sale**

Non-current assets and disposal groups which can be sold in their present state and whose sale is highly probable are classified as held for sale. Assets and liabilities which are intended to be sold together in a single transaction represent a disposal group held for sale and are shown separately from other assets and liabilities in the Statement of Financial Position.

Non-current assets and disposal groups which are classified as held for sale are carried at the lower of fair value less costs to sell and carrying amount. Impairments are initially allocated to existing goodwill and then to the non-current assets on a pro-rata basis, based on the carrying amount of each individual asset of the disposal group. Impairments beyond that are allocated to current assets pursuant to the liquidity principle and recognised through profit or loss in the item other expenses. Non-current assets are not depreciated as long as they are classified as held for sale.

**Borrowings and other financial liabilities**

Financial liabilities include liabilities to financial institutions and other lenders and are measured at fair value less directly attributable transaction costs at initial recognition. In subsequent measurements these liabilities are measured at amortised cost applying the effective interest method. Financial liabilities in foreign currency are translated at the closing rate.

A financial liability is derecognised when the obligation under the liability is discharged (by payment or legal release), cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. The difference in the respective carrying amounts is subsequently recognised in the Statement of Profit or Loss, including any costs or fees.

**Provisions**

Provisions are recognised when the Group incurs a legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to meet this obligation, and the amount of the obligation can be reliably estimated.

Non-current provisions are measured at their discounted settlement value as of the reporting date if the discounting effect is material.

If maturities cannot be estimated, they are shown under current provisions.

*Provisions for pensions*

With respect to post-employment benefits, a differentiation is made between defined contribution and defined benefit plans.

Defined contribution plans limit the company's obligation to the agreed amount of contributions to earmarked pension plans. The related expenses are shown in the functional areas and thus in EBIT. No provisions are necessary.

Defined benefit plans require the company to provide the agreed amount of benefits to active and former employees and their dependents, with a differentiation made between pension systems financed through provisions and pension systems financed by funds.

For pension plans financed through external funds, the pension obligation according to the projected unit credit method is netted out against the fair value of the plan assets. If the plan assets are not sufficient to cover the obligation, the net obligation is recognised under provisions for pensions. However, if the plan assets exceed the obligations, the asset recognised is limited to reductions of future contribution payments to the plan and is shown under other non-current assets.

The present value of defined benefit obligations for current pensions, future pension benefits and similar obligations and the related expenses are calculated separately for each plan annually by independent qualified actuaries in accordance with the provisions of IAS 19. The present value of future benefits is based on the length of service, expected wage/salary developments and pension adjustments.

The expense to be recognised in a period includes current and past service costs, settlement gains and losses, interest expenses from the interest accrued on obligations, interest income from plan assets and administration costs paid from plan assets. The net interest expense is shown separately in net finance costs. All other expenses related to defined benefit plans are allocated to the costs of the relevant functional areas.

Actuarial assumptions required to calculate these obligations, include the discount rate, increases in wages/salaries and pensions, retirement starting age and probability of employee turnover and actual claims. The calculation is based on local demographic parameters.

# Notes

## continued

Interest rates chosen on the basis of the interest on high-quality corporate bonds issued with adequate maturities and currencies are applied to determine the present value of pension obligations. In countries where there is no sufficiently liquid market for high-quality corporate bonds, the returns on government bonds are used as a basis.

The rates of increase for wages/salaries were based on an average of past years, which is also considered to be realistic for the future.

The fluctuation probabilities were estimated specific to age or according to seniority.

The retirement age used for the calculation is based on the respective statutory provisions of the country concerned. The calculation is based on the earliest possible retirement age according to the current statutory provisions of the respective country, among other things depending on gender and date of birth.

Remeasurement gains and losses are recorded net of deferred taxes under other comprehensive income in the period incurred.

### *Other personnel provisions*

Other personnel provisions include provisions for termination benefits, service anniversary bonuses, payments to semi-retirees, share-based payments and lump-sum settlements.

Provisions for termination benefits are primarily related to obligations to employees whose employment is subject to Austrian law.

Employees who joined an Austrian company before 31 December 2002 receive a one-off lump-sum termination benefit as defined by Austrian labour legislation if the employer terminates the employment relationship or when the employee retires. The termination payment depends on the relevant salary at the time of the termination as well as the number of years of service and ranges between two and 12 monthly salaries. These obligations are measured in accordance with IAS 19 using the projected unit credit method applying an accumulation period of 25 years. Remeasurement gains and losses are recorded directly to other comprehensive income after considering tax effects and shown in the Statement of Comprehensive Income.

For employees who joined an Austrian company after 31 December 2002, employers are required to make regular contributions equal to 1.53% of the monthly wage/salary to a statutory termination benefit scheme. The company has no further obligations. Claims by employees to termination benefits are filed with the statutory termination benefit scheme, while the regular contributions are treated like defined contribution pension plans and included under personnel expenses of the functional areas.

Service anniversary bonuses are one-time special payments that are dependent on the employee's wage/salary and length of service. The employer is required by collective bargaining agreements or company agreements to make these payments after an employee has reached a certain number of uninterrupted years of service with the same company. Obligations are mainly related to service anniversary bonuses in Austrian and German group companies. Under IAS 19 service anniversary bonuses are treated as other long-term employee benefits. Provisions for service anniversary bonuses are calculated based on the projected unit credit method. Remeasurement gains or losses are recorded in the personnel costs of the functional areas in the period incurred.

Local labour laws and other similar regulations require individual group companies to create provisions for semi-retirement obligations. The obligations are partially covered by qualified plan assets and are reported on a net basis in the Statement of Financial Position.

In 2018, the Remuneration Committee of RHI Magnesita developed a new Remuneration Policy for the members of senior management of the Group. Based on this new long-term incentive programme, share-options are granted. The fair value of these options as well as any adjustments of the fair value are measured at every reporting date and recognised in equity.

Obligations for lump-sum settlements are based on company agreements in individual companies.

### *Other provisions*

Provisions for warranties are created for individual contracts at the time of the sale of the goods concerned or after the service has been provided. The amounts of the provisions are based on the expected or actual warranty claims.

Provisions for restructuring are created providing a detailed formal restructuring plan has been developed and announced prior to the reporting date or whose implementation was commenced prior to the reporting date.

The Group recognises provisions for demolition and disposal costs and environmental damages. RHI Magnesita's facilities and its refractory, exploration and mining operations are subject to environmental and governmental laws and regulations in each of the jurisdictions in which it operates. These laws govern, among other things, reclamation or restoration of the environment in mined areas and the clean-up of contaminated properties. Provisions for demolition and disposal costs and environmental damages include the estimated demolition and disposal costs of plants and buildings as well as environmental restoration costs arising from mining activities, based on the present value of estimated cash flows of the expected costs. The estimated future costs of deactivation of assets are reviewed annually and adjusted, if appropriate.

A provision for a contract obligation is recognised when the expected benefits to be derived from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The non-current provisions are measured at the present value of the unavoidable costs of meeting the obligation under the contract which exceed the economic benefits expected to arise from that contract.

Provisions for labour and civil contingencies are recognised for all risks referring to legal proceedings that represent probable loss. Assessment of the likelihood of loss includes analysis of available evidence, including the opinion of internal and external legal advisors of the RHI Magnesita Group.

#### **Trade payables and other current liabilities**

These liabilities are initially recognised at fair value, and subsequently measured at amortised cost.

Liabilities denominated in foreign currencies are translated at the closing rate.

#### **Government grants**

Government grants to promote investments are recognised as deferred income and released through profit or loss over the useful life of the relevant asset distributed on a straight-line basis.

Grants that were granted as compensation for expenses or losses are recognised to profit or loss in the periods in which the subsidised expenses are incurred. In the RHI Magnesita Group, they mainly include grants for research and employee development. Grants for research are recorded as income in general and administrative expenses.

#### **Revenue and expenses**

Revenue from the sale of goods and services is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The transaction price is the expected consideration to be received, to the extent that it is highly probable that there will not be a significant reversal of revenue in future periods. If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The average credit term is 60 days upon transfer of goods or service. The Group is using the practical expedient in IFRS 15 and does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and payment will be one year or less. At contract inception, the Group identifies the goods or services promised in the contract and assesses which of the promised goods or services shall be identified as separate performance obligations. Promised goods or services give rise to separate performance obligations if they are capable of being distinct. Revenue is recognised as control is transferred, either over time or at a point of time. Control is defined as the ability to direct the use of and obtain substantially all of the economic benefits from an asset.

With regard to delivery contracts of refractory products the goods promised are distinct and control of the goods is passed to the customer typically when physical possession has been transferred to the customer. The transport service does not give rise to a separate performance obligation to which a part of revenue would have to be allocated, as this service is performed before control of the products is transferred to the customer.

In consignment arrangements, RHI Magnesita Group ships products to a customer but retains control of the goods until a predetermined event occurs. Revenue is not recognised on delivery of the products to the customer if the delivered products are held on consignment, but generally when the withdrawal of the products from the consignment stock occurs. Most of the products within consignment arrangements have a high stock turn rate.

# Notes

## continued

The Group provides services (e.g. supervision, installation) that are either sold separately or bundled together with the sale of products to a customer. Contracts for bundled sales of products and installation services are comprised of two performance obligations as the promises to transfer products and provide services are capable of being distinct and separately identifiable. Accordingly, the transaction price allocated is based on the relative stand-alone selling prices of the product and services. Revenue from services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group.

Contracts for bundled sales of refractory products and non-refractory products (e.g. machines) provided to the customer free of charge comprise two performance obligations that are separately identifiable. Consequently, the Group allocates the transaction price based on the relative stand-alone selling prices of these performance obligations and also allocates revenue to the non-refractory product which is delivered free of charge.

For contracts in the Steel segment with variable payment arrangements (transaction price depends on the customer's production performance) the management has determined that the promise to transfer each of the products and services to the customer is not separately identifiable from all the other promises in the context of such contracts. Thus, only one single performance obligation, the performance of a management refractory service, exists. Further information is provided under Note (10). With regard to these contracts, revenue is recognised over time on the basis using the output-oriented method (e.g. quantity of steel produced in the customer aggregate serviced).

Expected penalty fees from guaranteed durabilities when using refractory products are considered as a variable consideration in the form of a contract or a refund liability. Based on the expected value method, the amount of the variable consideration is estimated. The estimation of the variable consideration is not subject to a constraint as the Group has significant experience with promising durabilities. Thus, it is concluded that a significant reversal of revenue is highly unlikely once the uncertainty no longer exists. All other warranties guarantee that the transferred products correspond to the contractually agreed specifications and are classified as assurance type warranties. Consequently, no separate distinct performance obligation to the customer exists.

If transfer of goods or services to a customer is performed before the customer pays consideration or before payment is due, a contract asset, excluding any amounts presented as a receivable is recognised. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer.

If a customer pays consideration before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due (whatever is earlier). A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer.

Contract costs are the incremental costs of obtaining a contract and must be recognised as an asset if the company expects to recover those costs. As a practical expedient, RHI Magnesita expenses such costs when incurred, if the amortisation period would be 12 months or less.

In general, the term of customer contracts in accordance with IFRS 15 is no longer than one year. Therefore, the Group decided, as a practical expedient, not to disclose the remaining performance obligations for contracts with original expected duration of less than one year.

Expenses are recognised to the Statement of Profit or Loss when a service is consumed or the costs are incurred.

Interest income and expenses are recognised in accordance with the effective interest method.

Dividends from investments that are not accounted for using the equity method are recognised to profit and loss at the time the legal claim arises.

Income taxes are recognised according to the local regulations applicable to each company. Current and deferred income taxes are recognised in the Statement of Profit or Loss unless they are related to items which were recorded directly in equity or in other comprehensive income. In such a case, income taxes are also recorded in equity or other comprehensive income.

RHI Magnesita GmbH, Vienna, Austria, acts as the head of a corporate tax group. A tax compensation agreement was concluded in 2017 between the head of the group and eight Austrian group members. According to the group and tax compensation agreement, the members of the group have to pay a positive tax compensation of 20% of the taxable profit to the head of the group if the result is positive, as long as tax loss carry forwards exist with the head of the group; subsequently 25% of the taxable profit have to be paid. In case of a tax loss of the group member, the head of the group has to pay a negative tax compensation to the member of the group, with a rate of 12.5% being applied insofar as the loss can be utilised within the group. In case the losses of a group member were compensated (negative tax allocation payment) and this group member generates taxable income within the next three years (after compensation), the positive tax allocation amounts to 12.5%. In case of a loss in the tax group, an unused tax loss of a group member is retained and offset against future taxable profits of the group member. When the contract is terminated, a compensation payment is agreed for unused tax losses of a group member, which were allocated to the head of the group.

In Germany, Didier-Werke Aktiengesellschaft, Wiesbaden, acts as the head of a tax group for corporate and trade tax purposes. The seven tax group members are obliged to transfer their profit or loss to Didier-Werke Aktiengesellschaft based on a profit or loss transfer agreement. Additionally, Didier-Werke Aktiengesellschaft, Wiesbaden, acts as the head of a tax group for VAT purposes with nine German tax group members. Furthermore, Rearden G Holdings Eins GmbH, Hagen, acts as the head of a two-level structure tax group with four group members for corporate, trade tax and VAT purposes.

## 9. Segment reporting

The RHI Magnesita Group comprises the operating segments Steel and Industrial. The segmentation of the business activities reflects the internal control and reporting structures and is regularly reported to the Chief Executive Officer.

The Steel segment specialises in supporting customers in the steel-producing and steel-processing industry. The Industrial segment serves customers in the glass, cement/lime, nonferrous metals and environment, energy, chemicals industries. The main activities of the two segments consist of market development, global sales of high-grade refractory bricks, mixes and special products as well as providing services at the customers' sites.

The globally located manufacturing sites, which extract and process raw materials, are combined in one organisational unit. The allocation of manufacturing cost of the production plants to the Steel and Industrial Divisions is based on the supply flow.

Statements of Profit or Loss up to gross profit are available for each segment. The gross profit serves the management of the RHI Magnesita Group for internal performance management. Selling and marketing expenses, general and administrative expenses, other income and expenses, profit of joint ventures, net finance costs and income taxes are managed on a group basis and are not allocated.

Segment assets include trade receivables and inventories, which are available to the operating segments and are reported to the management for control and measurement, as well as property, plant and equipment, goodwill and other intangible assets, which are allocated to the segments based on the capacity of the assets provided to the segments. All other assets are not allocated. The recognition of segment assets is determined on the basis of the accounting and measurement methods applied to the IFRS Consolidated Financial Statements.

Data on revenue by country are disclosed by the sites of the customers. Data on non-current assets (goodwill, intangible assets and property, plant and equipment) are disclosed on the basis of the respective locations of the companies of the RHI Magnesita Group.

## 10. Critical accounting judgments and key sources of estimation uncertainty

The RHI Magnesita Group used forward-looking assumptions and estimates, especially with respect to business combinations, non-current assets, valuation adjustments to inventories and receivables, provisions and income taxes to a certain extent in the application of accounting and measurement methods.

The estimates are based on comparable values in the past, plan data and other findings regarding transactions to be accounted. The actual values may ultimately deviate from the assumptions and estimates made. The resulting changes in value of assets, liabilities, revenue and expenses are accounted for in the reporting period in which the change is made and in the affected future reporting periods.



# Notes

## continued

### Critical accounting judgments

#### Revenue recognition

For customer contracts in the Steel segment with variable payment arrangements where transaction price depends on the customer's production performance, (e.g. quantity of steel produced in the customer aggregate serviced) the management has determined that the promise to transfer each of the products and services to the customer is not separately identifiable from the other promises in the context of such contracts. The customer expects complete refractory management for the agreed product areas in the steel plant in order to enable steel production. Thus, only one single performance obligation, performance of a management refractory service, exists.

There are no other critical accounting judgments made in the preparation of the Consolidated Financial Statements.

#### Key sources of estimation uncertainty

##### Business combinations (initial consolidation)

Estimates relating to the calculation of fair values of acquired assets, liabilities and contingent liabilities are required within the context of business combinations.

If intangible assets are identified, estimates are necessary for the determination of fair values by means of discounted cash flows, including the duration, amount of future cash flows, and discount rate. When determining the fair value of land, buildings and technical plant, above all the estimate of comparability of the reference objects with the objects subject to valuation is discretionary.

When making estimates in the context of purchase price allocations on major acquisitions, RHI Magnesita consults with independent experts who accompany the execution of the discretionary decisions and record it in appraisal documents.

##### Impairment of intangible assets with finite useful lives and property, plant and equipment

Intangible assets with a finite useful life and property, plant and equipment must be tested for impairment when events or a change in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amounts of these assets amounted to €1,427.4 million at 31 December 2018 (31.12.2017: €1,512.9 million). In accordance with IAS 36, such impairment losses are determined through comparisons with the discounted future cash flows expected from the related assets of the cash-generating units (CGUs).

As part of the annual planning process, the impairment test is conducted for the CGUs defined in the RHI Magnesita Group, thus taking into account all changes resulting from updates of strategic planning. Sensitivity analyses are also performed as part of the impairment test. In their calculation one of the main parameters is changed as follows: increase in the discount rate by 10%, reduction in the form of the contribution margin by 10% and reduction of the growth rate in terminal value by 50%. In all CGUs, these simulations do not result in impairments.

Likewise, in all CGUs a reduction of the discount rate by 10%, an increase in profitability in the form of the contribution margin by 10% and an increase in the growth rate in terminal value by 50% do not result in reversals of impairments.

There was no triggering event in 2018.

##### Impairment of goodwill and other intangible assets with indefinite useful life

The effect of an adverse change by plus 10% in the estimated interest rates as of 31 December 2018 or by minus 10% in the contribution margin would not result in an impairment of goodwill recognised (carrying amount 31.12.2018: €131.2 million, 31.12.2017: €38.7 million) nor in an impairment charge to intangible assets with indefinite useful lives (carrying amount at 31.12.2018 and 31.12.2017: €1.8 million).

##### Intangible assets and property, plant and equipment

Management uses its experience to estimate the remaining useful life of an asset. The actual useful life of an asset may be impacted by an unexpected event that may result in an adjustment to the carrying amount of the asset.

##### Provisions for pensions and termination benefits

The present value of pension and termination benefit obligations depends on a number of factors, which are based on actuarial assumptions such as interest rates, future salary and pension increases as well as life expectancy. Due to the long-term orientation of these obligations, these assumptions are subject to significant uncertainties.

The following sensitivity analysis shows the change in present value of the pension and termination benefit obligations if one key parameter changes, while the other influences are maintained constant. In reality, however, it is rather unlikely that these influences do not correlate. The present value of the pension obligations for the sensitivities shown was calculated using the same method as for the actual present value of the pension obligations (projected unit credit method).



in € million	Change of assumption in percentage points or years	31.12.2018		31.12.2017	
		Pension plans	Termination benefits	Pension plans	Termination benefits
Present value of the obligations		<b>506.6</b>	<b>55.5</b>	517.1	58.1
Interest rate	+0.25	<b>(14.0)</b>	<b>(1.5)</b>	(14.9)	(1.5)
	(0.25)	<b>15.0</b>	<b>1.5</b>	15.7	1.6
Salary increase	+0.25	<b>0.9</b>	<b>1.5</b>	0.8	1.6
	(0.25)	<b>(1.7)</b>	<b>(1.4)</b>	(0.7)	(3.5)
Pension increase	+0.25	<b>10.3</b>	-	10.6	-
	(0.25)	<b>(10.1)</b>	-	(10.2)	-
Life expectancy	+1 year	<b>17.2</b>	-	18.3	-
	(1) year	<b>(17.3)</b>	-	(23.6)	-

These changes would have no immediate effect on the result of the period as remeasurement gains and losses are recorded in other comprehensive income without impact on profit or loss.

The assumptions regarding the interest rate are reviewed semi-annually; all other assumptions are reviewed at the end of the year.

#### Other provisions

The recognition and measurement of other provisions totalling €162.2 million (31.12.2017: €209.4 million) were based on the best possible estimates using the information available at the reporting date. The estimates take into account the underlying legal relationships and are performed by internal experts or, when appropriate, also by external experts. Despite the best possible assumptions and estimates, cash outflows expected at the reporting day may deviate from actual cash outflows. As soon as additional information is available, the estimates made are reviewed and provisions are also adjusted.

The majority of the provisions refers to an unfavourable contract which was recognised in the course of the acquisition of Magnesita and is mainly based on an estimate of forgone profit margins compared to market conditions which is further explained in Note (5) Group of consolidated companies.

#### Income taxes

The calculation of income taxes of RHI Magnesita N.V. and its subsidiaries is based on the tax laws applicable in the individual countries. Due to their complexity, the tax items presented in the Consolidated Financial Statements may be subject to different interpretations by local finance authorities.

RHI Magnesita is continually adapting its global presence to better serve its customers and maintain its competitive advantage. As a result, in this way the Group maintains discussions with tax authorities about functions transferred between related parties and their exit value, however due to its nature, they do not impact the Group's accounts.

When determining the amount of the capitalisable deferred tax assets, an estimate of the management is required regarding the amount of future taxable income and the expected time. Should the future taxable profit deviate by 10% from the assumption made on the reporting date within the planning period defined for the accounting and measurement of deferred taxes, the net position of deferred tax assets amounting to €92.7 million (31.12.2017: €75.4 million) would have to be increased by €0.6 million (31.12.2017: €0.8 million) or reduced by €0.6 million (31.12.2017: €0.9 million).

# Notes

continued

## NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### 11. Goodwill

Goodwill developed as follows:

in € million	2018	2017 <sup>1)</sup>
At beginning of year	122.1	40.2
Acquisitions of subsidiaries (Note 5)	0.0	85.3
Reclassified as held for sale	0.0	(0.4)
Currency translation	(2.8)	(3.0)
<b>Cost at year-end</b>	<b>119.3</b>	<b>122.1</b>
Accumulated impairment at beginning of year	(1.9)	(2.4)
Currency translation	0.0	0.1
Reclassification as held for sale	0.0	0.4
<b>Accumulated impairment at year-end</b>	<b>(1.9)</b>	<b>(1.9)</b>
<b>Carrying amount at year-end</b>	<b>117.4</b>	<b>120.2</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

### 12. Other intangible assets

Other intangible assets changed as follows in the financial year 2018:

in € million	Mining rights	Customer relationship	Internally generated intangible assets	Other intangible assets	Total
Cost at 01.01.2018 <sup>1)</sup>	179.2	100.0	47.6	143.1	469.9
Currency translation	(9.8)	(2.1)	0.0	(2.6)	(14.5)
Additions	0.0	0.0	2.9	1.2	4.1
Retirements and disposals	0.0	0.0	0.0	(2.5)	(2.5)
Reclassifications	0.0	10.8	0.0	(10.0)	0.8
<b>Cost at 31.12.2018</b>	<b>169.4</b>	<b>108.7</b>	<b>50.5</b>	<b>129.2</b>	<b>457.8</b>
Accumulated amortisation 01.01.2018	0.8	1.1	30.2	64.8	96.9
Currency translation	0.0	0.0	0.0	(0.8)	(0.8)
Amortisation charges	3.9	6.5	3.9	14.3	28.6
Retirements and disposals	0.0	0.0	0.0	(1.3)	(1.3)
Reclassifications	0.0	10.2	0.0	(10.2)	0.0
<b>Accumulated amortisation 31.12.2018</b>	<b>4.7</b>	<b>17.8</b>	<b>34.1</b>	<b>66.8</b>	<b>123.4</b>
<b>Carrying amounts at 31.12.2018</b>	<b>164.7</b>	<b>90.9</b>	<b>16.4</b>	<b>62.4</b>	<b>334.4</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

Other intangible assets changed as follows in the previous year:

in € million	Mining rights	Customer relationship	Internally generated intangible assets	Other intangible assets	Total <sup>1)</sup>
Cost at 01.01.2017	0.0	0.0	45.9	114.0	159.9
Currency translation	(5.9)	(2.5)	(0.2)	(5.9)	(14.5)
Acquisitions of subsidiaries	185.1	102.5	0.0	36.1	323.7
Additions	0.0	0.0	4.1	1.5	5.6
Retirements and disposals	0.0	0.0	0.0	(0.6)	(0.6)
Reclassifications	0.0	0.0	(0.6)	(0.3)	(0.9)
Reclassified as held for sale	0.0	0.0	(1.6)	(1.7)	(3.3)
<b>Cost at 31.12.2017</b>	<b>179.2</b>	<b>100.0</b>	<b>47.6</b>	<b>143.1</b>	<b>469.9</b>
Accumulated amortisation 01.01.2017	0.0	0.0	27.7	61.1	88.8
Currency translation	0.0	0.0	(0.2)	(2.1)	(2.3)
Amortisation charges	0.8	1.1	3.8	7.7	13.4
Impairment losses	0.0	0.0	0.8	0.0	0.8
Retirements and disposals	0.0	0.0	0.0	(0.6)	(0.6)
Reclassifications	0.0	0.0	(0.6)	0.2	(0.4)
Reclassified as held for sale	0.0	0.0	(1.3)	(1.5)	(2.8)
<b>Accumulated amortisation 31.12.2017</b>	<b>0.8</b>	<b>1.1</b>	<b>30.2</b>	<b>64.8</b>	<b>96.9</b>
<b>Carrying amounts at 31.12.2017</b>	<b>178.4</b>	<b>98.9</b>	<b>17.4</b>	<b>78.3</b>	<b>373.0</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

Internally generated intangible assets comprise capitalised software and product development costs.

The customer relations of Magnesita have a carrying amount of €90.0 million (31.12.2017: €116.1 million) and a remaining useful life of 10 to 14 years.

Other intangible assets include in particular acquired patents, trademark rights, software, and land use rights. The land use rights have a carrying amount of €23.4 million (31.12.2017: €26.0 million) and a remaining useful life of 19 to 59 years.

There are no restrictions on the sale of intangible assets.

# Notes

continued

## 13. Property, plant and equipment

Property, plant and equipment developed as follows in the year 2018 and in the previous year:

in € million	Real estate, land and buildings	Raw material deposits	Technical equipment, machinery	Other plant, furniture and fixtures	Prepayments made and plant under construction	Total
Cost at 01.01.2018 <sup>1)</sup>	630.1	33.8	1,155.6	298.2	99.4	2,217.1
Currency translation	(14.8)	(0.7)	(22.8)	(3.0)	(3.8)	(45.1)
Additions	2.9	0.3	9.1	11.2	99.4	122.9
Retirements and disposals	(8.3)	0.0	(12.4)	(6.7)	0.0	(27.4)
Reclassifications	8.5	4.1	37.4	11.8	(62.6)	(0.8)
<b>Cost at 31.12.2018</b>	<b>618.4</b>	<b>37.5</b>	<b>1,166.9</b>	<b>311.5</b>	<b>132.4</b>	<b>2,266.7</b>
Accumulated depreciation 01.01.2018	256.8	21.3	575.8	220.7	0.8	1,075.4
Currency translation	(1.1)	(0.1)	(1.5)	(1.1)	0.0	(3.8)
Depreciation charges	12.8	1.3	93.9	16.8	0.0	124.8
Retirements and disposals	(6.9)	0.0	(11.3)	(6.3)	0.0	(24.5)
Reclassifications	0.2	0.0	0.3	0.2	(0.7)	0.0
<b>Accumulated depreciation 31.12.2018</b>	<b>261.8</b>	<b>22.5</b>	<b>657.2</b>	<b>230.3</b>	<b>0.1</b>	<b>1,171.9</b>
<b>Carrying amounts at 31.12.2018</b>	<b>356.6</b>	<b>15.0</b>	<b>509.7</b>	<b>81.2</b>	<b>132.3</b>	<b>1,094.8</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

in € million	Real estate, land and buildings	Raw material deposits	Technical equipment, machinery	Other plant, furniture and fixtures	Prepayments made and plant under construction	Total <sup>1)</sup>
Cost at 01.01.2017	453.7	32.1	877.9	294.2	43.8	1,701.7
Currency translation	(16.3)	(0.2)	(26.3)	(6.7)	(2.3)	(51.8)
Acquisitions of subsidiaries	224.7	4.5	390.8	15.9	54.4	690.3
Additions	6.5	1.5	13.6	8.8	34.4	64.8
Retirements and disposals	(20.4)	0.0	(24.4)	(9.5)	0.0	(54.3)
Reclassifications	7.3	1.0	16.5	6.1	(30.0)	0.9
Reclassified as held for sale	(25.4)	(5.1)	(92.5)	(10.6)	(0.9)	(134.5)
<b>Cost at 31.12.2017</b>	<b>630.1</b>	<b>33.8</b>	<b>1,155.6</b>	<b>298.2</b>	<b>99.4</b>	<b>2,217.1</b>
Accumulated depreciation 01.01.2017	285.6	24.5	639.3	229.6	0.9	1,179.9
Currency translation	(5.3)	0.0	(11.2)	(5.0)	(0.1)	(21.6)
Depreciation charges	8.7	0.4	42.8	14.3	0.0	66.2
Impairment losses	9.4	0.0	7.9	1.1	0.3	18.7
Retirements and disposals	(19.6)	0.0	(23.1)	(9.0)	0.0	(51.7)
Reclassifications	0.4	0.0	0.0	0.0	0.0	0.4
Reclassified as held for sale	(22.4)	(3.6)	(79.9)	(10.3)	(0.3)	(116.5)
<b>Accumulated depreciation 31.12.2017</b>	<b>256.8</b>	<b>21.3</b>	<b>575.8</b>	<b>220.7</b>	<b>0.8</b>	<b>1,075.4</b>
<b>Carrying amounts at 31.12.2017</b>	<b>373.3</b>	<b>12.5</b>	<b>579.8</b>	<b>77.5</b>	<b>98.6</b>	<b>1,141.7</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

In 2017, impairment losses of €18.7 million were mainly caused by the restructuring of operations in Germany and Brazil. They are related to the Steel segment.

The item prepayments made and plant under construction includes plant under construction with a carrying amount of €129.9 million (31.12.2017: €96.5 million), with the modification of the smelter at the site in Radenthein, Austria, representing the largest investment project under construction in 2018.

There are no restrictions on the sale of property, plant and equipment.

#### 14. Investments in joint ventures and associates

The following investments in joint ventures and associates are accounted for using the equity method in the RHI Magnesita Consolidated Financial Statements:

in € million	31.12.2018	31.12.2017 <sup>1)</sup>
Investments in joint ventures	19.6	20.7
Investments in associates	2.2	0.7
<b>Carrying amount at year-end</b>	<b>21.8</b>	<b>21.4</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

#### Joint ventures

The RHI Magnesita Group holds a share of 50% (2017: 50%) in MAGNIFIN Magnesiaprodukte GmbH & Co KG ("MAGNIFIN"), a private company based in St. Jakob, Austria. The company's core business activity is the production and sale of halogen-free flame retardants for plastics. The investment in MAGNIFIN is treated as a financial investment. MAGNIFIN is set up as an independent vehicle. RHI Magnesita has a residual interest in the net assets of the company and accordingly classified its share as a joint venture. There are no listed market prices available.

The following table summarises the income and expenses of MAGNIFIN:

in € million	2018	2017
Revenue	38.8	40.3
Profit before income tax	17.9	20.8
Depreciation	1.5	1.5
Interest expense	0.2	0.2
Other comprehensive income	0.0	(0.2)
<b>Total comprehensive income</b>	<b>17.9</b>	<b>20.6</b>

Income taxes on the share of profit of MAGNIFIN amounting to €2.4 million (2017: €2.7 million) are recognised by the head of the tax group, RHI Magnesita GmbH, Vienna, Austria, due to the legal form of the joint venture and transferred to Veitscher Vertriebsgesellschaft m.b.H., Vienna, Austria, in accordance with the provisions of the tax compensation agreement.

The net assets of MAGNIFIN are shown in the table below:

in € million	31.12.2018	31.12.2017
Non-current assets	8.9	9.3
Current assets (without cash and cash equivalents)	11.2	10.2
Cash and cash equivalents	16.5	19.7
Non-current liabilities and provisions	(4.0)	(4.0)
Current provisions	(1.3)	(1.2)
Trade payables and other current liabilities	(2.9)	(2.7)
<b>Net assets</b>	<b>28.4</b>	<b>31.3</b>

# Notes

## continued

The movement in the carrying amount of the share in MAGNIFIN in the RHI Magnesita Consolidated Financial Statements is shown below:

in € million	2018	2017
<b>Proportional share of net assets at beginning of year</b>	<b>15.7</b>	<b>15.6</b>
Share of profit	9.4	10.8
Share of other comprehensive income (remeasurement losses)	0.0	(0.1)
Dividends received	(10.8)	(10.7)
Other changes in value	0.0	0.1
<b>Proportional share of net assets at year-end</b>	<b>14.3</b>	<b>15.7</b>
Goodwill	4.9	4.9
<b>Carrying amount of investment at year-end</b>	<b>19.2</b>	<b>20.6</b>

In the course of the acquisition of Magnesita in 2017 the Group acquired interests in an immaterial joint venture with a carrying amount of €0.4 million as of 31 December 2018 (31.12.2017: €0.1 million). The Group's share of the profit after income tax, other comprehensive income and total comprehensive income in 2018 amounts to €0.3 million (November and December 2017: less than €0.1 million).

### Associates

As part of the acquisition of Magnesita in 2017 the Group acquired two immaterial associated companies with a carrying amount of €2.2 million as of 31 December 2018 (31.12.2017: €0.7 million). In the course of the purchase price allocation the fair value of one associate was determined as zero at the acquisition date. The Group's share of the profit after income tax for 2018 amounts to €0.3 million (November and December 2017: €0.1 million). Total comprehensive income including other comprehensive income of €0.1 million amounts to €0.4 million (November and December 2017: €0.1 million).

### 15. Other non-current financial assets

Other non-current financial assets consist of the following items:

in € million	31.12.2018	31.12.2017
Interests in subsidiaries not consolidated	0.7	0.8
Other investments	0.0	0.4
Marketable securities and shares	15.0	17.3
Interest rate swaps	0.6	1.5
Non-current receivables from disposal of subsidiaries	0.0	2.6
Other non-current financial receivables	1.7	2.5
<b>Other non-current financial assets</b>	<b>18.0</b>	<b>25.1</b>

Accumulated impairments on investments, securities and shares amounted to €4.3 million (31.12.2017: €3.8 million).

### 16. Other non-current assets

Other non-current assets include the following items:

in € million	31.12.2018	31.12.2017
Tax receivables	20.7	9.9
Prepaid stripping costs	6.8	8.0
Judicial deposits	3.7	3.7
Plan assets from overfunded pension plans	2.1	2.0
Prepaid expenses	1.0	0.6
<b>Other non-current assets</b>	<b>34.3</b>	<b>24.2</b>

Prepaid expenses for stripping costs arising from mining raw materials in a surface mine are included in non-current assets due to the planned use of the mine.

Tax receivables relate to input tax credits, which are expected to be utilised in the medium term.

### 17. Deferred taxes

Deferred taxes are related to the following significant balance sheet items and loss carryforwards:

in € million	31.12.2018	31.12.2018	2018	31.12.2017 <sup>1)</sup>	31.12.2017 <sup>1)</sup>	2017 <sup>1)</sup>
	Deferred tax assets	Deferred tax liabilities	Expense/(Income)	Deferred tax assets	Deferred tax liabilities	Expense/(Income)
Property, plant and equipment, intangible assets	20.1	159.7	(25.1)	52.1	219.8	(29.9)
Inventories	33.3	5.6	(9.8)	20.5	(1.6)	(1.5)
Trade receivables, other assets	7.7	7.1	(24.8)	6.4	38.4	(11.5)
Pensions and other personnel provisions	69.6	(0.2)	2.3	70.2	0.3	6.4
Other provisions	26.1	1.6	(0.1)	25.9	(0.7)	3.9
Trade payables, other liabilities	18.0	4.4	10.6	26.6	4.7	(1.4)
Tax loss carried forward	96.1		29.9	134.6	-	8.4
Offsetting	(99.8)	(99.8)		(196.2)	(196.2)	-
<b>Deferred taxes</b>	<b>171.1</b>	<b>78.4</b>	<b>(17.0)</b>	<b>140.1</b>	<b>64.7</b>	<b>(25.6)</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

As of 31 December 2018, subsidiaries which generated tax losses in the past year or the previous year recognised net deferred tax assets on temporary differences and on tax loss carryforwards of €47.8 million (31.12.2017: €26.0 million). Deferred Tax Assets have been recognised because the companies concerned are expected to generate taxable income in the future.

Tax loss carryforwards totalled €467.7 million in the RHI Magnesita Group as of 31 December 2018 (31.12.2017: €609.7 million). A significant part of the tax loss carryforwards originated in Austria and Brazil where their deduction can be carried forward indefinitely. The annual compensation of tax loss carryforwards in Austria is limited to 75% and in Brazil to 30% of the respective taxable profits. Deferred taxes on tax losses of €155.1 million (31.12.2017: €157.7 million) were not recognised. Of these losses, €5.8 million (31.12.2017: €3.4 million) will expire in 2021, while the remainder will be carried forward indefinitely.

In addition, no deferred tax assets were recognised for temporary differences totalling €5.1 million (31.12.2017: €16.2 million) as it is not sufficiently probable that they can be used. The deductible temporary differences can be carried forward indefinitely.

Taxable temporary differences of €1,085.7 million (31.12.2017: €667.0 million) and deductible temporary differences of €501.1 million (31.12.2017: €295.6 million) were not recognised on shares in subsidiaries because the corresponding distributions of profit or the sale of the investments are controlled by the Group and are not expected in the foreseeable future.

The maturity structure of deferred taxes is shown in the table below:

in € million	31.12.2018			31.12.2017 <sup>1)</sup>		
	Current	Non-current	Total	Current	Non-current	Total
Deferred tax assets	78.0	93.1	171.1	11.0	129.1	140.1
Deferred tax liabilities	2.9	(81.3)	(78.4)	78.8	(14.1)	64.7

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

# Notes

## continued

### 18. Inventories

Inventories as presented in the Consolidated Statement of Financial Position consist of the following items:

in € million	31.12.2018	31.12.2017 <sup>1)</sup>
Raw materials and supplies	176.8	183.7
Work in progress	140.8	122.1
Finished products and goods	391.9	331.5
Prepayments made	8.3	17.2
<b>Inventories</b>	<b>717.8</b>	<b>654.5</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

Inventories include €2.3 million (31.12.2017: €9.0 million) carried at net realisable value. Net impairment losses amount to €2.6 million (2017: €4.0 million).

There are no restrictions on the disposal of inventories.

### 19. Trade and other current receivables

Trade and other current receivables as presented in the Statement of Financial Position are classified as follows:

in € million	31.12.2018	31.12.2017 <sup>1)</sup>
Trade receivables	349.9	394.9
Receivables from long-term construction contracts	0.0	11.7
Contract assets	1.9	0.0
Other taxes receivable	87.6	77.0
Receivables from joint ventures and associates	11.3	12.0
Prepaid expenses	3.0	3.7
Receivables from disposal of investments	2.6	0.0
Receivables from property transactions	2.2	2.5
Emission rights	1.7	1.6
Receivables from employees	1.7	1.3
Receivables from non-consolidated subsidiaries	0.3	0.3
Prepaid transaction costs related to financial liabilities	0.0	2.5
Receivables from personnel welfare foundation	0.0	0.8
Other current receivables	19.0	14.3
<b>Trade and other current receivables</b>	<b>481.2</b>	<b>522.6</b>
thereof financial assets	367.2	412.5
thereof non-financial assets	114.0	110.1

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

Other taxes receivable include VAT credits and receivables from energy tax refunds, research, education and apprentice subsidies.

Trade receivables with a total nominal value of €34.0 million were assigned as security against financial liabilities as of 31 December 2018 (31.12.2017: €34.0 million).

### 20. Income tax receivables

Income tax receivables amounting to €18.4 million (31.12.2017: €13.5 million) are mainly related to tax prepayments and deductible withholding taxes.



## 21. Other current financial assets

This item of the Consolidated Statement of Financial Position consists of the following components:

in € million	31.12.2018	31.12.2017
Marketable securities	36.3	32.3
Derivatives in open orders	1.0	0.8
Forward exchange contracts	1.1	0.9
Other current financial receivables	0.2	0.1
<b>Other current financial assets</b>	<b>38.6</b>	<b>34.1</b>

Accumulated impairments on other current financial receivables amounted to €1.1 million (31.12.2017: €1.1 million).

## 22. Cash and cash equivalents

This item of the Consolidated Statement of Financial Position consists of the following components:

in € million	31.12.2018	31.12.2017
Cash at banks	426.7	373.2
Money market funds	61.9	67.5
Cheques	2.5	1.4
Cash on hand	0.1	0.3
<b>Cash and cash equivalents</b>	<b>491.2</b>	<b>442.4</b>

Cash and cash equivalents include restricted cash totalling €42.5 million at 31 December 2018 (31.12.2017: €80.8 million). Restricted cash is mainly related to cash and cash equivalents at subsidiaries (mainly in Brazil, India and China) to which the company only has limited access due to foreign exchange and capital transfer controls. €23.8 million (31.12.2017: €75.8 million) are accounted for by subsidiaries with non-controlling interests.

## 23. Share capital

In exchange for the cancellation of the RHI AG shares as a result of the merger in the year 2017, in which RHI AG merged with and into RHI Magnesita N.V., the shareholders of RHI AG received one newly issued ordinary share of RHI Magnesita N.V. for each RHI AG share. As part of the purchase price for the acquisition of control of Magnesita, RHI Magnesita N.V. issued 5,000,000 new ordinary shares to the sellers of Magnesita shares as at 26 October 2017. Following the merger and the acquisition of control and also at year-end 2017, RHI Magnesita N.V.'s issued and fully paid-in share capital consisted of 44,819,039 ordinary shares at €1 each share.

In the course of the first close of the Integrated Tender Offer (ITO) in 2018 and the acquisition of additional 35.2% of shares in Magnesita, RHI Magnesita N.V. issued 3,518,008 new ordinary shares. Hence, share capital consists of 48,337,047 ordinary shares at €1 each share as of 31 December 2018.

The authorised share capital of RHI Magnesita N.V. amounts to €100,000,000 divided into 100,000,000 ordinary shares, of which 48,337,047 ordinary shares are issued and outstanding as explained before.

All outstanding RHI Magnesita shares grant the same rights. The shareholders are entitled to dividends and have one voting right per share at the Annual General Meeting. There are no RHI Magnesita shares with special control rights.

## 24. Group reserves

### Additional paid-in capital

At 31 December 2018 as well as at 31 December 2017, additional paid-in capital comprised premiums on the issue of shares less issue costs by RHI Magnesita N.V.

### Mandatory reserve

The articles of association stipulate a mandatory reserve of €288,699,230.59 which was created in connection with the merger. No distributions, allocations or additions may be made and no losses of the company may be allocated to the mandatory reserve.

# Notes

## continued

### Retained earnings

Retained earnings includes the result of the financial year and results that were earned by consolidated companies during prior periods, but not distributed.

### Accumulated other comprehensive income

Cash flow hedges includes gains and losses from the effective part of cash flow hedges less tax effects. The accumulated gain or loss from the hedge allocated to reserves is only reclassified to the Statement of Profit or Loss if the hedged transaction also influences the result or is terminated.

Defined benefit plans includes the gains and losses from the remeasurement of defined benefit pension and termination benefit plans taking into account tax effects. No reclassification of these amounts to the Statement of Profit or Loss will be made in future periods.

Currency translation includes the accumulated currency translation differences from translating the Financial Statements of foreign subsidiaries as well as unrealised currency translation differences from monetary items which are part of a net investment in a foreign operation, net of related income taxes. If foreign companies are deconsolidated, the currency translation differences are recognised in the Statement of Profit or Loss as part of the gain or loss from the sale of shares in subsidiaries. In addition, when monetary items cease to form part of a net investment in a foreign operation, the currency translation differences of these monetary items previously recognised in other comprehensive income are reclassified to profit or loss. In 2017, the Group reassessed its internal financing structure and as a result reclassified accumulated losses of €38.9 million to the Statement of Profit or Loss. Due to the disposal of Fused Cast accumulated foreign currency translation losses of €1.8 million were reclassified to the Statement of Profit or Loss. The corresponding tax effect led to an income of €6.2 million.

## 25. Non-controlling interests

### Non-controlling interests in Magnesita

Non-controlling interests held a share of 50% minus one share in the company Magnesita Refratários S.A. and its subsidiaries ("Magnesita") until 20 December 2018. After completion of the Integrated Tender Offer, the non-controlling interests were reduced to 14.8%. Total comprehensive income of the year 2018 attributable to non-controlling interests of Magnesita reflects this development in ownership structure. Detailed information of this transaction and the consequences of the change of the ownership interest in Magnesita that do not result in a change of control are provided under Note (5). Magnesita is a global group dedicated to the production and sale of an extensive line of refractory materials and industrial minerals and distinguishes itself through its vertically integrated operations.

Based on the net assets of Magnesita, the carrying amount of the non-controlling interests is determined as follows:

in € million	31.12.2018	31.12.2017 <sup>1)</sup>
Non-current assets	969.7	1,008.1
Current assets	561.0	647.7
Non-current liabilities	(400.6)	(734.4)
Current liabilities	(676.0)	(498.4)
<b>Net assets before intragroup eliminations</b>	<b>454.1</b>	<b>423.0</b>
Intragroup eliminations	(3.9)	(0.1)
<b>Net assets</b>	<b>450.2</b>	<b>422.9</b>
Percentage of non-controlling interests	14.8%	50.0%
<b>Carrying amount of non-controlling interests</b>	<b>66.7</b>	<b>211.5</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

The aggregate Statement of Profit or Loss and Statement of Comprehensive Income are shown below:

in € million	2018	11-12/2017 <sup>1)</sup>
Revenue	1,067.5	172.2
Operating expenses, net finance costs and income tax	(1,011.4)	(163.8)
<b>Profit after income tax before intragroup eliminations</b>	<b>56.1</b>	<b>8.4</b>
Intragroup eliminations	(3.4)	0.0
<b>Profit after income tax</b>	<b>52.7</b>	<b>8.4</b>
thereof attributable to non-controlling interests of Magnesita	26.3	4.2

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

in € million	2018	11-12/2017 <sup>1)</sup>
Profit after income tax	52.7	8.4
Other comprehensive income	(24.4)	(13.3)
<b>Total comprehensive income</b>	<b>28.3</b>	<b>(4.9)</b>
thereof attributable to non-controlling interests of Magnesita	14.2	(2.5)

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

The following table shows the summarised Statement of Cash Flows:

in € million	2018	11-12/2017
Net cash flow from operating activities	164.9	46.5
Net cash flow from investing activities	(10.2)	18.7
Net cash flow from financing activities	(258.5)	(2.8)
<b>Total cash flow</b>	<b>(103.8)</b>	<b>62.4</b>

#### Non-controlling interests in Orient Refractories Ltd.

Non-controlling interests hold a share of 33.5% (31.12.2017: 30.4%) in the listed company Orient Refractories Ltd. (in the following "ORL"), based in New Delhi, India. ORL is allocated to the Steel segment. In August 2018, the Group sold 3.1% of the shares in ORL. The carrying amount of ORL's net assets in the Group's Consolidated Financial Statements on the date of the sale was €53.9 million. Consequently, the carrying amount of non-controlling interests sold amounts to €1.7 million. The cash part of the consideration received is €9.1 million. This transaction results in an increase in equity attributable to shareholders of RHI Magnesita N.V. in the amount of €7.4 million.

Based on the net assets of the company, the carrying amount of the non-controlling interests is determined as follows:

in € million	31.12.2018	31.12.2017
Non-current assets	24.3	25.6
Current assets	56.0	48.8
Non-current liabilities	(6.3)	(6.8)
Current liabilities	(19.6)	(16.6)
<b>Net assets before intragroup eliminations</b>	<b>54.4</b>	<b>51.0</b>
Intragroup eliminations	(0.4)	(0.2)
<b>Net assets</b>	<b>54.0</b>	<b>50.8</b>
Percentage of non-controlling interests	33.5%	30.4%
<b>Carrying amount of non-controlling interests</b>	<b>18.1</b>	<b>15.4</b>

# Notes

## continued

The aggregate Statement of Profit or Loss and Statement of Comprehensive Income are shown below:

in € million	2018	2017
Revenue	91.0	77.9
Operating expenses, net finance costs and income tax	(81.6)	(70.1)
<b>Profit after income tax before intragroup eliminations</b>	<b>9.4</b>	<b>7.8</b>
Intragroup eliminations	(0.2)	0.1
<b>Profit after income tax</b>	<b>9.2</b>	<b>7.9</b>
thereof attributable to non-controlling interests of ORL	2.7	2.4

in € million	2018	2017
Profit after income tax	9.2	7.9
Other comprehensive income	(2.3)	(3.6)
<b>Total comprehensive income</b>	<b>6.9</b>	<b>4.3</b>
thereof attributable to non-controlling interests of ORL	2.2	1.3

The following table shows the summarised Statement of Cash Flows of ORL:

in € million	2018	2017
Net cash flow from operating activities	9.5	6.4
Net cash flow from investing activities	(1.8)	(1.0)
Net cash flow from financing activities	(3.6)	(3.8)
<b>Total cash flow</b>	<b>4.1</b>	<b>1.6</b>

Net cash flow from financing activities includes dividend payments to non-controlling interests amounting to €1.2 million (2017: €1.1 million).

### Accumulated other comprehensive income attributable to non-controlling interests

The development of accumulated other comprehensive income attributable to non-controlling interests is shown in the following table:

in € million	Cash flow hedges	Defined benefit plans	Currency translation
<b>Accumulated other comprehensive income 01.01.2018</b>	<b>0.1</b>	<b>(0.1)</b>	<b>(7.6)</b>
Unrealised results from currency translation	-	-	(11.0)
Unrealised results from fair value change	0.2	-	-
Remeasurement of defined benefit plans	-	(1.9)	-
Transactions with non-controlling interests without change of control	(0.1)	(0.1)	10.7
<b>Accumulated other comprehensive income 31.12.2018</b>	<b>0.2</b>	<b>(2.1)</b>	<b>(7.9)</b>

## 26. Borrowings

Borrowings include all interest-bearing liabilities due to financial institutions and other lenders.

Borrowings have the following contractual remaining terms:

in € million	Total			Remaining term
	31.12.2018	up to 1 year	2 to 5 years	over 5 years
Syndicated Term Loan	479.9	0.0	479.9	0.0
Bonded loans ("Schuldscheindarlehen")	216.0	0.0	152.0	64.0
Export credits and investment financing	171.9	34.4	137.5	0.0
Other credit lines and other loans	278.9	278.9	0.0	0.0
Accrued interest	6.9	6.9	0.0	0.0
<b>Total liabilities to financial institutions</b>	<b>1,153.6</b>	<b>320.2</b>	<b>769.4</b>	<b>64.0</b>
Other financial liabilities	16.6	2.3	13.7	0.6
Capitalised transaction costs	(3.8)	(0.9)	(2.9)	0.0
<b>Borrowings</b>	<b>1,166.4</b>	<b>321.6</b>	<b>780.2</b>	<b>64.6</b>

in € million	Total			Remaining term
	31.12.2017	up to 1 year	2 to 5 years	over 5 years
Export credits and investment financing	346.4	65.6	280.0	0.8
Syndicated Financing	266.2	0.0	266.2	0.0
Bonded loans ("Schuldscheindarlehen")	230.5	0.0	162.0	68.5
Other credit lines and other loans	102.1	102.1	0.0	0.0
Accrued interest	7.8	7.8	0.0	0.0
<b>Total liabilities to financial institutions</b>	<b>953.0</b>	<b>175.5</b>	<b>708.2</b>	<b>69.3</b>
Perpetual bond	215.3	64.3	0.0	151.0
Senior notes	55.6	1.1	54.5	0.0
Other financial liabilities	4.8	1.6	3.1	0.1
Capitalised transaction costs	(3.1)	(0.7)	(2.4)	0.0
<b>Borrowings</b>	<b>1,225.6</b>	<b>241.8</b>	<b>763.4</b>	<b>220.4</b>

RHI Magnesita Group optimised its financial structure in 2018. In the first quarter, the Group refinanced the syndicated financial agreement, which was concluded in July 2017, with a new €305.6 million five year term loan of the Austrian export credit agency (OeKB). The refinancing extends the final maturity of the term loan by one year, from June 2022 to June 2023. This new syndicated term loan replaces the existing €477.2 million syndicated financial agreement for which only €266.2 million had been drawn down. Cash inflows from the new term loan in the amount of €305.6 million are shown in the Consolidated Statement of Cash Flows in proceeds from non-current borrowings and loans, whereas cash outflows from the redemption of the syndicated loan in the amount of €266.2 million are included in repayments of non-current borrowings and loans. In addition, on 3 August 2018 the Group raised a new unsecured five year term loan amounting to US\$200 million and a revolving credit facility in the amount of US\$400 million with a syndicate of 10 international banks. The proceeds of the borrowings have been used to redeem the entire amount of the outstanding Magnesita Perpetual Bonds and Senior notes and other export credits and investment financing, which will generate significant interest expense savings as well as ensure higher liquidity.

€34.0 million (31.12.2017: €34.0 million) of the liabilities to financial institutions are secured by receivables. As at 31.12.2017 €2.6 million were secured by cash and cash equivalents.

Net debt/adjusted EBITDA is the most important financial covenant of the loan agreements. Calculation of net debt/adjusted EBITDA is shown under Note (55). Compliance with the covenants is measured predominantly on an annual or semi-annual basis. Covenant ratio is limited at 3.5. Breach of covenant will lead to repay the debts prior to maturity. During 2018 and 2017, the Group met all covenant requirements.

# Notes

## continued

For liabilities of €1,052.6 million (31.12.2017: €1,109.9 million), lenders have a termination option in the case of a change of control. In the event that certain reasons for termination exist, the lenders may declare the loan due with immediate effect and demand immediate repayment of the principal including interest, as well as the payment of other amounts payable that may have been incurred.

Taking into account interest swaps, 55% (31.12.2017: 34%) of the liabilities to financial institutions carry fixed interest and 45% (31.12.2017: 66%) carry variable interest.

The following table shows fixed interest terms and conditions, taking into account interest rate swaps, without liabilities from deferred interest:

Interest terms fixed until	Effective annual interest rate	Currency	31.12.2018 Carrying amount in € million	Interest terms fixed until	Effective annual interest rate	Currency	31.12.2017 Carrying amount in € million
2019	EURIBOR + margin	EUR	<b>132.0</b>	2018	EURIBOR + margin	EUR	369.6
	LIBOR + margin	USD	<b>221.7</b>		LIBOR + margin	USD	54.4
	Interbank Deposit Certificate (CDI) + margin	BRL	<b>113.9</b>		Interbank Deposit Certificate (CDI) + margin	BRL	145.5
	Variable interest rate + margin	EUR	<b>34.0</b>		Variable interest rate + margin	EUR	34.0
	3.77%	EUR	<b>3.0</b>		4.11%	USD	18.3
					4.15%	USD	13.4
	Various – variable rate	Var.	<b>16.5</b>		Various – variable rate	Var.	16.0
					Various – fixed rate	Var.	10.5
				2019	0.68%	EUR	10.0
					0.72%	EUR	7.1
					3.77%	EUR	3.0
					1.59%	EUR	4.0
2020	1.28%	USD	<b>32.8</b>	2020	4.19%	USD	70.7
	2.30%	EUR	<b>12.4</b>		4.98%	USD	62.4
					7.50%	BRL	8.2
2022	1.74%	EUR	<b>62.0</b>	2022	1.74%	EUR	63.0
	4.60%	EUR	<b>3.0</b>		4.60%	EUR	3.0
2023	1.56%	EUR	<b>196.2</b>				
	1.12%	EUR	<b>109.4</b>				
	3.94%	USD	<b>174.8</b>				
2024	3.10%	EUR	<b>35.0</b>	2024	3.10%	EUR	37.0
					3.20%	EUR	5.5
					4.00%	EUR	9.6
			<b>1,146.7</b>				<b>945.2</b>

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

## 27. Other financial liabilities

Other financial liabilities include the negative fair value of derivative financial instruments as well as fixed-term and puttable non-controlling interests in Group companies. This item of the Consolidated Statement of Financial Position consists of the following items:

in € million	31.12.2018			31.12.2017		
	Current	Non-current	Total	Current	Non-current	Total
Derivatives from supply contracts	0.9	20.0	<b>20.9</b>	6.8	33.4	40.2
Interest rate swaps	0.0	7.3	<b>7.3</b>	0.0	0.2	0.2
Derivatives in open orders	0.0	0.0	<b>0.0</b>	0.5	0.0	0.5
<b>Derivative financial liabilities</b>	<b>0.9</b>	<b>27.3</b>	<b>28.2</b>	<b>7.3</b>	<b>33.6</b>	<b>40.9</b>
Fixed-term or puttable non-controlling interests	14.1	22.2	<b>36.3</b>	10.1	21.9	32.0
<b>Other financial liabilities</b>	<b>15.0</b>	<b>49.5</b>	<b>64.5</b>	<b>17.4</b>	<b>55.5</b>	<b>72.9</b>

Additional explanations on derivative financial instruments are provided under Note (54).

## 28. Provisions for pensions

The net liability from pension obligations in the Consolidated Statement of Financial Position is as follows:

in € million	31.12.2018	31.12.2017
Present value of pension obligations	<b>506.6</b>	517.1
Fair value of plan assets	<b>(223.9)</b>	(228.6)
<b>Funded status</b>	<b>282.7</b>	<b>288.5</b>
Asset ceiling	<b>19.5</b>	18.3
<b>Net liability from pension obligations</b>	<b>302.2</b>	<b>306.8</b>
thereof assets from overfunded pension plans	<b>2.1</b>	1.9
thereof pensions	<b>304.3</b>	308.7

The present value of pension obligations by beneficiary groups is as follows:

in € million	31.12.2018	31.12.2017
Active beneficiaries	<b>101.4</b>	107.9
Vested terminated beneficiaries	<b>68.7</b>	71.9
Retirees	<b>336.5</b>	337.3
<b>Present value of pension obligations</b>	<b>506.6</b>	<b>517.1</b>

The calculation of pension obligations is based on the following actuarial assumptions:

in %	31.12.2018	31.12.2017
Interest rate	<b>3.3%</b>	3.1%
Future salary increase	<b>2.7%</b>	2.8%
Future pension increase	<b>2.2%</b>	2.1%

These are average values which were weighted with the present value of the respective pension obligation.

# Notes

## continued

The calculation of the actuarial interest rate for the European currency area is based on a yield curve for returns of high-quality corporate bonds denominated in EUR with an average rating of AA, which is derived from pooled index values. The calculation of the actuarial interest rate for the USD and GBP currency area is based on a yield curve for returns of high-quality corporate bonds denominated in USD and GBP with an average rating of AA, which is derived from pooled index values. Where there are very long-term maturities, the yield curve follows the performance of bonds without credit default risk. The interest rate is calculated annually at 31 December, taking into account the expected future cash flows which were determined based on the current personal and commitment data.

The calculation in Austria was based on the AVÖ 2018-P (31.12.2017: AVÖ 2008-P) demographic calculation principles for salaried employees from the Actuarial Association of Austria. In Germany, the Heubeck 2018 G (31.12.2017: Heubeck 2005 G) actuarial tables were used as a basis. In the other countries, country-specific mortality tables were applied.

The main pension regulations are described below:

The Austrian group companies account for €125.8 million (31.12.2017: €122.6 million) of the present value of pension obligations and for €26.4 million (31.12.2017: €26.1 million) of the plan assets. The agreed benefits include pensions, invalidity benefits and benefits for surviving dependents. Commitments in the form of company or individual agreements depend on the length of service and the salary at the time of retirement. For the majority of commitments the amount of the company pension subsidy is limited to 75% of the final remuneration including a pension pursuant to the General Social Insurance Act (ASVG). RHI Magnesita has concluded pension reinsurance policies for part of the commitments. The pension claims of the beneficiaries are limited to the coverage capital required for these commitments. Pensions are predominantly paid in the form of annuities and are partially indexed. For employees joining the company after 1 January 1984, no defined benefits were granted. Rather, a defined contribution pension model is in place. In addition, there are commitments based on the deferred compensation principle, which are fully covered by pension reinsurance policies, and commitments for preretirement benefits for employees in mining operations.

The pension plans of the German group companies account for €155.1 million (31.12.2017: €158.6 million) of the present value of pension obligations and for €0.7 million (31.12.2017: €0.7 million) of plan assets. The benefits included in company agreements comprise pensions, invalidity benefits and benefits for surviving dependents. The amount of the pension depends on the length of service for the majority of the commitments and is calculated as a percentage of the average monthly wage/salary of the last 12 months prior to retirement. In some cases commitments to fixed benefits per year of service have been made. The pensions are predominantly paid in the form of annuities and are adjusted in accordance with the development of the consumer price index for Germany. The pension plans are closed for new entrants, except one contribution-based plan. There is no defined contribution model on a voluntary basis. Individual commitments have been made, with major part of them being retired beneficiaries.

The pension plan of the US group company Magnesita Refractories Company, York, USA, accounts for €74.2 million (31.12.2017: €73.7 million) of the present value of pension obligations and for €61.8 million (31.12.2017: €60.0 million) of the plan assets. The pension plan is a non-contributory defined benefit plan covering a portion of the employees of the company. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Effective 21 June 1999, the company offered the participants the opportunity to elect to participate in a single enhanced defined contribution plan. Participants who make this election are no longer eligible for future accruals under this plan. All benefits accrued as of the date of transfer will be retained. Employees hired after 21 June 1999 and employees that did not meet the plan's eligibility requirements as of 21 June 1999 are not eligible for this plan. The pensions are predominantly paid in the form of annuities and are adjusted annually based on the US consumer price index. The company's contributions for the year ended 31 December 2018 met, or exceeded, the minimum funding requirements of ERISA.

The pension plan of the UK group company Magnesita Refractories Ltd., Dinnington, United Kingdom, accounts for €53.0 million (31.12.2017: €60.7 million) of the present value of pension obligations and holds €69.6 million (31.12.2017: €76.5 million) of assets, although only €53.0 million (31.12.2017: €60.7 million) of the plan assets are reflected on the balance sheet due to the application of IFRIC 14 (asset ceiling). The company sponsors a funded defined benefit pension plan for qualifying UK employees. The plan is administered by a separate board of trustees which is legally separate from the company. The trustees are composed of representatives of both the employer and employees, plus an independent professional trustee. The trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits. Under the plan, employees are entitled to annual pensions on retirement at age 65 of one-sixtieth of final pensionable salary for each year of service. Pensionable salary is defined as basic salary less the Lower Earnings Limit. Benefits are also payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these employees.

The pension liabilities of the Brazilian group company Magnesita Refratários S.A. account for €62.6 million (31.12.2017: €62.3 million) of the present value of pension obligations and for €34.6 million (31.12.2017: €36.3 million) of the plan assets. The pension plan qualifies as an optional benefit plan. Employees are entitled to contribute to the plan, with the company contributing 1.5 times this value. The agreed benefits include pensions, invalidity benefits and benefits for surviving dependents. Commitments in the form of company or individual agreements depend on the length of service and salary at the time of retirement. For the majority of commitments, the amount of the



company pension obligation is limited to 75% of the final remuneration. At retirement the employee may choose to receive up to 25% of his/her amount at once or receive it on a pro-rata base with different options of monthly quotes.

The following table shows the development of net liability from pension obligations:

in € million	2018	2017
<b>Net liability from pension obligations at beginning of year</b>	<b>306.8</b>	<b>234.7</b>
Currency translation	(1.9)	(2.3)
Acquisition of subsidiaries	0.0	81.0
Pension cost	11.6	8.5
Remeasurement losses	12.2	6.0
Benefits paid	(17.3)	(17.8)
Employers' contributions to external funds	(9.0)	(3.3)
Reclassifications	(0.2)	0.0
<b>Net liability from pension obligations at year-end</b>	<b>302.2</b>	<b>306.8</b>

The present value of pension obligations developed as follows:

in € million	2018	2017
<b>Present value of pension obligations at beginning of year</b>	<b>517.1</b>	<b>289.2</b>
Currency translation	(3.0)	(7.9)
Acquisition of subsidiaries	0.0	240.3
Current service cost	3.9	3.3
Past service cost	(0.5)	0.0
Interest cost	15.2	7.2
Remeasurement losses/(gains)		
from changes in demographic assumptions	7.8	(0.6)
from changes in financial assumptions	(5.8)	6.1
due to experience adjustments	2.7	2.2
Benefits paid	(31.1)	(23.1)
Employee contributions to external funds	0.5	0.4
Reclassifications	(0.2)	0.0
<b>Present value of pension obligations at year-end</b>	<b>506.6</b>	<b>517.1</b>

The movement in plan assets is shown in the table below:

in € million	2018	2017
<b>Fair value of plan assets at beginning of year</b>	<b>228.6</b>	<b>56.4</b>
Currency translation	(1.2)	(5.9)
Acquisition of subsidiaries	0.0	174.6
Interest income	7.7	2.3
Administrative costs (paid from plan assets)	(0.3)	(0.2)
Income on plan assets less interest income	(6.6)	3.0
Benefits paid	(13.8)	(5.3)
Employers' contributions to external funds	9.0	3.3
Employee contributions to external funds	0.5	0.4
<b>Fair value of plan assets at year-end</b>	<b>223.9</b>	<b>228.6</b>

# Notes

## continued

The changes in the asset ceiling are shown below:

in € million	2018	2017
<b>Asset ceiling at beginning of year</b>	<b>18.3</b>	<b>1.9</b>
Currency translation	(0.1)	(0.3)
Acquisition of subsidiaries	0.0	15.3
Interest expense	0.4	0.1
Losses from changes in asset ceiling less interest expense	0.9	1.3
<b>Asset ceiling at year-end</b>	<b>19.5</b>	<b>18.3</b>

At 31 December 2018 the weighted average duration of pension obligations amounts to 12 years (31.12.2017: 12 years).

The following amounts were recorded in the Consolidated Statement of Profit or Loss:

in € million	2018	2017
Current service cost	3.9	3.3
Negative past service cost	(0.5)	0.0
Interest cost	15.2	7.2
Interest income	(7.7)	(2.3)
Interest expense from asset ceiling	0.4	0.1
Administrative costs (paid from plan assets)	0.3	0.2
<b>Pension expense recognised in profit or loss</b>	<b>11.6</b>	<b>8.5</b>

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

in € million	2018	2017
<b>Accumulated remeasurement losses at beginning of year</b>	<b>119.3</b>	<b>113.3</b>
Remeasurement losses on present value of pension obligations	4.6	7.7
Expenses/(Income) on plan assets less interest income	6.6	(3.0)
Losses from changes in asset ceiling less interest	0.9	1.3
<b>Accumulated remeasurement losses at year-end</b>	<b>131.4</b>	<b>119.3</b>

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

in € million	31.12.2018			31.12.2017		
	Active market	No active market	Total	Active market	No active market	Total
Insurances	0.0	39.1	39.1	0.0	38.4	38.4
Equity instruments	4.7	18.5	23.2	4.8	23.1	27.9
Debt instruments	14.3	49.2	63.5	17.2	45.2	62.4
Cash and cash equivalents	32.3	4.1	36.4	35.0	0.4	35.4
Other assets	57.9	3.8	61.7	60.8	3.7	64.5
<b>Fair value of plan assets</b>	<b>109.2</b>	<b>114.7</b>	<b>223.9</b>	<b>117.8</b>	<b>110.8</b>	<b>228.6</b>

The present value of the insurances to cover the Austrian pension plans corresponds to the coverage capital. Insurance companies predominantly invest in debt instruments and to a low extent in equity instruments and properties.

Plan assets do not include own financial instruments of the Group or assets utilised by the RHI Magnesita Group.

RHI Magnesita works with professional fund managers for the investment of plan assets. They act on the basis of specific investment guidelines adopted by the pension fund committee of the respective pension plans. The committees consist of management staff of the finance department and other qualified executives. They meet regularly in order to approve the target portfolio with the support of independent actuarial experts and to review the risks and the performance of the investments. In addition, they approve the selection or the extension of contracts of external fund managers.

The largest part of the other assets is invested in pension reinsurance, which creates a low counterparty risk towards insurance companies. In addition, the Group is exposed to interest risks and longevity risks resulting from defined benefit commitments.

The Group generally endows the pension funds with the amount necessary to meet the legal minimum allocation requirements of the country in which the fund is based. Moreover, the Group makes additional allocations at its discretion from time to time. In the financial year 2019, RHI Magnesita expects employer contributions to external plan assets to amount to €4.8 million and direct payments to entitled beneficiaries to €17.1 million. In the previous year, employer contributions of €4.8 million and direct pension payments of €17.9 million had been expected for the financial year 2018.

## 29. Other personnel provisions

Other personnel provisions consist of the following items:

in € million	31.12.2018	31.12.2017
Termination benefits	55.5	58.1
Service anniversary bonuses	19.4	19.4
Legacy share-based payment programme	1.6	2.9
Semi-retirements	1.9	1.4
Lump-sum settlements	0.1	0.7
<b>Other personnel provisions</b>	<b>78.5</b>	<b>82.5</b>

### Provisions for termination benefits

Provisions for termination benefits were based on the following weighted average measurement assumptions:

in %	31.12.2018	31.12.2017
Interest rate	2.1%	1.7%
Future salary increase	3.9%	3.8%

The interest rate for the measurement of termination benefit obligations in the Euro area was determined taking into account the company specific duration of the portfolio.

# Notes

## continued

Provisions for termination benefits developed as follows in the financial year and the previous year:

in € million	2018	2017
<b>Provisions for termination benefits at beginning of year</b>	<b>58.1</b>	<b>58.5</b>
Currency translation	0.0	(0.1)
Current service cost	1.6	1.5
Interest cost	0.9	1.0
Remeasurement losses/(gains)		
from changes in demographic assumptions	1.1	0.0
from changes in financial assumptions	(2.3)	5.1
due to experience adjustments	0.5	0.4
Benefits paid	(4.4)	(4.1)
Reclassification	0.0	(0.4)
Reclassification as held for sale	0.0	(3.8)
<b>Provisions for termination benefits at year-end</b>	<b>55.5</b>	<b>58.1</b>

Payments for termination benefits are expected to amount to €3.5 million in the year 2019. In the previous year, the payments for termination benefits expected for the year 2018 amounted to €3.0 million.

The following remeasurement gains and losses were recognised in other comprehensive income:

in € million	2018	2017
<b>Accumulated remeasurement losses at beginning of year</b>	<b>27.9</b>	<b>23.6</b>
Remeasurement (gains)/losses <sup>1)</sup>	(0.7)	5.6
Reclassification as held for sale	0.0	(1.3)
<b>Accumulated remeasurement losses at year-end</b>	<b>27.2</b>	<b>27.9</b>

1 Including €0.0 million (2017: €0.1 million) from a joint venture accounted for using the equity method.

At 31 December 2018 the weighted average duration of termination benefit obligations amounts to 11 years (31.12.2017: 11 years).

### Provisions for service anniversary bonuses

The measurement of provisions for service anniversary bonuses is based on an average weighted interest rate of 1.7% (31.12.2017: 1.4%) and takes into account salary increases of 3.7% (31.12.2017: 3.6%).

### Provisions for semi-retirement

The funded status of provisions for obligations to employees with semi-retirement contracts is shown in the table below:

in € million	31.12.2018	31.12.2017
Present value of semi-retirement obligations	5.1	5.0
Fair value of plan assets	(3.2)	(3.6)
<b>Provisions for semi-retirement obligations</b>	<b>1.9</b>	<b>1.4</b>

External plan assets are ring-fenced from all creditors and exclusively serve to meet semi-retirement obligations.

### 30. Other non-current provisions

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

in € million	Contract obligations	Labour and civil contingencies	Demolition/ disposal costs, environmental damages	Other	Total
<b>1.1.2018<sup>1)</sup></b>	<b>91.1</b>	<b>9.4</b>	<b>10.8</b>	<b>4.4</b>	<b>115.7</b>
Currency translation	(9.7)	(1.0)	(0.2)	(0.1)	(11.0)
Utilised	0.0	(0.4)	0.0	(0.1)	(0.5)
Reversals	0.0	0.0	0.0	(0.1)	(0.1)
Additions	1.7	0.3	1.9	0.5	4.4
Additions interest	9.8	0.0	0.0	0.0	9.8
Reclassifications	(9.1)	0.0	0.0	0.0	(9.1)
<b>31.12.2018</b>	<b>83.8</b>	<b>8.3</b>	<b>12.5</b>	<b>4.6</b>	<b>109.2</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

In November 2017, RHI Magnesita sold a plant located in Oberhausen, Germany, in order to satisfy the conditions imposed by the European Commission in connection with their approval of the Acquisition of Control of Magnesita. As RHI Magnesita is obligated to provide raw materials at cost, the Group has recognised a provision for unfavourable contracts as part of the purchase price allocation to reflect the foregone profit margin. The non-current portion of this contract obligation amounts to €80.0 million as of 31.12.2018 (31.12.2017: €87.8 million). Furthermore, provisions for contract obligations amounting to €3.2 million (31.12.2017: €1.9 million) are due to contracts for logistics services and the procurement of raw materials.

The provision for labour and civil contingencies primarily comprises of labour litigation provisions against RHI Magnesita in a total of 323 cases amounting to €7.1 million (31.12.2017: €8.3 million).

The provision for demolition and disposal costs and environmental damages primarily includes provisions for the estimated costs of mining site restoration of several mines in Brazil amounting to €5.9 million (31.12.2017: €4.6 million) and various sites in the United States amounting to €6.1 million (31.12.2017: €5.8 million).

The other provisions primarily include provisions related to tax litigation procedures in Peru regarding corporate income tax of fiscal year 2009 amounting to €2.7 million (31.12.2017: €2.6 million) and judicial action filed in Colombia related to corporate income tax of fiscal year 2010 amounting to €1.9 million (31.12.2017: €1.5 million).

### 31. Other non-current liabilities

Other non-current liabilities consist of the following items:

in € million	31.12.2018	31.12.2017
Deferred income for subsidies received	6.2	4.7
Liabilities to employees	2.5	2.8
Contingent consideration for acquired subsidiaries	0.6	0.6
Miscellaneous non-current liabilities	1.0	0.9
<b>Other non-current liabilities</b>	<b>10.3</b>	<b>9.0</b>
thereof financial liabilities	0.6	0.6
thereof non-financial liabilities	9.7	8.4

# Notes

## continued

### 32. Trade payables and other current liabilities

Trade payables and other current liabilities included in the Consolidated Statement of Financial Position consist of the following items:

in € million	31.12.2018	31.12.2017 <sup>1)</sup>
Trade payables	502.5	467.6
Contract liabilities	64.8	0.0
Prepayments received on orders	0.0	24.1
Liabilities to employees	99.6	99.2
Taxes other than income tax	30.0	23.2
Payables from commissions	13.0	13.2
Payables from property transactions	9.2	4.8
Customers with credit balances	7.3	6.5
Liabilities to joint ventures and associates	5.4	9.1
Liabilities to non-consolidated subsidiaries	1.0	1.6
Other current liabilities	24.1	28.9
<b>Trade payables and other current liabilities</b>	<b>756.9</b>	<b>678.2</b>
thereof financial liabilities	539.3	507.0
thereof non-financial liabilities	217.6	171.2

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

Contract liabilities mainly consist of prepayments received on orders. Prepayments received on orders as of 31 December 2017 were recognised as revenue in the current reporting period.

The item liabilities to employees primarily consists of obligations for wages and salaries, payroll taxes and employee-related duties, performance bonuses, unused vacation and flexitime credits.

Other current liabilities include €1.6 million (31.12.2017: €3.7 million) investment reimbursement obligation to the former subsidiary Dolomite Franchi S.p.A., and other accrued expenses.

### 33. Income tax liabilities

Income tax liabilities amounting to €32.2 million (31.12.2017: €16.1 million) primarily include income taxes for the current year and previous years which have not yet been definitively audited by domestic and foreign tax authorities. Taking into account a multitude of factors, including the interpretation, commenting and case law regarding the respective tax laws as well as past experiences, adequate liabilities have been recognised as far as apparent.

### 34. Current provisions

The development of current provisions is shown in the table below:

in € million	Restructuring costs	Demolition/ disposal costs, environmental damages	Warranties	Contract obligations	Guarantees provided	Other	Total
<b>1.1.2018<sup>1)</sup></b>	<b>37.6</b>	<b>9.3</b>	<b>4.4</b>	<b>26.2</b>	<b>2.9</b>	<b>9.0</b>	<b>89.4</b>
Currency translation	(0.4)	0.0	(0.2)	(2.0)	0.0	(0.4)	(3.0)
Utilised	(25.2)	(2.9)	(3.3)	(18.7)	0.0	(3.2)	(53.3)
Reversals	(7.0)	(0.7)	(0.2)	(2.4)	0.0	0.0	(10.3)
Additions	4.1	1.7	2.0	9.7	0.1	1.9	19.5
Reclassifications	1.0	0.0	0.0	8.3	0.0	1.4	10.7
<b>31.12.2018</b>	<b>10.1</b>	<b>7.4</b>	<b>2.7</b>	<b>21.1</b>	<b>3.0</b>	<b>8.7</b>	<b>53.0</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita and of the initial application of IFRS 15.

Provisions for restructuring costs amount to €10.1 million as of 31 December 2018 (31.12.2017: €37.6 million) and primarily consist of benefit obligations to employees due to termination of employment resulting from corporate reorganisation of RHI Magnesita.

The item demolition and disposal costs, environmental damages includes an amount of €2.5 million (31.12.2017: €2.7 million) which refers to the former site in Aken, Germany. It is assumed that this provision will be used up within the next 12 months.

Provisions for warranties include provisions for claims arising from warranties and other similar obligations from the sale of refractory products.

Provisions for contract obligations include the current portion of the Oberhausen contract obligation amounting to €11.5 million (31.12.2017: €16.9 million). The amortisation of this provision led to an income of €10.0 million in 2018. Furthermore, provisions for other unfavourable contracts amounting to €6.7 million (31.12.2017: €6.9 million) and provisions for unfavourable contracts related to contracts for logistics services and the procurement of raw materials totalling €2.9 million (31.12.2017: €2.4 million) are included.

Provisions for guarantees provided include obligations from sureties and guarantees to banks and insurance companies in the country and abroad. The exact due date of the cash outflow is uncertain.

The item other provisions includes provisions for real estate transfer tax amounting to €1.3 million (31.12.2017: €2.4 million) resulting from corporate reorganisation of RHI Magnesita as well as a provision for the share-based remuneration programme of the members of the former Management Board of RHI AG of €1.4 million (31.12.2017: €1.4 million).

In addition, provisions for legal proceedings including attorney's fees amounting to €3.2 million (31.12.2017: €3.1 million) are included in the item other provisions. It is currently uncertain when precisely the cash outflow is due.

Furthermore, several provisions, which are individually immaterial and cannot be allocated to one of the above-mentioned categories, are included in other provisions. A large part of these costs is expected to be paid within 12 months.

# Notes

continued

## NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

### 35. Revenue

Revenue is essentially generated by product deliveries and by performing management refractory services. The distribution of revenue by product group, division and country is given in the explanations to segment reporting under Note (50).

### 36. Cost of sales

Cost of sales comprises the production cost of goods sold as well as the purchase price of merchandise sold. In addition to direct material and production costs, it also includes overheads including depreciation charges on production equipment, amortisation charges of intangible assets as well as impairment losses and reversals of impairment losses of inventories. Moreover, cost of sales also includes the costs of services provided by the Group or services received.

### 37. Selling and marketing expenses

This item includes personnel expenses for the sales staff as well as depreciation charges and other operating expenses related to the market and sales processes.

### 38. General and administrative expenses

General and administrative expenses primarily consist of personnel expenses for the administrative functions, legal and other consulting costs, expenses for research and non-capitalisable development costs.

Research and development expenses totalled €32.6 million (2017: €24.0 million), of which development costs amounting to €8.3 million (2017: €4.6 million) were capitalised. Income from research grants amounted to €3.8 million (2017: €3.8 million) in 2018. Amortisation and impairment of development costs amounting to €3.8 million (2017: €4.3 million) are recognised under cost of sales.

### 39. Other income

The individual components of other income are:

in € million	2018	2017 <sup>1)</sup>
Result from derivatives from supply contracts	19.6	4.9
Amortisation of Oberhausen provision	10.0	1.6
Income from restructuring	5.4	0.3
Income from the disposal of non-current assets	2.2	0.9
Miscellaneous income	6.7	2.7
<b>Other income</b>	<b>43.9</b>	<b>10.4</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita and the changes in presentation.

Income from restructuring amounting to €5.4 million results from the reversal of acquisition-related provisions for redundancy programmes.



#### 40. Other expenses

Other expenses include:

in € million	2018	2017 <sup>1</sup>
Restructuring costs	<b>(22.3)</b>	(62.7)
Expenses for strategic projects	<b>(13.5)</b>	(24.4)
Losses from the disposal of non-current assets	<b>(3.0)</b>	(7.6)
Impairment losses	<b>0.0</b>	(2.1)
Miscellaneous expenses	<b>(6.1)</b>	(10.5)
<b>Other expenses</b>	<b>(44.9)</b>	<b>(107.3)</b>

1 Adjusted to reflect the changes in presentation.

Restructuring costs primarily relate to costs incurred in connection with the corporate reorganisation of RHI Magnesita, including costs for termination of employment amounting to €5.4 million. Furthermore, dismantling and demolition costs amounting to €3.7 million and expenses for unused logistics services in the Porsgrunn plant, Norway, amounting to €3.9 million (2017: €4.4 million) are included. In 2017, restructuring costs included expenses incurred in connection with the acquisition-related global restructuring programme totalling €35.3 million and the disposal of the dolomite and fused cast business amounting to €23.0 million.

Expenses for strategic projects amounting to €13.5 million mainly include legal and consulting fees for the acquisition and integration of Magnesita and the related corporate reorganisation of RHI Magnesita. For the acquisition of Magnesita, costs totalling €33.5 million were incurred in 2017. They were primarily related to legal and other advisory fees and fees for the consulting investment banks. Of the total costs, €24.4 million were recognised in profit or loss and €9.1 million were accounted for as a deduction from equity since these costs were directly attributable to the issue of RHI Magnesita shares in 2017. €3.0 million were cash-effective and formed part of capital expenses for the issue of shares in the Consolidated Statement of Cash Flows.

#### 41. Interest income

This item includes interest on cash at banks and similar income amounting to €8.8 million (2017: €2.8 million), interest income on financial receivables amounting to €0.2 million (2017: €0.2 million) and interest income on securities and shares amounting to €0.7 million (2017: €2.5 million), of which €0.4 million (2017: €2.0 million) is accounted for by impaired securities.

#### 42. Foreign exchange effects and related derivatives

The net expense on foreign exchange effects and related derivatives consists of the following items:

in € million	2018	2017
Foreign exchange gains	<b>98.6</b>	68.2
Gains from related derivative financial instruments	<b>4.5</b>	14.2
Foreign exchange losses	<b>(160.2)</b>	(126.3)
Losses from from related derivative financial instruments	<b>(24.2)</b>	(6.9)
<b>Net expense on foreign exchange effects and related derivatives</b>	<b>(81.3)</b>	<b>(50.8)</b>

The net expense on foreign exchange effects and related derivatives results mainly from the devaluation of the Euro, Argentine Peso and Brazilian Real against the US Dollar, affecting both intercompany and third-party loans, accounts payable and accounts receivable.

# Notes

## continued

### 43. Other net financial expenses

Other net financial expenses consist of the following items:

in € million	2018	2017 <sup>1)</sup>
Interest income on plan assets	7.3	2.2
Interest expense on provisions for pensions	(15.2)	(7.2)
Interest expense on provisions for termination benefits	(0.9)	(1.0)
Interest expense on other personnel provisions	(0.3)	(0.3)
<b>Net interest expense personnel provisions</b>	<b>(9.1)</b>	<b>(6.3)</b>
Unwinding of discount of provisions and payables	(15.6)	(0.9)
Interest expense on non-controlling interests	(5.3)	(3.3)
Impairment losses on securities	(1.4)	(1.9)
Expenses from the valuation of put options	(1.0)	(0.9)
Gains from the disposal of securities and shares	0.7	0.0
Other interest and similar expenses	(10.9)	(0.3)
<b>Other net financial expenses</b>	<b>(42.6)</b>	<b>(13.6)</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita and the changes in presentation.

### 44. Income tax

Income tax consists of the following items:

in € million	2018	2017
Current tax expense	75.9	30.5
Deferred tax expense/(income) relating to		
temporary differences	(46.7)	(34.0)
tax loss carryforwards	29.7	8.4
	(17.0)	(25.6)
<b>Income tax</b>	<b>58.9</b>	<b>4.9</b>

The current tax expense of the year 2018 includes tax expenses for previous periods of €7.1 million (2017: €2.8 million) and income from income tax relating to other periods of €0.5 million (2017: €8.6 million). In 2018, €3.8 million are related to an ongoing tax audit respectively tax loss forfeit in Germany. In 2017, €6.7 million were attributable to the reversal of a provision related to a tax audit in Germany.

In addition to the income taxes recognised in the Statement of Profit or Loss, tax income totalling €5.7 million (2017: €4.1 million), which is attributable to other comprehensive income, was also recognised in other comprehensive income. In 2017, tax expense totalling €6.3 million was reclassified from other comprehensive income to the Statement of Profit or Loss.

The reasons for the difference between the income tax expense, which would result from the application of the Austrian corporate tax rate of 25% on the profit before income tax, and the income tax reported are shown below:

in € million	2018	2017 <sup>1</sup>
<b>Profit before income tax</b>	<b>246.0</b>	<b>(5.9)</b>
<b>Income tax expense calculated at 25% (2017: 25%)</b>	<b>61.5</b>	<b>(1.5)</b>
Different foreign tax rates	1.8	(0.7)
Expenses not deductible for tax purposes, non-creditable taxes	10.1	20.4
Non-taxable income and tax benefits	(32.3)	(7.1)
Tax losses and temporary differences of the financial year not recognised	9.5	11.9
Utilisation of previously unrecognised loss carryforwards and temporary differences	(0.2)	(1.2)
Recognition of previously unrecognised loss carryforwards and temporary differences	(0.7)	(5.8)
Change in valuation allowance on deferred tax assets	1.2	3.7
Deferred tax expense due to tax rate changes	(1.8)	(12.9)
Deferred income tax relating to prior periods	2.4	3.3
Current income tax relating to prior periods	6.7	(5.8)
Other	0.7	0.6
<b>Recognised tax expense</b>	<b>58.9</b>	<b>4.9</b>
<b>Effective tax rate (in %)</b>	<b>23.9%</b>	<b>(83.1)%</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

Deferred tax expense due to tax rates changes is primarily attributable to the reduction of the corporate income tax rate in Norway from 24% to 23% (2018: €(0.9) million) and an increase in corporate income tax rate in Turkey from 20% to 22% (2018: €0.4 million). In 2017, deferred tax expense due to tax rates changes was primarily attributable to the reduction of the corporate income tax rate in the United States from 35% to 21% (2017: €(7.5) million) and in Norway (2017: €(1.1) million). Non-taxable income and tax benefits include the SUDENE tax regime amounting to 20.4 million. This tax regime is calculated on profits from activities covered by the incentive tax treatment for priority projects for the development of the SUDENE region in Brazil.

#### 45. Expense categories

The presentation of the Consolidated Statement of Profit or Loss is based on the function of expenses. The following tables show a classification by expense category for 2018 and the previous year:

in € million	Cost of sales	Selling and marketing expenses	General and administrative expenses	Other income/ expenses	Total 2018
Changes in inventories, own work capitalised	(79.2)	0.0	(2.8)	0.0	(82.0)
Cost of materials	1,550.8	0.6	2.4	0.0	1,553.8
Personnel costs	409.6	72.8	106.2	5.6	594.2
Depreciation and amortisation charges	133.5	7.9	12.0	0.0	153.4
Other income	(27.5)	(0.2)	(4.2)	(9.9)	(41.8)
Other expenses	357.3	47.8	94.8	5.3	505.2
<b>Total</b>	<b>2,344.5</b>	<b>128.9</b>	<b>208.4</b>	<b>1.0</b>	<b>2,682.8</b>

# Notes

## continued

in € million	Cost of sales	Selling and marketing expenses	General and administrative expenses	Other income/ expenses	Total 2017 <sup>2)</sup>
Changes in inventories, own work capitalised	(27.3)	0.2	(3.9)	1.5	(29.5)
Cost of materials	919.2	4.0	5.3	(0.3)	928.2
Personnel costs	259.2	72.4	100.2	22.8	454.6
Depreciation and amortisation charges <sup>1)</sup>	75.8	0.4	6.0	17.2	99.4
Other income	(8.5)	0.0	(6.9)	(10.5)	(25.9)
Other expenses	325.0	24.2	42.4	66.2	457.8
<b>Total<sup>2)</sup></b>	<b>1,543.4</b>	<b>101.2</b>	<b>143.1</b>	<b>96.9</b>	<b>1,884.6</b>

1 Including impairment losses on property, plant and equipment and intangible assets.

2 Adjusted to reflect the effects of the final purchase price allocation of Magnesita and the changes in presentation.

Cost of materials includes expenses for raw materials and supplies, and purchased goods of €1,321.3 million (2017: €759.0 million) as well as expenses for services received, especially energy, amounting to €232.5 million (2017: €169.2 million).

Amortisation charges of intangible assets are largely recognised in cost of sales.

Other expenses mainly include freight costs, commissions, travel costs as well as consulting and other outside services.

### 46. Personnel costs

Personnel costs consist of the following components:

in € million	2018	2017
Wages and salaries	474.0	360.1
Pensions		
Defined benefit plans	3.7	3.4
Defined contribution plans	5.2	3.4
Termination benefits		
Defined benefit plans	1.6	1.5
Defined contribution plans	1.5	2.0
Other expenses	2.9	1.5
Social security costs	73.7	68.7
Fringe benefits	31.6	14.0
<b>Personnel expenses (without interest expenses)</b>	<b>594.2</b>	<b>454.6</b>

Personnel costs do not include amounts resulting from the interest accrued on personnel provisions. They amount to €9.1 million (2017: €6.3 million) and are recorded in other net financial expenses.

## NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The Statement of Cash Flows shows how cash and cash equivalents of the Group change through cash inflows and cash outflows during the reporting year. In accordance with IAS 7, cash flows from operating activities, from investing activities and from financing activities are distinguished. Cash flows from investing and financing activities are determined on the basis of cash payment, while cash flow from operating activities is derived from the Consolidated Financial Statements using the indirect method.

The respective monthly changes in items of the Statement of Financial Position of companies that report in foreign currencies are translated at the closing rate of the previous month and adjusted for effects arising from changes in the group of consolidated companies or in other businesses. Therefore, the Statement of Cash Flows cannot be derived directly from changes in items of the Consolidated Statement of Financial Position. As in the Statement of Financial Position, cash and cash equivalents are translated at the closing rate. The effects of changes in exchange rates on cash and cash equivalents are shown separately.

### 47. Net cash flow from operating activities

Other non-cash expenses and income include mainly the net interest expenses for defined benefit pension plans amounting to €9.1 million (2017: €6.3 million), net remeasurement losses of monetary foreign currency positions and derivative financial instruments of €14.5 million (2017: €51.2 million). In 2017, other non-cash funding of provisions for restructuring amounted to €13.6 million.

### 48. Net cash flow from financing activities

The reconciliation of movements of financial liabilities and assets to cash flows arising from financing activities is shown in the tables below:

in € million	01.01.2018	Cash changes	Non-cash changes			31.12.2018
			Changes in foreign exchange rates	Interest expense and other changes	Reclassification	
Liabilities to financial institutions	953.0	164.8	(12.0)	60.3	(12.5)	1,153.6
Perpetual bond	215.3	(215.0)	1.3	(1.6)	0.0	0.0
Senior notes	55.6	(54.6)	0.6	(1.6)	0.0	0.0
Liabilities to fixed-term or puttable non-controlling interests	32.0	(1.8)	(0.4)	6.5	0.0	36.3
Other financial liabilities and capitalised transaction costs	1.7	(0.5)	(0.3)	(0.6)	12.5	12.8
Prepaid transaction costs related to financial liabilities	(2.5)	0.0	0.0	2.5	0.0	0.0
Trade payables	0.0	(4.5)	0.0	6.3	0.0	1.8
<b>Changes of financial liabilities and assets arising from financing activities</b>	<b>1,255.1</b>	<b>(111.6)</b>	<b>(10.8)</b>	<b>71.8</b>	<b>0.0</b>	<b>1,204.5</b>

# Notes

continued

in € million	01.01.2017	Cash changes		Non-cash changes		31.12.2017
			Changes in foreign exchange rates	Additions to consolidated companies	Interest expense and other changes	
Liabilities to financial institutions	475.5	60.1	(13.3)	407.9	22.8	953.0
Perpetual bond	0.0	0.0	(5.6)	217.9	3.0	215.3
Senior notes	0.0	0.0	(1.4)	56.3	0.7	55.6
Liabilities to fixed-term or puttable non-controlling interests	32.5	(3.2)	(1.7)	0.0	4.4	32.0
Other financial liabilities and capitalised transaction costs	7.7	(3.4)	(0.1)	0.1	(2.6)	1.7
Prepaid transaction costs related to financial liabilities	0.0	(2.5)	0.0	0.0	0.0	(2.5)
<b>Changes of financial liabilities and assets arising from financing activities</b>	<b>515.7</b>	<b>51.0</b>	<b>(22.1)</b>	<b>682.2</b>	<b>28.3</b>	<b>1,255.1</b>

#### 49. Total interest paid and interest received

Total interest paid amounts to €72.4 million in the reporting period (2017: €25.6 million), of which €0.3 million (2017: €0.1 million) is included in cash flow from operating activities, €1.0 million (2017: €0.6 million) in cash flow from investing activities and €71.1 million (2017: €24.9 million) in cash flow from financing activities.

Total interest received amounts to €8.5 million for the financial year 2018 (2017: €5.1 million), of which €0.2 million (2017: €0.0 million) are included in cash flow from operating activities and €8.3 million (2017: €5.1 million) in cash flow from investing activities.

## OTHER DISCLOSURES

### 50. Segment reporting

Segment reporting by operating company division

The following tables show the financial information for the operating segments for the year 2018 and the previous year:

in € million	Steel	Industrial	Group 2018
<b>Revenue</b>	<b>2,204.3</b>	<b>877.1</b>	<b>3,081.4</b>
<b>Gross profit</b>	<b>522.4</b>	<b>214.5</b>	<b>736.9</b>
<b>EBIT</b>			<b>398.6</b>
Net finance costs			(162.7)
Share of profit of joint ventures and associates			10.1
<b>Profit before income tax</b>			<b>246.0</b>
Depreciation and amortisation charges	(97.5)	(55.9)	(153.4)
Segment assets 31.12.2018	1,666.3	948.0	2,614.3
Investments in joint ventures and associates 31.12.2018			21.8
Reconciliation to total assets			902.9
			<b>3,539.0</b>
Investments in property, plant and equipment and intangible assets (according to non-current assets statement)	67.7	59.3	127.0
in € million	Steel	Industrial	Group 2017 <sup>1)</sup>
<b>Segment revenue</b>	<b>1,312.6</b>	<b>637.5</b>	<b>1,950.1</b>
<b>Gross profit</b>	<b>284.4</b>	<b>122.3</b>	<b>406.7</b>
<b>EBIT</b>			<b>65.5</b>
Net finance costs			(82.4)
Share of profit of joint ventures and associates			11.0
<b>Profit before income tax</b>			<b>(5.9)</b>
Depreciation and amortisation charges	(53.0)	(26.6)	(79.6)
Segment assets 31.12.2017	1,941.9	742.2	2,684.1
Investments in joint ventures and associates 31.12.2017			21.4
Reconciliation to total assets			807.3
			<b>3,512.8</b>
Investments in property, plant and equipment and intangible assets (according to non-current assets statement)	135.5	17.8	153.3

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita and the changes in presentation.

# Notes

## continued

Revenue amounting to €317.5 million (2017: €195.5 million) was realised with one customer in 2018, which is included in the Steel segment. No other single customer contributed 10% or more to consolidated revenue in 2018 or 2017. Companies which are known to be part of a group are treated as one customer.

When allocating revenue to product groups, a distinction is made between shaped products (e.g. hydraulically pressed bricks, fused cast bricks, isostatically pressed products), unshaped products (e.g. repair mixes, construction mixes and castables), refractory management services as well as other revenue. Other mainly includes revenue from the sale of non-group refractory products.

In the reporting year, revenue is classified by product group as follows:

in € million	Steel	Industrial	Group 2018
Shaped products	1,110.3	580.5	<b>1,690.8</b>
Unshaped products	336.8	196.2	<b>533.0</b>
Management refractory services	616.0	0.0	<b>616.0</b>
Other	141.2	100.4	<b>241.6</b>
<b>Revenue</b>	<b>2,204.3</b>	<b>877.1</b>	<b>3,081.4</b>

In 2017, revenue was classified by product group as follows:

in € million	Steel	Industrial	Group 2017 <sup>1)</sup>
Shaped products	654.8	436.0	1,090.8
Unshaped products	252.9	123.6	376.5
Management refractory services	334.5	0.0	334.5
Other	70.4	77.9	148.3
<b>Revenue</b>	<b>1,312.6</b>	<b>637.5</b>	<b>1,950.1</b>

1 Adjusted to reflect the changes in presentation.

Revenue from shaped and unshaped products is transferred to the customers at a point in time, whereas revenue from management refractory services is transferred over time. Other revenue amounting to €100.9 million (2017: €67.9 million) is transferred over time and an amount of €140.7 million (2017: €80.4 million) is transferred at a point of time.

### Segment reporting by country

Revenue is classified by customer sites as follows:

in € million	2018	2017 <sup>1)</sup>
Netherlands	<b>25.8</b>	14.1
All other countries		
USA	<b>407.9</b>	195.3
Brazil	<b>333.2</b>	92.5
India	<b>245.3</b>	204.1
Germany	<b>183.4</b>	137.3
PR China	<b>165.7</b>	121.9
Mexico	<b>161.0</b>	119.3
Italy	<b>131.6</b>	105.7
Canada	<b>92.2</b>	70.8
Russia	<b>86.9</b>	59.0
Other countries, each below €62.9 million (2017: €44.8 million)	<b>1,248.4</b>	830.1
<b>Revenue</b>	<b>3,081.4</b>	<b>1,950.1</b>

1 Adjusted to reflect the changes in presentation.



The carrying amounts of goodwill, other intangible assets and property, plant and equipment are classified as follows by the respective sites of the group companies:

in € million	31.12.2018	31.12.2017 <sup>1)</sup>
Brazil	520.7	595.6
USA	233.1	236.4
Austria	220.6	214.0
Germany	198.6	210.0
PR China	160.1	158.7
India	58.0	58.8
Mexico	34.5	33.4
France	31.8	37.1
Turkey	30.6	31.8
Other countries, each below €18.6 million (31.12.2017: €19.1 million)	58.6	59.1
<b>Goodwill, intangible assets and property, plant and equipment</b>	<b>1,546.6</b>	<b>1,634.9</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

### 51. Earnings per share

In accordance with IAS 33, earnings per share are calculated by dividing the profit or loss attributable to the shareholders of RHI Magnesita N.V. by the weighted average number of shares outstanding during the financial year.

	2018	2017 <sup>1)</sup>
Profit after income tax attributable to the owners of the parent (in € million)	158.1	(17.4)
Weighted average number of shares	44,963,615	40,682,053
<b>Earnings per share (in €)</b>	<b>3.52</b>	<b>(0.43)</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

### 52. Dividend payments and proposed dividend

Based on a resolution adopted by the Annual General Meeting of RHI Magnesita N.V. on 7 June 2018, dividends totalling €33.6 million were paid out to the shareholders in 2018 for 2017, which corresponded to a dividend of €0.75 per share.

For 2018, the Board of Directors will propose a dividend of €1.50 per share for the shareholders of RHI Magnesita N.V. The proposed dividend is subject to the approval by the Annual General Meeting on 6 June 2019 and was not recognised as a liability in the Consolidated Financial Statements 2018.

Dividend payments to the shareholders of RHI Magnesita N.V. have no income tax consequences for RHI Magnesita N.V.

# Notes

## continued

### 53. Additional disclosures on financial instruments

The following tables show the carrying amounts and fair values of financial assets and liabilities by measurement category and level and the allocation to the measurement category in accordance with IFRS 13. In addition, carrying amounts are shown aggregated according to measurement category.

in € million	Measurement category IFRS 9 <sup>d</sup>	Level	31.12.2018		01.01.2018		
			Carrying amount	Fair value	Carrying amount	Fair value	
<b>Other non-current financial assets</b>							
Interests in subsidiaries not consolidated	FVPL	3	0.7	0.7	0.8	0.8	
Investments	FVPL	3	0.0	0.0	0.4	0.4	
Marketable securities	FVPL	1	14.5	14.5	14.9	14.9	
Shares	FVPL	1	0.0	0.0	1.9	1.9	
Shares	FVPL	3	0.5	0.5	0.5	0.5	
Interest derivatives designated as cash flow hedges	-	2	0.6	0.6	1.5	1.5	
Non-current receivables from disposal of subsidiaries	AC	-	0.0	-	2.6	-	
Other non-current financial receivables	AC	-	1.7	-	2.5	-	
Trade and other current receivables <sup>2)</sup>	AC	-	367.2	-	426.6	-	
<b>Other current financial assets</b>							
Marketable securities	FVPL	1	35.2	35.2	32.3	32.3	
Shares	FVPL	1	1.1	1.1	0.0	0.0	
Derivatives	FVPL	2	2.1	2.1	1.7	1.7	
Other current financial receivables	AC	-	0.2	-	0.1	-	
Cash and cash equivalents	AC	-	491.2	-	442.4	-	
<b>Financial assets</b>			<b>915.0</b>		<b>928.2</b>		
<b>Non-current and current borrowings</b>							
Liabilities to financial institutions	AC	2	1,153.6	1,165.6	953.0	966.1	
Perpetual bonds	AC	1	0.0	0.0	215.3	217.0	
Senior notes	AC	2	0.0	0.0	55.6	55.6	
Other financial liabilities and capitalised transaction costs	AC	2	12.8	12.8	1.7	1.7	
<b>Non-current and current other financial liabilities</b>							
Derivatives	FVPL	2	20.9	20.9	40.9	40.9	
Interest derivatives designated as cash flow hedges	-	2	7.3	7.3	0.0	0.0	
Liabilities to fixed-term or puttable non-controlling interests	AC	2	36.3	36.3	32.0	32.0	
<b>Other non-current liabilities</b>							
Contingent consideration for acquired subsidiaries	FVPL	3	0.6	0.6	0.6	0.6	
Trade payables and other current liabilities <sup>3)</sup>	AC	-	539.3	-	507.0	-	
<b>Financial liabilities</b>			<b>1,770.8</b>		<b>1,806.1</b>		
<b>Aggregated according to measurement category</b>							
Financial assets measured at FVPL			54.1		52.5		
Financial assets measured at amortised cost			860.3		874.2		
Financial liabilities measured at amortised cost			1,742.0		1,764.6		
Financial liabilities measured at FVPL			21.5		41.5		

1 FVPL: Financial assets/financial liabilities measured at fair value through profit or loss.

AC: Financial assets/financial liabilities measured at amortised cost.

2 Thereof non-financial receivables per 01.01.2018: €98.4 million.

3 Thereof non-financial liabilities per 01.01.2018: €175.5 million.

In the RHI Magnesita Group marketable securities, derivative financial instruments, shares, investments and interests in subsidiaries not consolidated are measured at fair value.

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between market participants in an arm's length transaction on the day of measurement. When the fair value is determined it is assumed that the transaction in which the asset is sold or the liability is transferred takes place either in the main market for the asset or liability, or in the most favourable market if there is no main market. RHI Magnesita considers the characteristics of the asset or liability to be measured which a market participant would consider in pricing. It is assumed that market participants act in their best economic interest.

RHI Magnesita takes into account the availability of observable market prices in an active market and uses the following hierarchy to determine fair value:

Level 1:	Prices quoted in active markets for identical financial instruments.
Level 2:	Measurement techniques in which all important data used are based on observable market data.
Level 3:	Measurement techniques in which at least one significant parameter is based on non-observable market data.

The fair value of securities, shares, investments and interests in subsidiaries not consolidated is based on price quotations at the reporting date (Level 1), where such quotations exist. In other cases a valuation model (Level 3) would be used for such instruments with the exception that such instruments are immaterial to the group, in which case amortised cost serves as an approximation of fair value.

The fair value of interest derivatives in a hedging relationship (interest rate swaps) is determined by calculating the present value of future cash flows based on current yield curves taking into account the corresponding terms (Level 2).

The fair value of other derivative contracts corresponds to the market value of the forward exchange contracts and the embedded derivatives in open orders denominated in a currency other than the functional currency, as well as the market value of a long-term power supply contract, which was classified as a derivative financial instrument since 2015. These derivatives are measured using quoted forward rates that are currently observable (Level 2).

The fair value of the contingent consideration liability amounting to €0.6 million recognised in 2017 due to the acquisition of Agellis is determined by discounting the estimated earn-out with the transaction's internal rate of return (Level 3).

RHI Magnesita takes into account reclassifications in the measurement hierarchy at the end of the reporting period in which the changes occur. Apart from the initial application of IFRS 9, there were no shifts between the different measurement levels in the two reporting periods.

Financial liabilities and liabilities to fixed-term or puttable non-controlling interests are carried at amortised cost in the Consolidated Statement of Financial Position; the fair values of the financial liabilities are only shown in the notes. The fair value of the perpetual bond is based on price quotations at the reporting date (Level 1), all other liabilities are calculated at the present value of the discounted future cash flows using yield curves that are currently observable (Level 2).

The financial receivables approximately correspond to the fair value as due to the amount of the existing receivables no material deviation between the fair value and the carrying amount is assumed and the credit default risk is accounted for by forming valuation allowances.

The remaining terms of trade and other current receivables and liabilities as well as cash and cash equivalents are predominantly short. Therefore, the carrying amounts of these items approximate fair value at the reporting date.

At the two reporting dates, no contractual netting agreement of financial assets and liabilities were in place.

# Notes

## continued

### Net results by measurement category in accordance with IFRS 9/IAS 39

The effect of financial instruments on the income and expenses recognised in 2018 and 2017 is shown in the following table, classified according to the measurement categories defined in IFRS 9/IAS 39:

in € million	2018	2017
Net gain from financial assets and liabilities measured at fair value through profit or loss	1.4	0.0
Net (loss)/gain from financial assets and liabilities measured at fair value through profit or loss designated on initial recognition	(1.2)	0.1
Net loss from financial assets and liabilities measured at amortised cost	(123.5)	0.0
Net gain on available-for-sale financial assets recognised in profit or loss	0.0	0.5
Net loss from loans and receivables as well as financial liabilities at amortised cost	0.0	(87.7)
Net gain on financial assets and financial liabilities classified as held for trading	0.0	12.2

The net gain on available-for-sale financial assets recognised in the Consolidated Statement of Profit or Loss includes income from securities and shares, income from the disposal of securities and shares, as well as impairment losses and income from reversals of impairment losses. According to IFRS 9 these financial instruments are now included in the fair value through profit or loss category, hence the corresponding gains or losses are included in the gains or losses from financial assets measured at fair value through profit or loss.

The net loss arising from loans and receivables as well as financial liabilities includes interest income and expenses, changes in valuation allowances and losses on derecognition, foreign exchange gains and losses as well as expenses related to the measurement of put options. According to IFRS 9 these financial instruments are now included in the amortised cost category, hence the corresponding gains or losses are included in the gains or losses from financial assets and liabilities measured at amortised cost.

The net gain of financial assets held for trading and financial liabilities includes unrealised results from the measurement of a long-term commodity futures contract as well as changes in the market value and realised results of forward exchange contracts and embedded derivatives in open orders in a currency other than the functional currency of RHI Magnesita, interest derivatives which do not meet the requirements of hedge accounting in accordance with IAS 39 and interest income from securities. According to IFRS 9 these financial instruments are now included in the fair value through profit or loss category, hence the corresponding gains/losses are included in the gains/losses from financial assets and financial liabilities measured at fair value through profit or loss.

The net gain from financial assets and liabilities at fair value through profit or loss designated on initial recognition includes income related to the measurement of securities and personnel obligations.

Net finance costs include interest income amounting to €9.5 million (2017: €5.0 million) and interest expenses of €69.5 million (2017: €26.5 million), which result from financial assets and liabilities which are not carried at fair value through profit or loss.

### 54. Derivative financial instruments

#### Commodity forward

The RHI Magnesita Group concluded a commodity forward contract for electricity for the fusion plant in Porsgrunn, Norway, in November 2011 which has been accounted for as a financial instrument in accordance with IFRS 9 since 31 December 2015 because the "own-use exemption" (exemption for own use in accordance with IFRS 9.2.6) no longer applies.

The measurement of the entire term of the contract until the end of the year 2023 at market price level leads to a financial liability of €20.9 million at 31 December 2018 (31.12.2017: €40.1 million). The corresponding present value of the cash flows for the agreed electricity supply totals €71.3 million at 31 December 2018 (31.12.2017: €83.4 million); the present value of the cash flow at market price amounts to €50.4 million (31.12.2017: €43.3 million).

#### Interest rate swaps

RHI Magnesita has concluded interest rate swaps to hedge the cash flow risk associated to financial liabilities carrying variable interest rates. Variable interest cash flows of financial liabilities were designated as hedged items. The cash flow changes of the hedged items, which result from the changes of the variable interest rates, are balanced out by the cash flow changes of the interest rate swaps. These hedging measures pursue the objective to transform variable-interest financial liabilities into fixed interest financial liabilities, thus hedging the cash flow from the financial liabilities. Ineffectiveness in the hedge relationship may arise due to credit risk, although this risk is assessed to be very low.

In the year 2018, RHI Magnesita concluded an interest rate swap with a nominal volume of €305.6 million maturing in 2023. The interest and compensation payments are due on a quarterly basis. Fixed interest rate amounts to roughly 0.28%, the variable interest rate is based on the EURIBOR. Furthermore, one other interest rate swap has been concluded in 2018, with a nominal volume of US\$200.0 million and a term until 2023. The interest and compensation payments are also due on a quarterly basis. Fixed interest rate amounts to roughly 3.1%, the variable interest rate is based on the USD LIBOR.

A hedging relationship with a nominal volume of US\$50.0 million (31.12.2017: US\$160.0 million) ends in the second half of 2020. The interest and compensation payments for this hedging relationship are due semi-annually. Fixed interest rates amount to roughly 1.3%; the variable interest rates are based on the LIBOR.

Two interest rate swaps measured at fair value through profit or loss with an original maturity until 2019 and with a nominal volume of €12.2 million (31.12.2017: €17.2 million) were early settled in the current reporting period. Total expense in 2018 of this transaction amounts of €0.3 million and is recognised within other net financial expenses.

In 2017, a hedging relationship with a nominal value of €50.0 million ended on 31 July 2017. The expense of €0.2 million recognised in other comprehensive income was reclassified to profit or loss and recognised within other net financial expenses.

The fair values of the interest rate swaps totalled €(6.7) million at the reporting date (31.12.2017: €1.3 million), which is shown within other non-current financial assets in the amount of €0.6 million (31.12.2017: €1.5 million) and within other non-current financial liabilities in the amount of €7.3 million (31.12.2017: €0.2 million) in the Consolidated Statement of Financial Position. For the year ended, €6.8 million (2017: €0.2 million) have been recognised within other comprehensive income. In 2017, an expense amounting to €0.5 million has been reclassified from other comprehensive income to profit or loss and recognised within other net financial expenses. No ineffectiveness has been recognised in profit and loss.

#### Forward exchange contracts

As of 31 December 2017, there were no material open forward exchange contracts. The nominal value and fair value of forward exchange contracts as of 31 December 2018 are shown in the table below:

			31.12.2018	
Purchase	Sale		Nominal value in million	Fair value in € million
EUR	USD	USD	182.0	1.1
USD	INR	EUR	890.0	0.0
<b>Forward exchange contracts</b>				<b>1.1</b>

#### 55. Financial risk management

Financial risks are incorporated in RHI Magnesita's corporate risk management and are centrally controlled by Group Treasury.

None of the following risks have a significant influence on the going concern of the RHI Magnesita Group.

##### Credit risks

The maximum credit risk from recognised financial assets amounts to €915.0 million (31.12.2017: €914.1 million) and is primarily related to investments with banks and receivables due from customers.

The credit risk with banks related to investments (especially cash and cash equivalents) is reduced as business transactions are generally only carried out with financial institutions with a good credit rating.

To counteract the default risk related to these transactions, receivables from customers are hedged as far as possible through credit insurance and collateral arranged through banks (guarantees, letters of credit). Credit and default risks are monitored continuously, and provisions are formed for risks that have occurred and are identifiable.

In the following, the credit risk from trade receivables is shown classified by customer industry, by foreign currency and by term.

# Notes

## continued

This credit risk, which is hedged by existing credit insurance, letters of credit and bank guarantees, is shown by customer segment in the following table:

in € million	31.12.2018	31.12.2017
Segment Steel	250.3	294.3
Segment Industrial	99.6	100.6
<b>Trade receivables</b>	<b>349.9</b>	<b>394.9</b>
Credit insurance and bank guarantees	(139.8)	(158.1)
<b>Net credit exposure</b>	<b>210.1</b>	<b>236.8</b>

The following table shows the carrying amounts of receivables denominated in currencies other than the functional currencies of the group companies. The carrying amounts of the receivables in the functional currency of the respective Group company are included under other functional currencies:

in € million	31.12.2018	31.12.2017
US Dollar	75.4	96.0
Euro	11.6	9.9
Pound Sterling	5.8	3.8
Other currencies	7.0	7.9
Other functional currencies	250.1	277.3
<b>Trade receivables</b>	<b>349.9</b>	<b>394.9</b>

The movement in the valuation allowance in respect of trade and other receivables and contract assets during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

in € million	2018		2017
	Individually assessed - credit impaired	Collectively assessed - not credit impaired	
<b>Accumulated valuation allowance at beginning of year under IAS 39</b>	<b>34.4</b>	<b>0.0</b>	<b>35.2</b>
Adjustment on initial application of IFRS 9	(5.7)	3.3	-
<b>Accumulated valuation allowance at beginning of year under IFRS 9</b>	<b>28.7</b>	<b>3.3</b>	<b>35.2</b>
Currency translation	(1.1)	0.0	(1.1)
Addition	5.0	0.0	11.2
Use	(3.0)	0.0	(3.2)
Reversal	0.0	0.0	(5.6)
Net remeasurement of loss allowance	-	(2.1)	0.0
Reclassification as held for sale	0.0	0.0	(2.1)
<b>Accumulated valuation allowance at year-end</b>	<b>29.6</b>	<b>1.2</b>	<b>34.4</b>

For trade receivables and contract assets, for which no objective evidence of impairment exists, lifetime expected credit losses have been calculated using a provision matrix as shown below:

in € million	Trade receivables – days past due						Total
	Not past due	less than 30 days	between 31 and 60 days	between 61 and 90 days	between 91 and 180 days	more than 180 days	
31.12.2018							
Expected credit loss rate in %	0.05 – 0.45%	0.11 – 1.08%	0.50 – 7.04%	1.39 – 13.33%	2.27 – 17.63%	5.86 – 33.81%	
Gross carrying amount	294.0	34.0	7.6	3.2	2.8	4.0	345.6
Life time expected credit loss	0.4	0.1	0.1	0.1	0.2	0.3	1.2

in € million	Trade receivables – days past due						Total
	Not past due	less than 30 days	between 31 and 60 days	between 61 and 90 days	between 91 and 180 days	more than 180 days	
01.01.2018							
Expected credit loss rate in %	0.02 – 0.32%	0.03 – 0.73%	0.11 – 5.63%	0.19 – 10.59%	0.28 – 14.06%	0.71 – 76.86%	
Gross carrying amount	310.5	46.2	19.3	7.2	4.2	9.6	397.0
Life time expected credit loss	0.4	0.1	0.2	0.2	0.2	2.3	3.4

### Liquidity risk

Liquidity risk refers to the risk that financial obligations cannot be met when due. The Group's financial policy is based on long-term financial planning and is centrally controlled and monitored continuously at RHI Magnesita. The liquidity requirements resulting from budget and medium-term planning are secured by concluding appropriate financing agreements. As of 31 December 2018, the RHI Magnesita Group has a credit facility of €319.3 million (31.12.2017: €317.2 million) at its disposal, which is unused and available immediately. These lines of credit were concluded with different international banks in order to ensure independence of banks. The companies of the RHI Magnesita Group are integrated into a clearing process managed by Central Treasury and provided with financing limits in order to minimise the need of borrowings for the Group as a whole.

### Non-derivative financial instruments

An analysis of the terms of non-derivative financial liabilities based on undiscounted cash flows including the related interest payments shows the following expected cash outflows:

in € million	Carrying amount 31.12.2018	Cash outflows	Remaining term		
			up to 1 year	2 to 5 years	over 5 years
Liabilities to financial institutions					
fixed interest	116.1	127.3	2.7	88.5	36.1
variable interest	1,037.5	1,100.9	338.6	732.9	29.4
Other financial liabilities and capitalised transaction costs	12.8	15.2	2.2	12.3	0.7
Liabilities to fixed-term or puttable non-controlling interests					
Contingent consideration for acquired subsidiaries	0.6	0.6	0.0	0.6	0.0
Trade payables and other current liabilities	539.3	539.3	539.3	0.0	0.0
<b>Non-derivative financial liabilities</b>	<b>1,742.6</b>	<b>1,995.1</b>	<b>897.0</b>	<b>852.7</b>	<b>245.4</b>

continued

in € million	Carrying amount 31.12.2017 <sup>1)</sup>	Cash outflows	Remaining term		
			up to 1 year	2 to 5 years	over 5 years
<b>Liabilities to financial institutions</b>					
fixed interest	176.7	202.7	60.6	96.8	45.3
variable interest	776.3	858.1	146.5	683.7	27.9
Perpetual bond	215.3	309.5	79.1	52.9	177.5
Senior Notes	55.5	66.0	5.2	60.8	0.0
Other financial liabilities and capitalised transaction costs	1.7	1.8	0.9	0.8	0.1
<b>Liabilities to fixed-term or puttable non-controlling interests</b>					
Contingent consideration for acquired subsidiaries	0.6	0.6	0.0	0.6	0.0
Trade payables and other current liabilities	507.0	507.0	507.0	0.0	0.0
<b>Non-derivative financial liabilities</b>	<b>1,765.1</b>	<b>2,106.7</b>	<b>809.4</b>	<b>907.9</b>	<b>389.4</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

#### Derivative financial instruments

The remaining terms of derivative financial instruments based on expected undiscounted cash flow as of 31 December 2018 and 31 December 2017 are shown in the table below:

in € million	Carrying amount 31.12.2018	Cash flows	Remaining term		
			up to 1 year	2 to 5 years	over 5 years
<b>Receivables from derivatives with net settlement</b>					
Interest rate swaps	0.6	0.6	0.5	0.1	0.0
Derivatives in open orders	1.0	1.0	1.0	0.0	0.0
Forward exchange contracts	1.1	1.1	1.1	0.0	0.0
<b>Liabilities from derivatives with net settlement</b>					
Derivatives from supply contracts	20.9	22.2	1.0	21.2	0.0
Interest rate swaps	7.3	8.1	2.4	5.7	0.0

in € million	Carrying amount 31.12.2017	Cash flows	Remaining term		
			up to 1 year	2 to 5 years	over 5 years
<b>Receivables from derivatives with net settlement</b>					
Interest rate swaps	1.5	1.5	0.9	0.6	0.0
Financial assets held for trading	1.7	1.7	1.7	0.0	0.0
<b>Liabilities from derivatives with net settlement</b>					
Financial liabilities held for trading	40.9	43.5	7.5	28.8	7.2

#### Foreign currency risks

Foreign currency risks arise where business transactions (operating activities, investments, financing) are conducted in a currency other than the functional currency of a company. They are monitored at the group level and analysed with respect to hedging options. Usually the net position of the Group in the respective currency serves as the basis for decisions regarding the use of hedging instruments.



Foreign currency risks are created through financial instruments which are denominated in a currency other than the functional currency (in the following: foreign currency) and are monetary in nature. Important primary monetary financial instruments include trade receivables and payables, cash and cash equivalents as well as financial liabilities as shown in the Consolidated Statement of Financial Position. Equity instruments are not of a monetary nature, and therefore not linked to a foreign currency risk in accordance with IFRS 7.

The majority of foreign currency financial instruments in the RHI Magnesita Group result from operating activities, above all from intragroup financing transactions, unless the foreign exchange effects recognised to profit or loss on monetary items, which represent part of a net investment in a foreign operation in accordance with IAS 21, are eliminated or hedged through forward exchange contracts. Significant provisions denominated in foreign currencies are also included in the analysis of risk.

The following table shows the foreign currency positions in the major currencies as of 31 December 2018:

in € million	USD	EUR	MXN	CAD	Other	Total
Financial assets	651.5	104.1	0.4	23.1	71.4	850.5
Financial liabilities, provisions	(938.6)	(241.7)	(21.5)	(6.8)	(45.7)	(1,254.3)
<b>Net foreign currency position</b>	<b>(287.1)</b>	<b>(137.6)</b>	<b>(21.1)</b>	<b>16.3</b>	<b>25.7</b>	<b>(403.8)</b>

The foreign currency positions as of 31 December 2017 are structured as follows:

in € million	USD	EUR	MXN	CAD	Other	Total
Financial assets	583.9	88.5	(0.1)	22.7	48.6	743.6
Financial liabilities, provisions	(727.5)	(218.6)	(18.6)	(2.4)	(47.1)	(1,014.2)
<b>Net foreign currency position</b>	<b>(143.6)</b>	<b>(130.1)</b>	<b>(18.7)</b>	<b>20.3</b>	<b>1.5</b>	<b>(270.6)</b>

The disclosures required by IFRS 7 for foreign exchange risks include a sensitivity analysis that shows the effects of hypothetical changes in the relevant risk variables on profit or loss and equity. In general, all non-functional currencies in which Group companies enter into financial instruments are considered to be relevant risk variables. The effects on a particular reporting period are determined by applying the hypothetical changes in these risk variables to the financial instruments held by the Group as of the reporting date. It is assumed that the positions on the reporting date are representative for the entire year. The sensitivity analysis does not include the foreign exchange differences that result from translating the net asset positions of the foreign group companies into the Group currency, the Euro.

A 10% appreciation or devaluation of the relevant functional currency against the following major currencies as of 31 December 2018 would have had the following effect on profit or loss and equity (both excluding income tax):

in € million	Appreciation of 10%		Devaluation of 10%	
	Gain/(loss)	Equity	Gain/(loss)	Equity
US Dollar	27.0	27.0	(33.0)	(33.0)
Euro	12.4	12.4	(15.1)	(15.1)
Mexican Peso	1.9	1.9	(2.3)	(2.3)
Canadian Dollar	(1.5)	(1.5)	1.8	1.8
Other currencies	(2.3)	(2.3)	2.7	2.7

# Notes

## continued

The hypothetical effect on profit or loss at 31 December 2017 can be summarised as follows:

in € million	Appreciation of 10%		Devaluation of 10%	
	Gain/(loss)	Equity	Gain/(loss)	Equity
US Dollar	20.3	20.3	(24.8)	(24.8)
Euro	11.9	11.9	(14.5)	(14.5)
Mexican Peso	1.7	1.7	(2.1)	(2.1)
Canadian Dollar	(1.8)	(1.8)	2.3	2.3
Other currencies	(0.4)	(0.4)	0.3	0.3

### Interest rate risks

The interest rate risk in the RHI Magnesita Group is primarily related to financial instruments carrying variable interest rates, which may lead to fluctuations in results and cash flows. At 31 December 2018, interest rate hedges amounting to a nominal value of €305.6 million (31.12.2017: €17.2 million) and a nominal value of US\$250 million (31.12.2017: US\$160.0 million) existed; a variable interest rate was converted into a fixed interest rate through an interest rate swap.

The exposure to interest rate risks is presented through sensitivity analyses in accordance with IFRS 7. These analyses show the effects of changes in market interest rates on interest payments, interest income and interest expense and on equity.

The RHI Magnesita Group measures fixed interest financial assets and financial liabilities at amortised cost, and did not use the fair value option – a hypothetical change in the market interest rates for these financial instruments at the reporting date would have had no effect on profit and loss or equity.

Changes in market interest rates on financial instruments designated as hedges as a part of cash flow hedges to protect against interest rate-related payment fluctuations have an effect on equity and are therefore included in the equity-related sensitivity analysis. If the market interest rate as of 31 December 2018 had been 25 basis points higher or lower, equity would have been €3.8 million (31.12.2017: €0.5 million) higher or lower taking into account tax effects.

Changes in market interest rates have an effect on the interest result of primary variable interest financial instruments whose interest payments are not designated as hedged items as a part of cash flow hedge relationships against interest rate risks, and are therefore included in the calculation of the result-related sensitivities. If the market interest rate as of 31 December 2018 had been 25 basis points higher or lower, the interest result would have been €0.1 million (31.12.2017: €0.5 million) lower or higher.

### Other market price risk

RHI Magnesita holds certificates in an investment fund amounting to €12.0 million (31.12.2017: €12.6 million) to cover the legally required protection of personnel provisions of Austrian group companies. The market value of these certificates is influenced by fluctuations of the worldwide volatile stock and bond markets.

In 2015, an energy supply contract with a term until the year 2023 was classified as a derivative financial instrument in and the fair value of the financial liability amounts to €20.9 million at 31 December 2018 (31.12.2017: €40.1 million). If the quoted forward prices at 31 December 2018 had been 20% higher or lower, EBIT would have been €10.1 million (31.12.2017: €8.7 million) higher or lower. In contrast, if the borrowing costs relevant for discounting had been 25 basis points higher or lower at the reporting date, EBIT would have been €0.2 million (31.12.2017: €0.3 million) higher or lower.

### 56. Capital management

The objectives of the capital management strategy of the RHI Magnesita Group are to secure going concern at all times by creating a solid capital base to finance growth, investments, to increase shareholders value on a sustained basis and to generate adequate returns to enable attractive dividend payments to the shareholders and to service debt.

The RHI Magnesita Group manages its capital structure through careful monitoring and assessment of the overall economic framework conditions, credit, interest rate and FX risks and the requirements and risks related to operations and taking into account strategic projects.

As the Group optimised its financial structure in 2018 and there are only two months of Magnesita results in the Consolidated Statement of Profit or Loss in 2017, the key figures of capital management for 2017 are not comparable. Therefore they are not included in the disclosure.

The capital structure key figures at the reporting date are shown below:

	31.12.2018
Net debt (in € million)	638.9
Net gearing ratio (in %)	72.2%
Group leverage	1.16

Net debt, which reflects borrowings net of cash and cash equivalents and marketable securities, is controlled by Corporate Treasury. The main task of the Corporate Treasury department is to execute the capital management strategy as well as to secure liquidity to support business operations on a sustainable basis, to use banking and financial services efficiently and to limit financial risks while at the same time optimising earnings and costs.

The net gearing ratio is the ratio of net debt to equity.

The key performance indicator for net debt in the RHI Magnesita Group is the group leverage, which reflects the ratio of net debt to adjusted EBITDA. It is calculated as follows:

in € million	31.12.2018
EBIT	398.6
Amortisation	28.6
Depreciation	124.8
Other operating income and expenses	1.0
<b>Adjusted EBITDA</b>	<b>553.0</b>
Total debt	1.166.4
Cash and cash equivalents	491.2
Marketable securities	36.3
<b>Net debt</b>	<b>638.9</b>
<b>Group leverage</b>	<b>1.16</b>

In both 2018 and 2017, all externally imposed capital requirements were met. The Group has sufficient liquidity headroom within its committed debt facilities.

RHI Magnesita N.V. is subject to minimum capital requirements according to its articles of association. The articles of association stipulate a mandatory reserve of €288,699,230.59 which was created in connection with the merger.

### 57. Contingent liabilities

At 31 December 2018, warranties, performance guarantees and other guarantees amount to €43.0 million (31.12.2017: €39.8 million). Contingent liabilities have a remaining term between two months and three years, depending on the type of liability. Based on experiences of the past, the probability that contingent liabilities are used is considered to be low.

In addition, contingent liabilities from sureties of €0.3 million (31.12.2017: €0.5 million) were recorded, of which €0.3 million (31.12.2017: €0.3 million) are related to contingent liabilities to creditors from joint ventures.

Individual proceedings and lawsuits which result from ordinary activities are pending as of 31 December 2018 or can potentially be exercised against RHI Magnesita in the future. The related risks were analysed with a view to their probability of occurrence. The Group is party to tax proceedings in Brazil with the estimated amount of €169.0 million (31.12.2017: €178.3 million) for the following lawsuits, for which no provision was set up according to IFRS, as management classified risks of loss (based on the evaluation of legal advisors) as possible but not probable:

# Notes

## continued

In 2011, the Brazilian Tax Authorities made an assessment regarding income tax and social contribution on tax goodwill deducted in the years 2008 and 2009. The Tax Authority thus disallowed the deductibility of the amortisation of tax goodwill arising from operations with subsidiaries. In 2016, the company was notified of the decision issued by CARF (Administrative Council of Tax Appeals), which cancelled more than 90% of the tax assessment regarding the disallowed deductibility. However, this decision can still be changed as a result of appeals filed by the company and by the General Counsel to the National Treasury (PGFN). The final decision is expected within one to two years. The potential loss of this process amounts to €81.4 million (including interest and penalties) as of 31 December 2018 (31.12.2017: €87.8 million).

In 2016, the Brazilian tax authorities extended the above view for the years 2011 and 2012. In December 2016, the company filed a defence against the assessment. The final decision is expected within two to three years. The potential loss of this process amounts to €37.5 million (including interest and penalties) as of 31 December 2018 (31.12.2017: €40.0 million).

In 2013, the Brazilian Tax Authorities raised an assessment notice for allegedly failing to pay social security contributions in the period from January to December 2009. The company has appealed the assessment. Legal opinions demonstrate that the company has solid supporting documentation capable of reversing the assessment. The potential loss from this proceeding amounts to €4.8 million (including interest and penalties) as at 31 December 2018 (31.12.2017: €6.0 million).

Furthermore, the Brazilian Tax Authorities raised an assessment into a former holding company in Brazil in respect of federal taxes. The assessment relates to federal tax offsets made by the company up to and including 2008 which have not been approved by the Federal Revenue Service. Legal opinions demonstrate that the company has solid supporting documentation capable of reversing the assessment. The potential loss amounts to €10.7 million (including interest and penalties) as at 31 December 2018 (31.12.2017: €11.1 million).

In addition, the Brazilian Tax Authorities raised an assessment into the calculation basis of CFEM (Financial Compensation for Exploration of Mineral Resources). Based on the opinion of the legal advisors the company has appealed the assessment and the loss was considered possible due to jurisprudence of the Brazilian court. Additionally, recent changes on CFEM legislation, mostly adopting the company's interpretation, also demonstrate that the interpretation taken is the most accurate, which is a fact judges can decide upon. The potential loss from this proceeding amounts to €12.9 million (including interest and penalties) as at 31 December 2018 (31.12.2017: €13.9 million).

In 2018, the Brazilian Tax Authorities raised an assessment in respect of tax on the circulation of goods and services for the alleged non-fulfilment of ancillary obligation and non-payment of tax in the period from 2013 to 2017. The decision by the Taxpayers Council is expected within the year 2019. Any decision taken by the Council will be subject to appeal. The potential loss from this proceeding amounts to €4.1 million (including interest and penalties) as at 31 December 2018.

Magnesita Refratários S.A., Contagem, Brazil, is also involved in other minor lawsuits totalling €17.6 million (31.12.2017: €19.5 million) which relate to a number of assessments concerning various taxes and related obligations.

Furthermore, Magnesita Refratários S.A., Contagem, Brazil, is party to a public civil action for damages caused by overloaded trucks in contravention with the Brazilian traffic legislation. In 2017, a decision was rendered in favour of Magnesita in the trial court considering the requests submitted by the Federal Public Attorney's Office to be completely devoid of legal merit. The decision taken by the trial court was subject to appeal by the Public Ministry of Minas Gerais. The potential loss from this proceeding amounts to €12.1 million as at 31 December 2018 (31.12.2017: €7.1 million).

Other minor proceedings and lawsuits in which subsidiaries are involved have no significant negative influence on the financial position and performance of the RHI Magnesita Group.

### 58. Other financial commitments

Other financial commitments consist of the following items:

in € million	Total			Remaining term
	31.12.2018	up to 1 year	2 to 5 years	over 5 years
Obligations from rental and leasing contracts	73.7	16.3	27.7	29.7
Capital commitments	5.4	5.4	0.0	0.0
<b>Other financial commitments</b>	<b>79.1</b>	<b>21.7</b>	<b>27.7</b>	<b>29.7</b>

in € million	Total			Remaining term
	31.12.2017	up to 1 year	2 to 5 years	over 5 years
Obligations from rental and leasing contracts	56.9	16.1	24.2	16.6
Capital commitments	5.9	5.9	0.0	0.0
<b>Other financial commitments</b>	<b>62.8</b>	<b>22.0</b>	<b>24.2</b>	<b>16.6</b>

Other financial commitments are exclusively due to third parties. They are shown at nominal value.

Rental and leasing commitments for property, plant and equipment of €34.4 million (2017: €23.1 million) are recognised in the Consolidated Statement of Profit or Loss for 2018.

The conditions of the most important operating rental and leasing agreements can be summarised as follows:  
The old rental agreement of the company's head office ended in 2018 and the Group's headquarter moved into a new office in Vienna, Austria. Another new office was opened in Oviedo, Spain. Both have a contractual term until 2028 and include a prolongation option.

Another rental contract for offices has a term until 30 April 2020. The tenant has a two-time optional right to extend the contract by three years each. The annual rent is coupled to the development of the consumer price index.

At one production site, the area for operating a plant has been leased for the long term. The related contract ends in April 2062 and includes an extension option for another 30 years. The rent is subject to adaptation to inflation.

The Group also rents numerous mining vehicles, diggers, forklifts and the like by cancellable leasing agreements. The contracts have terms ranging from two to seven years; most of them do not include a purchasing option after the contract ends.

In addition to the aforementioned financial commitments, the RHI Magnesita Group also has long-term purchase commitments related to the supply with raw materials, especially for electricity, natural gas, strategic raw materials as well as for the transport of raw materials within the Group. This results in other financial commitments of the nominal value of €96.2 million at the reporting date (31.12.2017: €99.9 million). The remaining terms of the contracts amount to up to nine years. Purchases from these arrangements are recognised in accordance with the usual course of business. Purchase contracts are regularly reviewed for imminent losses, which may occur, for example, when requirements fall below the agreed minimum purchase volume or when contractually agreed prices deviate from the current market price level.

### 59. Expenses for the Group auditor

The expensed fees for the activities of the Group auditor PwC that are included in the Consolidated Statement of Profit or Loss are shown in the following table:

in € million	2018	2017
Audit of the Financial Statements	2.7	2.4
thereof invoiced by PwC Accountants N.V.	0.2	0.2
thereof invoiced by PwC network firms	2.5	2.2
Other audit-related services	0.1	0.1
Tax compliance services	0.9	0.9
Other non-audit services	0.0	2.5
<b>Total fees</b>	<b>3.7</b>	<b>5.9</b>

Other audit-related services, tax compliance services and other non-audit services were performed and invoiced by PwC network firms outside of the Netherlands.

The other non-audit services of €2.5 million in 2017 are mainly related to services in connection with the acquisition of Magnesita and listing on the London Stock Exchange.

# Notes

## continued

### 60. Annual average number of employees

The average number of employees of the RHI Magnesita Group based on full time equivalents amounts to:

	2018	2017
Salaried employees	5,947	3,788
Waged workers	8,171	4,781
<b>Number of employees on annual average</b>	<b>14,118</b>	<b>8,569</b>

Sixteen full time equivalents of salaried employees work in the Netherlands.

### 61. Transactions with related parties

Related companies include subsidiaries that are not fully consolidated, joint ventures, associates and MSP Foundation, Liechtenstein, as a shareholder of RHI Magnesita N.V. since it exercises significant influence based on its share of more than 25% in RHI Magnesita N.V. In accordance with IAS 24.9v, the personnel welfare foundation of Stopinc AG, Hünenberg, Switzerland, also has to be considered a related company.

Related persons are persons having authority and responsibility for planning, directing and controlling the activities of the Group (key management personnel) and their close family members. Since 26 October 2017, key management personnel comprises of members of the Board of Directors of RHI Magnesita N.V. and the Executive Management Team. Before that, members of the Management Board and the Supervisory Board of RHI AG formed the key management personnel.

#### Related companies

In 2018, the Group conducted the following transaction with its related companies:

in € million	Joint ventures		Associates		Non-consolidated subsidiaries	
	2018	2017	2018	2017 <sup>1)</sup>	2018	2017 <sup>1)</sup>
Revenue from the sale of goods and services	3.1	3.4	0.1	0.4	0.3	0.1
Purchase of raw materials	3.2	2.5	20.3	3.8	0.1	0.0
Interest income	0.1	0.1	0.8	0.0	0.0	0.0
Asset purchase	0.0	0.0	0.6	0.0	0.0	0.0
Trade and other receivables	0.9	1.3	0.0	1.1	0.2	0.2
Loans granted	0.0	0.0	10.4	9.6	0.1	0.1
Trade liabilities	0.3	0.6	5.1	8.5	0.9	1.6
Dividends received	10.8	10.7	0.2	0.0	0.0	0.0

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

In 2018 and 2017, the Group charged electricity and stock management costs to the joint venture MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria, and purchased raw materials. In 2018 and in November and December 2017, the associate Sinterco S.A., Nameche, Belgium, sold sintered doloma to the RHI Magnesita Group. Furthermore, the Group has a financing receivable of €10.4 million (31.12.2017: €9.6 million) from a loan agreement with Sinterco.

The balances at the end of 2018 are unsecured and will be paid in cash. All income and expenses 2017 of the joint ventures, associates and non-consolidated subsidiaries acquired in the course of the acquisition of Magnesita relate to the periods November and December 2017. Before the acquisition of Magnesita the Group had no associates.

To secure a pension claim of a former employee of MAGNIFIN, RHI Magnesita has assumed a surety amounting to €0.3 million (31.12.2017: €0.3 million). A resulting cash outflow is not expected. No guarantees were received.

In 2018 and 2017, no transactions were carried out between the RHI Magnesita Group and MSP Foundation, with the exception of the dividend paid.

A service relationship with respect to the company pension scheme of the employees of Stopinc AG exists between the personnel welfare foundation of Stopinc AG and the fully consolidated subsidiary Stopinc AG. Stopinc AG makes contribution payments to the plan assets of the foundation to cover pension obligations. The pension plan is recognised as a defined benefit plan and is included in Note (28). At 31 December 2018, no current account receivables existed (31.12.2017: €0.8 million). In the past reporting period, no employer contributions (2017: €0.5 million) were made to the personnel welfare foundation. The overfunding of the pension plan is recognised as a non-current asset of €2.1 million (31.12.2017: €2.0 million).

### Related persons

Remuneration of key management personnel of the Group, which is subject to disclosure in accordance with IAS 24, comprises the remuneration of the active Board of Directors and the Executive Management Team (EMT) in 2018 and from November to December 2017 as well as the former Management Board and Supervisory Board of RHI AG until October 2017.

For the financial year 2018, expenses for the remuneration of the Executive Directors and EMT members, active in 2018, recognised in the Consolidated Statement of Profit or Loss total €10.1 million (2017: €12.6 million including also remuneration of the former Management Board). The expenses, not including non-wage labour costs, amount to €9.1 million (2017: €11.8 million), of which €8.4 million (2017: €9.8 million) were related to current benefits (fixed, variable and other earnings), €0.0 million (2017: €0.0 million) to benefits related to the termination of employment and €0.7 million (2017: €1.9 million) to share-based remuneration. At 31 December 2018, liabilities for performance-linked variable earnings and share-based payments for active members of the former Management Board of €5.6 million (2017: €6.7 million) are recognised as liabilities. There are no obligations arising from post-employment benefits and legally required termination benefits.

In addition to the variable remuneration, the members of the former Management Board of RHI AG active in 2017 were also entitled to share-based payments. The programme was terminated after RHI AG merged with and into RHI Magnesita N.V. and the provisioned amount will be paid until 2020. In the financial year 2018, a payment of €1.4 million was made in this regard (2017: €1.2 million).

For Non-Executive Directors, remuneration totalling €1.0 million (2017: €0.8 million including remuneration for the former Supervisory Board) was recognised through profit or loss in the year 2018. The compensation paid to the Non-Executive Directors and the members of the former Supervisory Board only consists of short-term employee benefits.

Employee representatives acting as Non-Executive Directors of RHI Magnesita N.V. who are employed by the Group, do not receive compensation for their activity as Non-Executive Directors. For their activity as employees in the Company and the activity of their close relatives employed with RHI Magnesita, expenses of €0.8 million (2017: €0.7 million) are recognised.

No advance payments or loans were granted to key management personnel. The RHI Magnesita Group did not enter into contingent liabilities on behalf of the key management personnel.

Directors Dealings reports are published on the websites of RHI Magnesita N.V. and of the London Stock Exchange. The members of the Board of Directors are covered by D&O insurance at RHI Magnesita.

Detailed and individual information on the remuneration of the Board of Directors is presented in the Annual Report on Remuneration, in the Remuneration Committee report and the Remuneration Policy on pages 80 to 101 of the Annual Report of the RHI Magnesita Group.

Earnings of former members of the former Management Board amounted to €2.6 million (2017: €3.5 million), of which €0.6 million (2017: €1.4 million) are related to share-based remuneration.

RHI Magnesita and a close relative of a Non-Executive Director concluded a non-remunerated consultancy agreement to advise the Group on the economic and political framework in countries in which it does not yet have strong business links.

### Equity-settled share option plan (LTIP)

The Company has a share option plan for the members of senior management of the Group which was approved by shareholders at the Annual General Meeting held on 7 June 2018.

Each share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry rights to dividends but no voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

# Notes

## continued

The number of options granted is calculated in accordance with the performance-based formula approved by the shareholders at the annual general meeting and is subject to approval by the remuneration committee.

The formula rewards employees to the extent of the Group's achievements judged against quantitative criteria from the following measures:

- Group's earnings per share,
- Group's earnings before interest and tax,
- comparing the performance of the Group's total shareholder return (TSR) against the FTSE 350.

The vesting period is three years. If the options remain unexercised after a period of seven years from the vesting date the options expire. Options are forfeited if the employee leaves the Group before the options vest.

	2018	2017
	Number of options	Number of options
As at 1 January	0	0
Granted during the year	107,599	0
Exercised during the year	0	0
Forfeited during the year	(13,494)	0
<b>As at 31 December</b>	<b>94,105</b>	<b>0</b>
Vested and exercisable at 31 December	0	0

No options expired or were exercised during the periods covered by the above tables.

The options outstanding at 31 December 2018 have a weighted-average contractual life of 2.5 years.

The outstanding share options, which were granted on 7 June 2018, will expire on 7 June 2028. The share price at grant date for the 94,105 options was €53.13.

The assessed fair value at grant date of options granted during the year ended 31 December 2018 was €52.51 per option. The fair value of share options with non-market performance conditions has been calculated using the Black-Scholes option pricing model. The fair value of options with market-related performance conditions has been measured using the Monte Carlo model. The calculation takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of the peer group companies.

The requirement that the employee has to save in order to purchase shares under the share purchase plan has been incorporated into the fair value at grant date by applying a discount to the valuation obtained. The discount has been determined by estimating the probability that the employee will stop saving based on historical behaviour.

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows:

in € million	2018	2017
Fair value at grant date	5.0	0.0
Expected volatility (weighted-average)	21.45%	0.0%
Expected life (weighted-average)	36 Months	0
Expected dividends	0.5	0.0
Risk-free interest rate	0.89%	0.0%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.



**62. Board of Directors of RHI Magnesita N.V.**

The members of the Board of Directors are as follows:

Herbert Cordt, Chairman

Stefan Borgas, CEO

Octavio Lopes (until 31 December 2018)

Fersen Lambranhó (until 22 January 2019)

David Schlaff

Stanislaus Prinz zu Sayn-Wittgenstein-Berleburg

Celia Baxter

Andrew Hosty

James Leng

John Ramsay

Wolfgang Ruttenstorfer

Karl Sevelda

Franz Reiter

Michael Schwarz

**63. Material events after the reporting date**

On 10 March 2019 the Supervening Acquisition Period of the Integrated Tender Offer (as described in Note (5) of the Consolidated Financial Statements) ended. RHI Magnesita N.V. via its indirect, wholly-owned subsidiary Dutch Brasil Holding B.V. received valid acceptances from holders of 6,167,636 Magnesita Refratários S.A. common shares, representing approximately 12.3% of the total share capital of Magnesita Refratários S.A. increasing its total ownership to 97.5%. As a result, 1,139,400 new RHI Magnesita N.V. shares were issued. The cash disbursement of this transaction amounts to €30.2 million.

After the reporting date on 31 December 2018, there were no other events of special significance which may have a material effect on the financial position and performance of the RHI Magnesita Group.

# Company Financial Statements of RHI Magnesita N.V.

## Company Balance Sheet as at 31 December 2018 (before appropriation of result)

in € million	Notes	31.12.2018	31.12.2017 <sup>1)</sup>
<b>ASSETS</b>			
<b>Fixed assets</b>			
Financial fixed assets	(A)	915.5	569.3
		<b>915.5</b>	<b>569.3</b>
<b>Current assets</b>			
Receivables from Group companies		0.0	62.5
Cash and cash equivalents	(B)	0.1	0.1
<b>Total current assets</b>		<b>0.1</b>	<b>62.6</b>
<b>Total assets</b>		<b>915.6</b>	<b>631.9</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	(C)	48.3	44.8
Additional paid-in capital	(D)	305.5	165.7
Legal and mandatory reserves	(E)	209.9	234.1
Other reserves		78.7	263.5
Result for the period	(H)	158.1	(89.3)
<b>Shareholders' Equity</b>		<b>800.5</b>	<b>618.8</b>
<b>Current liabilities</b>			
Other current liabilities	(F)	115.1	13.1
<b>Total current liabilities</b>		<b>115.1</b>	<b>13.1</b>
<b>Total equity and liabilities</b>		<b>915.6</b>	<b>631.9</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

## Company Statement of Profit or Loss for the period 1 January to 31 December 2018

in € million	Notes	2018	2017 <sup>1)</sup>
General and administrative expenses		(8.5)	(13.0)
<b>Result before taxation</b>		<b>(8.5)</b>	<b>(13.0)</b>
Income tax		0.0	0.0
Net result from investments	(G)	166.6	(76.3)
<b>Net result for the period</b>	<b>(H)</b>	<b>158.1</b>	<b>(89.3)</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

### Movements in Shareholders' Equity

in € million	Share capital	Additional paid-in capital	Legal and mandatory reserves			Other reserves		Equity attributable to shareholders
			Cash flow hedges	Currency translation	Mandatory reserve	Retained earnings	Net result	
<b>31.12.2017<sup>1)</sup></b>	<b>44.8</b>	<b>165.7</b>	<b>0.1</b>	<b>(54.7)</b>	<b>288.7</b>	<b>263.5</b>	<b>(89.3)</b>	<b>618.8</b>
Effects of initial application of IFRS 15 (net of tax)						(6.0)		(6.0)
Effects of initial application of IFRS 9 (net of tax)						1.8		1.8
<b>01.01.2018</b>	<b>44.8</b>	<b>165.7</b>	<b>0.1</b>	<b>(54.7)</b>	<b>288.7</b>	<b>259.3</b>	<b>(89.3)</b>	<b>614.6</b>
Appropriation of prior year result	-	-	-	-	-	(89.3)	89.3	-
Net result	-	-	-	-	-	-	158.1	158.1
Transactions with non-controlling interests without change of control	-	-	0.1	(10.7)	-	(52.1)	-	(62.7)
Issue of ordinary shares	3.5	139.8	-	-	-	-	-	143.3
Share-based payments	-	-	-	-	-	1.0	-	1.0
Dividends	-	-	-	-	-	(33.6)	-	(33.6)
Net income / (expense) recognised directly in equity	-	-	(5.2)	(8.4)	-	(6.6)	-	(20.2)
<b>31.12.2018</b>	<b>48.3</b>	<b>305.5</b>	<b>(5.0)</b>	<b>(73.8)</b>	<b>288.7</b>	<b>78.7</b>	<b>158.1</b>	<b>800.5</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

in € million	Share capital	Additional paid-in capital	Legal and mandatory reserves			Other reserves		Equity attributable to shareholders
			Cash flow hedges	Currency translation	Mandatory reserve	Retained earnings	Net result	
Incorporation 20 June 2017	-	-	-	-	-	-	-	0.0
Increase of equity	-	70.0	-	-	-	-	-	70.0
<b>30.06.2017</b>	<b>-</b>	<b>70.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70.0</b>
Net result	-	-	-	-	-	-	(89.3)	(89.3)
Downstream merger from RHI AG	39.8	(70.0)	(0.1)	(71.2)	288.7	270.0	-	457.2
Issue of ordinary shares minus costs	5.0	165.7	-	-	-	-	-	170.7
Net income/ (expense) recognised directly in equity	-	-	0.2	16.5	-	(6.5)	-	10.2
<b>31.12.2017<sup>1)</sup></b>	<b>44.8</b>	<b>165.7</b>	<b>0.1</b>	<b>(54.7)</b>	<b>288.7</b>	<b>263.5</b>	<b>(89.3)</b>	<b>618.8</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

# Notes

## to the Company Financial Statements 2018

### General

RHI Magnesita N.V. (the "Company"), a public company with limited liability under Dutch law is registered with the Dutch Trade Register of the Chamber of Commerce under the number 68991665 and has its corporate seat in Arnhem, Netherlands. The administrative seat and registered office is located at Kranichberggasse 6, 1120 Vienna, Austria.

The shares of RHI Magnesita N.V. (ISIN code NL0012650360) are listed on the Main Market of the London Stock Exchange and are included in the FTSE 250 Index.

On 16 October 2017, the general meeting of the Company decided to amend the articles of association of the Company and to fully accept them. With this amendment of the articles of association of the Company, it has been determined that the financial year of RHI Magnesita N.V. corresponds to the calendar year. The current financial year is therefore the same as the calendar year, while the previous year ran from 1 July 2017 up to and including 31 December 2017.

### Basis of preparation

The Company Financial Statements have been prepared in accordance with the provisions of Part 9 of Book 2 of the Dutch Civil Code. The Company uses the option of Section 362, subsection 8, of Part 9, Book 2, of the Dutch Civil Code to prepare the Company Financial Statements on the basis of the same accounting principles as those applied for the Consolidated Financial Statements. Valuation is based on recognition and measurement requirements of accounting standards adopted by the EU (i.e. only IFRS that is adopted for use in the EU at the date of authorisation) as explained further in the Notes to the Consolidated Financial Statements.

### Changes in comparative information

The Company Balance Sheet as of 31.12.2017 and the Company Statement of Profit or Loss 2017 have been adjusted for the final fair values of the acquired assets and liabilities of Magnesita and the effects of the subsequent measurement of the values determined in the final purchase price allocation of Magnesita. Further information is included in Note (3) of the Consolidated Financial Statements.

### Significant accounting policies

#### Financial fixed assets

Investments in Group companies in the Company Financial Statements are accounted for using the equity method.

#### Net result from investments

The share in the result of investments comprises the share of the Company in the result of these investments.

### Fixed assets

#### (A) Financial fixed assets

The financial fixed assets comprise investments in:

Name and registered office of the company	Country of core activity	2018	2017
		Share in %	Share in %
Didier Werke A.G., Wiesbaden, Germany	Germany	<b>12.5</b>	12.5
RHI Refractories Raw Material GmbH, Vienna, Austria	Austria	<b>25.0</b>	25.0
RHI Magnesita GmbH, Vienna, Austria	Austria	<b>100.0</b>	100.0
RHI Magnesita Trading B.V., Rotterdam, Netherlands	Netherlands	<b>100.0</b>	-

The investments have developed as follows:

in € million	31.12.2018	31.12.2017 <sup>1)</sup>
At beginning of year	569.3	0.0
Effects of the initial application of IFRS 9 and IFRS 15	(4.2)	0.0
From downstream merger	0.0	457.2
Transactions with non-controlling interests without change of control	(59.2)	0.0
Capital contributions	262.1	179.5
Changes from currency translation and cash flow hedges	(13.6)	16.7
Changes from defined benefit plans	(6.5)	(5.6)
Equity settled transaction	1.0	(2.2)
Net result from investments	166.6	(76.3)
<b>Balance at year-end</b>	<b>915.5</b>	<b>569.3</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

The following list, prepared in accordance with the relevant legal requirements (Dutch Civil Code, Book 2, Sections 379), shows all companies in which RHI Magnesita N.V. holds a direct or indirect share of at least 20% (with the exception of the RHISA Employee Trust):

Ser. no.	Name and registered office of the company	31.12.2018		31.12.2017	
		Share-holder	Share in %	Share-holder	Share in %
1.	RHI Magnesita N.V., Arnhem, Netherlands				

# Notes

## to the Company Financial Statements 2018

Fully consolidated subsidiaries					
2.	Agellis Group AB, Sund, Sweden	56.	100.0	56.	100.0
3.	Baker Refractories Holding Company, Wilmington, USA	43.	100.0	43.	100.0
4.	Baker Refractories I.C., Inc., Wilmington, USA	3.	100.0	3.	100.0
5.	Baker Refractories, Las Vegas, USA	43.	100.0	43.	100.0
6.	Betriebs- und Baugesellschaft mit beschränkter Haftung, Wiesbaden, Germany	10.	100.0	10.	100.0
7.	D.S.I.P.C.-Didier Société Industrielle de Production et de Constructions, Valenciennes, France	10.	100.0	10.	100.0
8.	Didier Belgium N.V., Evergem, Belgium	71.104.	100.0	71.104.	100.0
9.	Didier Vertriebsgesellschaft mbH, Wiesbaden, Germany	10.	100.0	10.	100.0
10.	Didier-Werke Aktiengesellschaft, Wiesbaden, Germany	1.56.	100.0	1.56.	100.0
11.	Dutch Brasil Holding B.V., Arnhem, Netherlands	110.	100.0	110.	100.0
12.	Dutch MAS B.V., Arnhem, Netherlands	10.	100.0	10.	100.0
13.	Dutch US Holding B.V., Arnhem, Netherlands	110.	100.0	110.	100.0
14.	FE "VERA", Dnepropetrovsk, Ukraine	56.	100.0	56.	100.0
15.	Feuerfestwerk Bad Hönningen GmbH, Hagen, Germany	115.	100.0	115.	100.0
16.	FireShark Refractories GmbH, Vienna, Austria	74.	100.0	74.	100.0
17.	Full Line Supply Africa (Pty) Ltd., Sandton, South Africa; i.l.	83.	100.0	83.	100.0
18.	GIX International Limited, Dinnington, United Kingdom	116.	100.0	116.	100.0
19.	INDRESCO U.K. Ltd., Dinnington, United Kingdom	18.	100.0	18.	100.0
20.	INTERSTOP (Shanghai) Co., Ltd., Shanghai, PR China	109.	100.0	109.	100.0
21.	Liaoning RHI Jinding Magnesia Co., Ltd., Dashiqiao City, PR China <sup>9</sup>	56.	83.3	56.	83.3
22.	LLC "RHI Wostok Service", Moscow, Russia	56.74.	100.0	56.74.	100.0
23.	LLC "RHI Wostok", Moscow, Russia	56.74.	100.0	56.74.	100.0
24.	Lokalbahn Mixnitz-St. Erhard Aktien-Gesellschaft, Vienna, Austria	95.	100.0	95.	100.0
25.	LWB Holding Company, Las Vegas, USA	57.	100.0	57.	100.0

Ser. no.	Name and registered office of the company	31.12.2018		31.12.2017	
		Shareholder	Share in %	Shareholder	Share in %
26.	LWB Refractories Belgium S.A., Liège, Belgium	45.,115.	100.0	45.,115.	100.0
27.	LWB Refractories Beteiligungs GmbH & Co. KG, Hagen, Germany	35.,57.	100.0	35.,57.	100.0
28.	LWB Refractories Hagen GmbH, Hagen, Germany	115.	100.0	115.	100.0
29.	LWB Refractories Holding France S.A.S., Valenciennes, France	115.	100.0	115.	100.0
30.	M.E. Refractories Company FZE i. l., Dubai, United Arab Emirates	34.	100.0	34.	100.0
31.	Mag Data Participações e Investimentos em Projetos de Mineração S.A., Contagem, Brazil	-	100.0	50.	100.0
32.	Magnesit Anonim Sirketi, Eskisehir, Turkey <sup>2)</sup>	56.	100.0	56.	100.0
33.	Magnesita Asia Refractory Holding Ltd, Hong Kong, PR China	29.	100.0	29.	100.0
34.	Magnesita Finance S.A., Luxembourg, Luxembourg	50.	100.0	50.	100.0
35.	Magnesita Grundstücks-Beteiligungs GmbH, Hagen, Germany	50.	100.0	50.	100.0
36.	Magnesita International Limited, London, United Kingdom	50.	100.0	50.	100.0
37.	Magnesita Malta Finance Ltd., St. Julians, Malta	38.,115.	100.0	38.,115.	100.0
38.	Magnesita Malta Holding Ltd., St. Julians, Malta	45.,115.	100.0	45.,115.	100.0
39.	Magnesita Mineração S.A., Brumado, Brazil	34.,50.,120.	100.0	34.,50.,122.	100.0
40.	Magnesita NAM Insurance Company, Wilmington, USA	25.	100.0	25.	100.0
41.	Magnesita Refractories (Canada) Inc., Montreal, Canada	3.	100.0	3.	100.0
42.	Magnesita Refractories (Dalian) Co. Ltd., Dalian, PR China	34.	100.0	34.	100.0
43.	Magnesita Refractories Company, York, USA	25.	100.0	25.	100.0
44.	Magnesita Refractories de Mexico S.A. de C.V., Monterrey, Mexico	3.,4.	100.0	3.,4.	100.0
45.	Magnesita Refractories GmbH, Hagen, Germany	115.	100.0	115.	100.0
46.	Magnesita Refractories Ltd., Dinnington, United Kingdom	3.	100.0	3.	100.0
47.	Magnesita Refractories Middle East FZE, Dubai, United Arab Emirates	34.	100.0	34.	100.0
48.	Magnesita Refractories S.C.S., Valenciennes, France	29.,115.	100.0	29.,115.	100.0
49.	Magnesita Refractories S.R.L., Milano, Italy	115.	100.0	115.	100.0
50.	Magnesita Refratários S.A., Contagem, Brazil	11.	85.2	11.	50.0
51.	Magnesita Resource (Anhui-Chizhou) Company, Ltd., Chizhou, PR China	33.	100.0	33.	100.0
52.	Mezubag AG, Pfäffikon, Switzerland	109.	100.0	109.	100.0
53.	Orient Refractories Limited, Mumbai, India	13.	66.5	13.	69.6
54.	Premier Periclase Limited, Drogheda, Ireland	13.	100.0	13.	100.0
55.	Producción RHI México, S. de R.L. de C.V., Ramos Arizpe, Mexico	87.,116.	100.0	87.,116.	100.0
56.	Radex Vertriebsgesellschaft m.b.H., Leoben, Austria	112.	100.0	112.	100.0
57.	Rearden G Holdings Eins GmbH, Hagen, Germany	34.	100.0	34.	100.0
58.	Refractarios Argentinos S.A.I.C.M., Buenos Aires, Argentina	50.	100.0	50.	100.0
59.	Refractarios Magnesita Chile S/A, Santiago, Chile	58.	100.0	58.	100.0
60.	Refractarios Magnesita Colombia S/A, Sogamoso, Colombia	50.	100.0	50.	100.0
61.	Refractarios Magnesita del Perú S.A.C., Lima, Peru	50.	100.0	50.	100.0
62.	Refractory Intellectual Property GmbH & Co KG, Vienna, Austria	63.,74.	100.0	63.,74.	100.0
63.	Refractory Intellectual Property GmbH, Vienna, Austria	74.	100.0	74.	100.0
64.	Reframec Manutenção e Montagens de Refratários S.A., Matozinhos, Brazil	50.	100.0	50.	100.0
65.	RHI Argentina S.R.L., San Nicolás, Argentina	13.,116.	100.0	13.,116.	100.0
66.	RHI Canada Inc., Burlington, Canada	116.	100.0	116.	100.0
67.	RHI Chile S.A., Santiago, Chile	18.,116.	100.0	18.,116.	100.0
68.	RHI Clasil Private Limited, Mumbai, India <sup>1)</sup>	116.	53.7	116.	53.7
69.	RHI Dinaris GmbH, Wiesbaden, Germany	104.	100.0	104.	100.0

# Notes

## to the Company Financial Statements 2018

Ser. no.	Name and registered office of the company	31.12.2018		31.12.2017	
		Shareholder	Share in %	Shareholder	Share in %
70.	RHI Finance A/S, Hellerup, Denmark	74.	100.0	74.	100.0
71.	RHI GLAS GmbH, Wiesbaden, Germany	104.	100.0	104.	100.0
72.	RHI India Private Limited, Navi Mumbai, India	11.,116.	100.0	11.,116.	100.0
73.	RHI ITALIA S.R.L., Brescia, Italy	74.	100.0	74.	100.0
74.	RHI Magnesita GmbH, Vienna, Austria	1.	100.0	1.	100.0
75.	RHI Magnesita Distribution B.V., Rotterdam, Netherlands	76.	100.0	-	-
76.	RHI Magnesita Trading B.V., Rotterdam, Netherlands	1.	100.0	-	-
77.	RHI Marvo Feuerungs- und Industriebau GmbH, Gerbstedt, Germany	78.	100.0	78.	100.0
78.	RHI MARVO Feuerungs- und Industriebau GmbH, Kerpen, Germany	10.	100.0	10.	100.0
79.	RHI MARVO S.R.L., Ploiesti, Romania	56.,110.	100.0	56.,110.	100.0
80.	RHI Normag AS, Porsgrunn, Norway	56.	100.0	56.	100.0
81.	RHI Refractories (Dalian) Co., Ltd., Dalian, PR China	56.	100.0	56.	100.0
82.	RHI Refractories (Site Services) Ltd., Dinnington, United Kingdom	19.	100.0	19.	100.0
83.	RHI Refractories Africa (Pty) Ltd., Sandton, South Africa	56.,107.	100.0	56.,107.	100.0
84.	RHI Refractories Andino C.A., Puerto Ordaz, Venezuela	116.	100.0	116.	100.0
85.	RHI Refractories Asia Pacific Pte. Ltd., Singapore	74.	100.0	74.	100.0
86.	RHI Refractories Egypt LLC., Cairo, Egypt	56.,110.	100.0	56.,110.	100.0
87.	RHI Refractories España, S.L., Lugones, Spain	10.,12.	100.0	10.,12.	100.0
88.	RHI Refractories France SA, Valenciennes, France <sup>3)</sup>	108.	100.0	108.	100.0
89.	RHI Refractories Holding Company, Wilmington, USA	116.	100.0	116.	100.0
90.	RHI Refractories Ibérica, S.L., Lugones, Spain	108.	100.0	108.	100.0
91.	RHI Refractories Italiana s.r.l., Brescia, Italy; i.l.	108.	100.0	108.	100.0
92.	RHI Refractories Liaoning Co., Ltd., Bayuquan, PR China <sup>1)</sup>	56.	66.0	56.	66.0
93.	RHI Refractories Mercosul Ltda., Sao Paulo, Brazil	110.,116.	100.0	110.,116.	100.0
94.	RHI Refractories Nord AB, Stockholm, Sweden	108.	100.0	108.	100.0
95.	RHI Refractories Raw Material GmbH, Vienna, Austria	1.,56.,74.	100.0	1.,56.,74.	100.0
96.	RHI Refractories Site Services GmbH, Wiesbaden, Germany	10.	100.0	10.	100.0
97.	RHI Refractories UK Limited, Bonnybridge, United Kingdom	10.	100.0	10.	100.0
98.	RHI Refratários Brasil Ltda, Belo Horizonte, Brazil	11.,116.	100.0	11.,116.	100.0
99.	RHI Sales Europe West GmbH, Mülheim-Kärlich, Germany	10.,108.	100.0	10.,108.	100.0
100.	RHI Trading (Dalian) Co., Ltd., Dalian, PR China	56.	100.0	56.	100.0
101.	RHI Ukraina LLC, Dnepropetrovsk, Ukraine	56.,110.	100.0	-	-
102.	RHI United Offices America, S.A. de C.V., Monterrey, Mexico	87.,103.	100.0	87.,103.	100.0
103.	RHI United Offices Europe, S.L., Lugones, Spain	87.	100.0	87.	100.0
104.	RHI Urmitz AG & Co. KG, Mülheim-Kärlich, Germany	9.,10.	100.0	9.,10.	100.0
105.	RHI US Ltd., Wilmington, USA	13.	100.0	13.	100.0
106.	RHI-Refmex, S.A. de C.V., Ramos Arizpe, Mexico	87.,116.	100.0	87.,116.	100.0
107.	RHISA Employee Trust, Sandton, South Africa <sup>4)</sup>	-	0.0	-	0.0
108.	SAPREF AG für feuerfestes Material, Basel, Switzerland	116.	100.0	116.	100.0
109.	Stopinc Aktiengesellschaft, Hünenberg, Switzerland	10.,56.	100.0	10.,56.	100.0
110.	Veitscher Vertriebsgesellschaft m.b.H., Vienna, Austria	74.	100.0	74.	100.0
111.	Veitsch-Radex America LLC., Wilmington, USA	105.	100.0	105.	100.0
112.	Veitsch-Radex GmbH & Co OG, Vienna, Austria	74.,113.	100.0	74.,113.	100.0
113.	Veitsch-Radex GmbH, Vienna, Austria	74.	100.0	74.	100.0
114.	Veitsch-Radex Vertriebsgesellschaft m.b.H., Vienna, Austria	74.	100.0	74.	100.0



Ser. no.	Name and registered office of the company	31.12.2018		31.12.2017	
		Shareholder	Share in %	Shareholder	Share in %
115.	Vierte LWB Refractories Holding GmbH, Hagen, Germany	27.57.	100.0	27.57.	100.0
116.	VRD Americas B.V., Arnhem, Netherlands	56.74.	100.0	56.74.	100.0
117.	Zimmermann & Jansen GmbH, Düren, Germany	10.	100.0	10.	100.0
<b>Subsidiaries not consolidated due to minor significance</b>					
118.	Agellis Process AB, Lund, Sweden	-	100.0	2.	100.0
119.	Agellis Surface AB, Lund, Sweden	-	100.0	2.	100.0
120.	Araçuaí Holding S.A., São Paulo, Brazil	131.	100.0	131.	100.0
121.	Dr.-Ing. Petri & Co. Unterstutzungsgesellschaft m.b.H., Wiesbaden, Germany	10.	100.0	10.	100.0
122.	Grayhill MDMM Holding Ltda., São Paulo, Brazil	50.	100.0	50.	100.0
123.	Guapare S.A. Montevideo, Uruguay	50.	100.0	-	-
124.	Magnesita Australia PTY Ltd. i. l., Australia	33.	100.0	33.	100.0
125.	Magnesita Refractories A.B., Köping, Sweden	115.	100.0	115.	100.0
126.	Magnesita Refractories PVT Ltd, Mumbai, India	57.115.	100.0	57.115.	100.0
127.	Magnesita Refractories S.A. (Pty) Ltd., Middleburg, South Africa	45.	100.0	45.	100.0
128.	MAG-Tec Participações Ltda. Ltda., Contagem, Brazil	50.	98.7	50.	98.7
129.	Metal Data Participações Ltda., Rio de Janeiro, Brazil	50.	61.0	50.	61.0
130.	Metal Data S.A. — Mineração e Metalurgia, Contagem, Brazil	50.129.	100.0	50.129.	100.0
131.	MMD Araçuaí Holding Ltda., São Paulo, Brazil	50.	100.0	31.50.	100.0
132.	MPC, Metal Process Control AB, Lund, Sweden	-	100.0	2.	100.0
133.	Refractarios Especiales Y Moliendas S.A., Buenos Aires, Argentina	58.	100.0	58.	100.0
134.	Refractarios Magnesita Uruguay S/A, Montevideo, Uruguay	50.	100.0	50.	100.0
135.	RHI Réfractaires Algérie E.U.R.L., Sidi Amar, Algeria	88.	100.0	88.	100.0
<b>Equity-accounted joint ventures and associated companies</b>					
136.	Krosaki Magnesita Refractories LLC, York, USA	43.	40.0	43.	40.0
137.	Magnesita Envoy Asia Ltd., Kaohsiung, Taiwan	3.	50.0	3.	50.0
138.	MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	110.142.	50.0	110.142.	50.0
139.	Sinterco S.A., Nameche, Belgium	57.	70.0	57.	70.0
<b>Other immaterial investments, measured at cost</b>					
140.	LLC "NSK Refractory Holding", Moskau, Russia	-	49.0	56.	49.0
141.	LLC "NSK Refractory", Novokuznetsk, Russia	-	49.0	56.	49.0
142.	MAGNIFIN Magnesiaprodukte GmbH, St. Jakob, Austria	110.	50.0	110.	50.0

1 In accordance with IAS 32, fixed-term or puttable non-controlling interests are shown under liabilities.

2 Further shareholders are VRD Americas B.V., Lokalbahn Mixnitz St. Erhard Aktien-Gesellschaft and Veitscher Vertriebsgesellschaft mbH.

3 Further shareholders are Didier-Werke AG, RHI Dinaris GmbH and RHI GLAS GmbH.

4 Controlling influence due to contractual terms and conditions, i.l. in liquidation

# Notes

## to the Company Financial Statements 2018

### Current assets

#### (B) Cash and cash equivalents

Cash and cash equivalents are at RHI Magnesita N.V.'s free disposal.

### Equity

#### (C) Share capital

The Company's authorised share capital amounts to €100,000,000, comprising 100,000,000 ordinary shares, each of €1 nominal value. As at 31 December 2018, RHI Magnesita N.V.'s issued and fully paid-in share capital consists of 48,337,047 ordinary shares. (As at 31 December 2017: 44,819,039 ordinary shares).

#### (D) Additional paid-in capital

Additional paid-in capital comprises premiums on the issue of shares less issue costs by RHI Magnesita N.V.

#### (E) Legal and mandatory reserves

##### Cash flow hedges

The item cash flow hedges includes gains and losses from the effective part of cash flow hedges less tax effects. Further information on hedge accounting is included in Note (54) of the Consolidated Financial Statements.

##### Currency translation

Currency translation includes the accumulated currency translation differences from translating the Financial Statements of foreign subsidiaries as well as unrealised currency translation differences from monetary items which are part of a net investment in a foreign operation, net of related income taxes. If foreign companies are deconsolidated, the currency translation differences are recognised in the Statement of Profit or Loss as part of the gain or loss from the sale of shares in subsidiaries. In addition, when monetary items cease to form part of a net investment in a foreign operation, the currency translation differences of these monetary items previously recognised in other comprehensive income are reclassified to profit or loss.

The cash flow hedges reserve and the currency translation reserve are legal reserves in accordance with the Dutch Civil Code and are restricted for distribution.

##### Mandatory reserve

The articles of association stipulate a mandatory reserve of €288,699,230.59 which was created in connection with the merger.

No distributions, allocations or additions may be made and no losses of the Company may be allocated to the mandatory reserve.

### Current liabilities

#### (F) Other current liabilities

in € million	31.12.2018	31.12.2017 <sup>1</sup>
Trade payables	5.1	2.8
Payables to group companies	105.6	0.0
Accrued liabilities	4.4	10.3
<b>Total current liabilities</b>	<b>115.1</b>	<b>13.1</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

The other current liabilities fall due in less than one year. The fair value of other current liabilities approximates the book value, due to their short-term character.

#### (G) Net results from investments

In the year 2018 the full year results of the investments amount to a profit of €166.6 million and are recognised in the Company Statement of Profit or Loss.

In year 2017 the exact legal steps of the merger were reflected in the Company Financial Statements. Consequently the interests in the investments were recognised as per date of the transaction, in this case 26 October 2017. The (adjusted) results of the investments for the period from 26 October to 31 December 2017 amounted to a loss of €76.3 million.

The results of the investments for the period from 1 January to 25 October 2017 amounted to a profit of €71.9 million and were recognised as an effect from the downstream merger under retained earnings.

*(H) Net result for the period*

In 2018, there are no differences in the result between the Company Financial Statements and the Consolidated Financial Statements.

In 2017, a different accounting treatment of the merger has been applied in the Consolidated Financial Statements and the Company Financial Statements. In the Consolidated Financial Statements the results of a full year have been recognised in the Consolidated Statement of Profit or Loss (the so called 'pooling of interest methodology'), whereas in the Company Financial Statements the results of the period 26 October 2017 to 31 December 2017 have been recognised in the Company Statement of Profit or Loss (the so called 'carryover accounting methodology'). The difference in year 2017 between the Consolidated Financial Statements and the Company Financial Statements is shown in the table below:

in € million	2017 <sup>1</sup>
Company's net result for the period 1 July to 31 December 2017	(89.3)
Result of the investments for the period from 1 January 2017 to 25 October 2017 recognised in retained earning	71.9
<b>Company's consolidated results 2017 (attributable to shareholders of RHI Magnesita N.V.)</b>	<b>(17.4)</b>

1 Adjusted to reflect the effects of the final purchase price allocation of Magnesita.

**Proposed appropriation of result**

It is proposed that pursuant to Article 27 clause 1 of the articles of association of the Company the result shown in RHI Magnesita N.V. income statement be appropriated as follows:

in € million	2018
Profit attributable to shareholders	158.1
In accordance with Article 27 clause 1 to be transferred to reserves	0.0
<b>At the disposal of the General Meeting of shareholders</b>	<b>158.1</b>

For 2018, the Board of Directors will propose a dividend of €1.50 per share for the shareholders of RHI Magnesita N.V. The proposed dividend is subject to the approval by the Annual General Meeting on 6 June 2019.

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**Other notes***Number of employees*

The average number of employees of RHI Magnesita N.V. during 2018 amounts to nil (2017: nil).

*Other information*

Information regarding auditor's fees, number of employees of RHI Magnesita Group and the remuneration of the Board of Directors is included in Note (59) to (61) of the Consolidated Financial Statements.

**Material events after the reporting date**

On 10 March 2019 the Supervening Acquisition Period of the Integrated Tender Offer (as described in Note (5) of the Consolidated Financial Statements) ended. RHI Magnesita N.V. via its indirect, wholly-owned subsidiary Dutch Brasil Holding B.V. received valid acceptances from holders of 6,167,636 Magnesita Refratários S.A. common shares, representing approximately 12.3% of the total share capital of Magnesita Refratários S.A. increasing its total ownership to 97.5%. As a result, 1,139,400 new RHI Magnesita N.V. shares were issued. The cash disbursement of this transaction amounts to €30.2 million.

After the reporting date on 31 December 2018, there were no other events of special significance which may have a material effect on the financial position and performance of RHI Magnesita N.V.

# Notes

## to the Company Financial Statements 2018

Vienna, 26 March 2019

### Board of Directors

Herbert Cordt, Chairman  
Stefan Borgas, CEO  
David Schlaff  
Stanislaus Prinz zu Sayn- Wittgenstein-Berleburg  
Celia Baxter  
Andrew Hosty  
James Leng  
John Ramsay  
Wolfgang Ruttenstorfer  
Karl Sevelda  
Franz Reiter  
Michael Schwarz

## Other information

### Provisions of the articles of association on profit and distributions

The stipulations of Article 27 and 28 of the Articles of Association concerning profit and distributions are:

#### *27 Profit and distributions*

27.1 The Board may resolve that the profits realised during a financial year will fully or partially be appropriated to increase and/or form reserves. With due regard to Article 26.2, a deficit may only be offset against the reserves prescribed by law to the extent this is permitted by law.

27.2 The allocation of profits remaining after application of Article 27.1 shall be determined by the General Meeting. The Board shall make a proposal for that purpose. A proposal to make a distribution of profits shall be dealt with as a separate agenda item at the General Meeting.

27.3 Distribution of profits shall be made after adoption of the annual accounts if permitted under the law given the contents of the annual accounts.

27.4 The Board may resolve to make interim distributions and/or to make distributions at the expense of any reserve of the Company, other than the Mandatory Reserve.

27.5 Distributions on shares may be made only up to an amount which does not exceed the amount of the Distributable Equity. If it concerns an interim distribution, the compliance with this requirement must be evidenced by an interim statement of assets and liabilities as referred to in Section 2:105 paragraph 4 of the Dutch Civil Code. The Company shall deposit the statement of assets and liabilities at the Dutch Trade Register within eight days after the day on which the resolution to make the distribution is published.

27.6 Distributions on shares payable in cash shall be paid in euro, unless the Board determines that payment shall be made in another currency.

27.7 The Board is authorised to determine that a distribution on shares will not be made in cash but in kind or in the form of shares, or to determine that shareholders may choose to accept the distribution in cash and/or in the form of shares, all this out of the profits and/or at the expense of reserves, other than the Mandatory Reserve, and all this if and in so far the Board has been designated by the General Meeting in accordance with Article 6.1. The Board shall set the conditions under which such a choice may be made.

#### *28 Release for payment*

Distributions of profits and other distributions shall be made payable four weeks after adoption of the relevant resolution, unless the Board or the General Meeting at the proposal of the Board determine another date.

# Independent auditor's report

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

## Report on the financial and consolidated financial statements 2018

### Our opinion

In our opinion:

- RHI Magnesita N.V.'s consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- RHI Magnesita N.V.'s company financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

### What we have audited

We have audited the accompanying financial statements 2018 of RHI Magnesita N.V., Vienna ('the Company'). The financial statements include the consolidated financial statements of RHI Magnesita N.V. together with its subsidiaries ('the Group') and the company financial statements.

The consolidated financial statements comprise:

- the Consolidated Statement of Financial Position as at 31 December 2018;
- the following statements for 2018: the Consolidated Statement of Profit or Loss and the Consolidated Statement of Comprehensive Income, Consolidated Statement of Cash Flows and Consolidated Statement of Changes in Equity; and
- the Notes to the Consolidated Financial Statements, comprising significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at 31 December 2018;
- the company statement of profit or loss for the year then ended;
- the notes, comprising the accounting policies applied and other explanatory information.

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

### The basis for our opinion

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

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

### Independence

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

### Our audit approach

#### Overview and context

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

The financial year 2018 was characterised by the integration of Magnesita Refratários S.A., the in 2017 acquired Magnesita Group, and by organisational changes throughout the Group. This affected the determination of materiality, the scope of our group audit and our audit procedures as described in the sections 'Materiality', 'The scope of our audit' and 'Key audit matters'.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the board of directors made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In note 10 of the consolidated financial statements, the Company describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the recoverability of deferred tax assets, final accounting of the Magnesita acquisition, valuation of goodwill and other intangible assets, we considered these matters as key audit matters as set out in the section 'Key audit matters' of this report. Furthermore we identified the implementation of IFRS 15, the new revenue standard, as a key audit matter.

# Independent auditor's report continued

Other areas of focus, that were not considered to be key audit matters, were the disclosures as required by IAS 8 concerning the transition to the new accounting standard IFRS 16 'Leases'. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the board of directors that may represent a risk of material misstatements due to fraud.

We ensured that the audit teams at both group and component level included the appropriate skills and competences, which are needed for the audit of an international industrial products company. We therefore included specialists in the areas of IT and corporate income tax, as well as experts in the areas of valuation and employee benefits, in our audit team.

The outline of our audit approach was as follows:

## Materiality

- Overall materiality: €13.8 million.

## Audit scope

- We conducted audit work in 42 locations.
- Site visits were conducted to 6 countries — Brasil, US, Canada, China, India and Austria.
- Audit coverage: 93% of consolidated revenue, 93% of consolidated total assets, 97% of consolidated EBIT and 99% of consolidated EBITDA.

## Key audit matters

- Recoverability of deferred tax assets;
- Finalisation of the purchase price allocation in respect of the acquisition of Magnesita Refratários S.A.;
- Valuation of goodwill and other intangible assets;
- Implementation of IFRS 15, the new revenue standard.

## Materiality

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

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

<b>Overall group materiality</b>	<b>€13.8 million (2017: €8.0 million).</b>
<b>Basis for determining materiality</b>	We used our professional judgement to determine overall materiality. As a basis for our judgement, we used approximately 2.5% of earnings before interest, taxes depreciation and amortisation (EBITDA).
<b>Rationale for benchmark applied</b>	We used EBITDA as the benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis, we believe that EBITDA is an important metric for the financial performance of the Company.
<b>Component materiality</b>	To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was between €0.9 million and €11 million.



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

We agreed with the board of directors that we would report to them misstatements identified during our audit above €0.7 million (2017: €0.4 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## The scope of our group audit

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

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

We have audited the complete financial information of 20 components, of which 5 components are individually financially significant to the Group:

- RHI Magnesita GmbH (formerly RHI Feuerfest GmbH), Austria
- Magnesita Refratários S.A., Brasil
- Magnesita Mineracao S.A., Brasil
- RHI US, USA
- Magnesita Refractories Company, USA



We further performed specific risk-focussed audit procedures for 3 components as they include significant or higher risk areas:

- Magnesita Refractories Middle East, Dubai
- Magnesita Finance S.A., Luxembourg
- Dutch Brasil Holding B.V., Netherlands

Additionally, we selected 21 components for audit procedures to achieve appropriate coverage on financial line items in the consolidated financial statements and to build an element of unpredictability in our audit.

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

Revenue	93%
Total assets	93%
EBIT	97%
EBITDA	99%

None of the remaining components represented more than 1% of total group revenue or total group assets. For those remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

The group engagement team performed the audit work for the parent company RHI Magnesita N.V. and the Austrian entities in scope for the group audit. For all other components, we used component auditors who are familiar with the local laws and regulations to perform the audit work.

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

We issued instructions to the component audit teams in our audit scope. These instructions included amongst others our risk analysis, materiality and scope of the work. We explained to the component audit teams the structure of the Group, the main developments that are relevant for the component auditors, the risks identified, the materiality levels to be applied and our global audit approach. We had individual calls with each of the in-scope component audit teams during the year including upon conclusion of their work. During these calls, we discussed the significant accounting and audit issues identified by the component auditors, the reports of the component auditors, the findings of their procedures and other matters, which could be of relevance for the consolidated financial statements.

The group engagement team visits the component teams and local management on a rotational basis. In the current year, the group audit team visited the Magnesita finance functions in Brasil, China and US given the importance of the judgements involved in the final purchase price allocation resulting from the acquisition of Magnesita Group, as well as the Chinese, Canadian, US, Austrian and Indian operating locations. For each of these locations we reviewed selected working papers of the component auditors.

The group engagement team at the head office audited the group consolidation, financial statements disclosures, IFRS 15 adjustments, inventory valuation and a number of complex items. These include acquisition accounting, impairment testing and valuation of deferred tax assets.

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

### Our focus on fraud

#### Our objectives

We assess and respond to the risk of fraud in the context of our audit of the financial statements. In this context and with reference to the sections on responsibilities in this report, our objectives in relation to fraud are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses;
- to respond appropriately to fraud or suspected fraud identified during the audit.

However, because of the characteristics of fraud, particularly those involving sophisticated and carefully organised schemes to conceal it, such as forgery, deliberate failure to record transactions and collusion, our audit might not detect instances of material fraud.

#### Our risk assessment

We obtained an understanding of the entity and its environment, including the entity's internal control. We made enquiries of group and local management, the internal audit function, legal and compliance departments and the audit committee. In addition, we considered other external and internal information. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. Fraud risk factors are events or conditions, which indicate an incentive or pressure, an opportunity, or an attitude or rationalisation to commit fraud. We evaluated the fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud.

As in all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the board of directors that may represent a risk of material misstatement due to fraud.

# Independent auditor's report continued

## Our response to the risk of fraud

We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks. In addition, we performed procedures, which include journal entry testing and evaluating accounting estimates for bias.

In particular, our procedures consisted of checking the results of whistleblowing and complaints procedures with the entity, data analysis of high-risk journal entries and evaluation of key estimates and judgements by RHI Magnesita N.V. (including retrospective reviews of prior year's estimates). Where we identified instances of unexpected journal entries or other risks through our data analytics, we performed additional audit procedures to address each identified risk. These procedures also included testing of transactions back to source information. We also incorporated elements of unpredictability in our audit.

We considered the outcome of our other audit procedures and evaluated whether any findings or misstatements were indicative of fraud. If so, we reevaluate our assessment of fraud risk and its resulting impact on our audit procedures.

We refer to the key audit matters "Recoverability of deferred income tax assets", "Valuation of goodwill and other intangible assets" and "Finalisation of the purchase price allocation in respect of the acquisition of Magnesita Refratários S.A.", which are examples of our approach related to areas of higher risk due to accounting estimates where management makes significant judgements.

## Key audit matters

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

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

Given the non-recurring nature of the restructuring following the Magnesita acquisition in 2017, the key audit matter "Accounting for restructuring" as considered in the 2017 auditor's report, in our opinion, does not longer warrant the classification of key audit matter in 2018.

Key audit matter	Our audit work and observations
<p><b>Recoverability of deferred tax assets</b> Refer to note 8, 10, 17 and 44 of the consolidated financial statements</p> <p>The Group capitalised deferred tax assets on tax loss carry-forwards and deductible temporary differences arising on various items for the amount of €171.1 million. Reference is made to note 17 of the financial statements.</p> <p>Deferred tax assets are capitalised based on the assumption that sufficient taxable income will be generated against which loss carry-forwards and other deductible temporary differences can be offset. This assumption is based on estimates of the current and the estimated taxable results, and any future measures implemented by the company in several jurisdictions concerned that will have an effect on income tax. The Group also has losses and other temporary differences for which no deferred tax asset has been recognised in these consolidated financial statements.</p> <p>Due to the inherent level of uncertainty, the potential limitations in the recoverability of deferred tax assets and the significant judgement involved, we considered the recoverability of deferred tax assets to be a key audit matter for our audit.</p>	<p>We have requested and obtained confirmation letters from third party tax advisors to confirm the existence and accuracy of the tax loss carry-forwards, taking into account the expiration dates per jurisdiction. In addition, together with our tax specialists, we have assessed per tax jurisdiction the level of potential offsetting of the deferred tax assets with the deferred tax liabilities.</p> <p>Furthermore, we have critically assessed the underlying assumptions of the forecasted taxable income through agreeing the forecasted future taxable profits with approved business plans in a tax jurisdiction. We also assessed the past performance against the expected future tax profits in the business plans used by the Group, by using our knowledge of the Group and the industry in which it operates. In addition, we have considered the local expiry period together with any applicable restrictions in recovery for each individual jurisdiction.</p> <p>We assessed and corroborated the adequacy and appropriateness of the disclosure made in the consolidated financial statements.</p> <p>The above procedures did not result in material audit findings.</p>



Key audit matter	Our audit work and observations
<p><b>Finalisation of the Purchase Price Allocation in respect of the acquisition of Magnesita Refratários S.A.</b> <i>Refer to note 5 of the consolidated financial statements</i></p> <p>On 26 October 2017, RHI Magnesita Group acquired Magnesita Refratários S.A., the Magnesita Group. IFRS 3, Business Combinations, requires recognising the identifiable assets and liabilities at fair value at the date of the acquisition, with the excess of the acquisition cost over the identified fair value of recognised assets, and liabilities as goodwill. The purchase price allocation ("PPA") was finalised within the 12 months period as required by the Standard. This acquisition was considered as a significant purchase to the whole Group.</p> <p>Management determined that the fair value of the net identifiable assets acquired is € 427.9 million with €404.5 million relating to intangible assets (incl. goodwill) that arose from the business combination. The Executive Directors have engaged two independent valuers to issue a final report on the PPA, calculating fair values of the identified assets and liabilities at the respective acquisition date through, among other things, assessments of future cash flows and assessing appropriate discount rates. The finalisation of the PPA exercise for Magnesita resulted in goodwill, amounting to €82.9 million recognised at the acquisition date (see note 5, Group of consolidated companies), representing a decrease from the preliminary PPA of 88.8 million, mainly allocated to the fair value of mining rights and property, plant and equipment offset by an increase in the deferred tax liabilities and other non-current provisions.</p> <p>We focused on the intangible assets arising from the business combination as a significant area of judgement. The valuation methodology, as well as the inputs and assumptions in the model, are affecting the fair value of the intangible assets. The goodwill arising from the acquisition is also highly dependent on the fair value of the identifiable assets acquired and the liabilities assumed at the acquisition date.</p>	<p>We reviewed management's assessment that the acquisition should be accounted for as a business combination and determined that it was appropriately performed in accordance with the definition set out in IFRS 3.</p> <p>We compared the group's accounting policies over business combinations with requirements in EU-IFRS and evaluated the competence, capabilities and objectivity of the independent valuator and other management experts such as valuers and evaluated the work done.</p> <p>Together with our valuation experts, we have assessed the completeness of the assets and liabilities identified in the purchase price allocation. For the assets and liabilities acquired, of which the most significant items relate to customer relationships, mining rights, property, plant and equipment and the liability for an unfavourable contract, we have evaluated the models used to derive the fair values of the assets and liabilities.</p> <p>We engaged valuation experts to compare the valuation assumptions with external benchmarks including a peer group analysis to assess the discount rates and to assess assumptions and inputs underlying future cash flows based on our knowledge of the group and its subsidiaries. We have further evaluated the fair values of the remaining assets and liabilities including the reasonableness of any underlying assumptions in their respective valuation. These assumptions and inputs include estimates on future production, (foregone) margins, operating cost and capital expenditure. This also included the assessment on the reasonableness of the useful lives on the tangible and intangible assets and the consideration given.</p> <p>We assessed and corroborated the adequacy and appropriateness of the disclosure made in note 5 to the consolidated financial statements.</p> <p>We have not identified any significant issues with the allocation of the intangible assets at the balance sheet date and noted no significant exceptions in the accounting for the business combination.</p>
<p><b>Valuation of goodwill and other intangible assets</b> <i>Refer to note 8, 10, 11, and 12 of the consolidated financial statements</i></p> <p>The Group capitalised goodwill for €117.4 million of which €82.9 million relates to the acquisition of Magnesita Group, the remainder mainly related to goodwill from the Steel divisions Lining and Flow control. In addition, the company capitalised intangible assets for €334.4 million of which €275.5 million relates to the Magnesita acquisition. These assets form part of cash-generating units ("CGUs") to the extent that they independently generate cash inflows. If and to the extent to which these CGUs include goodwill or intangible assets with indefinite useful lives or show sign for impairment, the recoverable amount is assessed. Annual planning process data is used to make assumptions on the discount rates, profitability as well as growth rates, and sensitivity analyses are carried out with regard to any accounting effects. The assessment did not result in an impairment.</p> <p>We identified the impairment assessment as a key audit matter due to significant estimates and assumptions about the discount rates, profitability as well as growth rates.</p>	<p>A major part of goodwill and intangible assets were identified as part of the Purchase Price Allocation ("PPA") from the Magnesita Acquisition. Procedures performed on the PPA are described in the key audit matter Purchase Price Allocation for the acquisition of Magnesita Refratários S.A.</p> <p>As part of our audit procedures, we have evaluated and challenged the composition of management's future cash flow forecast and process applied to identify and define cash-generating units, calculate the recoverable amount, test for impairment, calculate the capital cost rate and the growth rate as well as the calculation model.</p> <p>We have reconciled the assumed future cash flows used in the budget planning with the information included in the forecast made by the directors.</p> <p>With the support of our valuation specialists, we have evaluated management's assumptions such as revenue and margin, the discount rate, terminal value, operational and capital expenditure. We have obtained corroborative evidence for these assumptions. We performed analyses to assess the reasonableness of forecasted revenues, margins and expenditures in line with the level of activity forecasted and corroboration to contracted revenue for the coming years and price trends, and obtained further explanations when considered necessary. We compared the long term growth rates used in determining the terminal value with economic and industry forecasts. We have re-performed calculations, compared the methodology applied with generally accepted valuation techniques, assessed appropriateness of the cost of capital for the company and comparable assets, as well as considered territory specific factors and assessed appropriateness of disclosure of the key assumptions and sensitivities underlying the tests.</p> <p>We found the assumptions to be reasonable and supported by the available evidence.</p>

# Independent auditor's report continued

Key audit matter	Our audit work and observations
<p><b>Implementation of IFRS 15, the new revenue standard</b> Refer to note 2, 8, 10, 35 and 50 of the consolidated financial statements</p> <p>As described in note 2, 8 and 10 of the consolidated financial statements the Group has adopted IFRS 15 Revenue from Contracts with Customers. The application and adoption of this accounting standard is complex. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised.</p> <p>The Group has applied the modified retrospective approach and has recognised the cumulative effect of initial application as an adjustment to the opening balance of retained earnings as per 1 January 2018. The Group applies several practical expedients in its implementation.</p> <p>In relation to the recognition of revenue under IFRS 15 the Group has to apply judgement in multiple areas, such as when control over refractory products passes to the customer, bundling of contracts, identifying performance obligations and allocating the transaction price to these performance obligations and whether revenue should be recognised at a point in time or over time.</p> <p>As a result, we consider the adoption and implementation of IFRS 15 a key audit matter.</p>	<p>We performed inquiries of Management to obtain an understanding of the process for the revenue recognition under IFRS 15.</p> <p>We evaluated the design and technical implementation of the processes of the Group, surrounding the implementation and recording adjustments arising from the adoption of IFRS 15.</p> <p>We have obtained a schedule of contract types with the underlying master agreements for the Group. We evaluated the accuracy and completeness of the contract types in the schedule, including the technical implementation thereon, based on our knowledge of the Group and experience of the industry in which it operates. We analysed the existing contracts with customers and considered the Group's revenue recognition policies in respect of those revenue streams. We evaluated the judgement applied by the Group, in particular with respect to when control over refractory products passes to the customer, bundling of contracts, identifying performance obligations and allocating the transaction price to these performance obligations and whether revenue should be recognised at a point in time or over time.</p> <p>We obtained a schedule of the cumulative effect and adjustments as at 1 January 2018 and for the current year and evaluated the completeness and mathematical accuracy of the schedule by assessing whether the schedule of adjustments is complete and reflects appropriate consideration for the changes in the revenue accounting under IFRS 15. We have performed substantive testing in order to verify that the accounting for the revenue transactions are appropriately reflecting the revenue recognition policies in line with IFRS 15.</p> <p>Furthermore, we have assessed the adequacy of the related (IFRS 15) disclosures in the financial statements. Our audit procedures did not indicate material findings with respect to the application of IFRS 15 and disclosures thereto.</p>

## Report on the other information included in the annual report

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

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

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

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

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

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

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

## Report on other legal and regulatory requirements

### Our appointment

We were appointed as auditors of RHI Magnesita N.V. by the supervisory board following the passing of a resolution by the shareholders at the annual meeting held on 4 October 2017. Our appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 2 years.

### No prohibited non-audit services

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

### Services rendered

The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 59 to the consolidated financial statements.

## Responsibilities for the financial statements and the audit

### Responsibilities of the executive directors for the financial statements

The executive directors are responsible for:

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

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

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

### Our responsibilities for the audit of the financial statements

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

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

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

Amsterdam, 26 March 2019  
PricewaterhouseCoopers Accountants N.V.  
E.M.W.H. van der Vleuten RA MSc

# Independent auditor's report continued

## Appendix to our auditor's report on the financial statements 2018 of RHI Magnesita N.V.

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

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

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

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the executive directors.
- Concluding on the appropriateness of the executive directors' use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.