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RHI Annual Report >> 2002

RHI

RHI

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RHI Refractories

Refractories produces high-grade, non-substitutable ceramic products, crucial to all high-temperature production processes exceeding 1,200° C. Under the new RHI Refractories brand, we supply key industries such as steel, non-ferrous metals, cement & lime, glass, as well as environmental technology, energy and chemicals. This division is now the world market and technology leader and the core business of the RHI Group.

Heraklith

Insulating, the remit of the Heraklith group, is one of the leading suppliers of insulating materials to the construction sector in Europe. Its key products aimed at markets in Central and Eastern Europe are solutions made of rock wool and wood-wool building boards.

Board members

Board of Management

Dr. Helmut Draxler
Chief Executive Officer
RHI Management Board Member since January 14, 2002

Dr. Andreas Meier
Deputy Chief Executive Officer;
Refractories Division;
RHI Management Board Member since January 1, 1999

Dr. Eduard Zehetner
Chief Financial Officer;
RHI Management Board Member since November 19, 2001

Roland Platzer
Insulating Division;
RHI Management Board Member since January 1, 1999

Supervisory Board

Michael Gröller
Vienna, Austria
Member and Deputy Chairman since February 15, 2002;
Chairman since May 27, 2002

Gerd Peskes
Düsseldorf, Germany
Chairman since February 15, 2002;
Deputy Chairman since May 27, 2002

Dr. Walter Ressler
Villach, Austria
Chairman until February 15, 2002

Maximilian Ardelt
Munich, Germany

Stanislaus Prinz zu Sayn Wittgenstein-Berleburg
Munich, Germany

DDr. Erhard Schaschl
Vienna, Austria

Gerd Klaus Gregor
Berndorf, Austria
Member since February 15, 2002

Dr. Cornelius Grupp
Lilienfeld, Austria
Member since July 4, 2002

Employee representatives:

Georg Eder
Ferndorf, Austria

Josef Horn
Trieben, Austria

Leopold Miedl
Vienna, Austria

Karl Wetzelhütter
Breitenau am Hochlantsch, Austria

In addition, Dr. Friedrich Nemec (until July 4, 2002, Deputy Chairman), served on RHI's Supervisory Board during the reporting period.

Foreword by the CEO

The aftermath of a critical year for RHI in 2001, during which asbestos litigation in the US shook the group to its very core, was still very much apparent at the beginning of 2002. As RHI was no longer in a position to meet the financial demands of its US investments, it was forced to withdraw its support of the US firms. The US management therefore took the decision to file Chapter 11 for the US firms, which were deconsolidated by RHI as of December 31, 2001.

A positive going-concern forecast for our worldwide activities not including our US interests enabled us to head off insolvency proceedings, and formed the basis for an extensive capital restructuring concept. At the extraordinary meeting of stockholders on February 15, 2002, the Management Board was authorized by an overwhelming majority to carry out a conditional capital increase with a convertible bond issue, a vital element of the turnaround. Agreements made with banks have secured the group's liquidity for years to come, enabling us to finance the capital expenditure required to consolidate and strengthen our world market position.

All in all, the year 2002 witnessed the group's commercial turnaround and portfolio simplification. The figures presented in this report provide welcome evidence that the capital restructuring has exceeded our expectations. Both sales revenue (adjusted for US investments), EBIT, net income and cash flow have fared well, debt retirement in 2002 has been faster than planned.

>> Refractories, which is marketed under the RHI Refractories brand, managed to strengthen its world market position despite the difficult economic climate, substantially improving its earnings power. The high quality of our products and our customer specific expertise in high-temperature systems played a decisive role here.

>> The Insulating Division, managed by Heraklith AG, struggled with the slump in the construction sector, particularly in Germany. Nevertheless it improved its EBIT and cash flow on the previous year through restructuring and rationalization, despite only marginal growth in sales revenue.

>> Simplification of the portfolio continued, with more focus placed on core business. The engineering companies were sold off, and this had a positive impact on the RHI Group's liquidity.

We critically assessed our strategy in 2002, deciding to focus on expansion of the refractories division to boost cash flow and enterprise value. We have drawn up a blueprint for expanding our activities in China. The construction of a new refractories plant in this key market will significantly enhance RHI Refractories' position once again.

In spite of the rather subdued forecast for the world economy in 2003, earnings prospects for both the refractories and insulating divisions are positive. We will continue to improve our market position and actively take up the challenges we face.

At this point, I wish to thank on behalf of the Management Board all our staff and employee representatives for their continuing loyalty to the company throughout these very difficult times. Thanks to their skills and commitment, RHI is now right back on track towards a future in line with the expectations of our investors. We trust that the steps we have taken and the forward-looking activities we have ve initiated in 2002 will inspire our stock performance as well.

All the best!

Dr. Helmut Draxler

RHI Group

RHI AG, which has its headquarters in Vienna, is one of the largest industry groups in Austria. Its share is included in the Austrian Traded Index (ATX) and is a member of the Prime Market of the Vienna Stock Exchange. After undergoing successful restructuring, optimizing its portfolio and achieving the turnaround in results in 2002, RHI will focus on refractories, its core competence. RHI Refractories has a highly attractive international production and sales network and will build on its strong position to grow the business in earnings and cash flow terms. The Insulating Division, headed by Heraklith AG, will continue to focus on growth markets in Central and Eastern Europe, which will pave the way for future strategic partnerships.

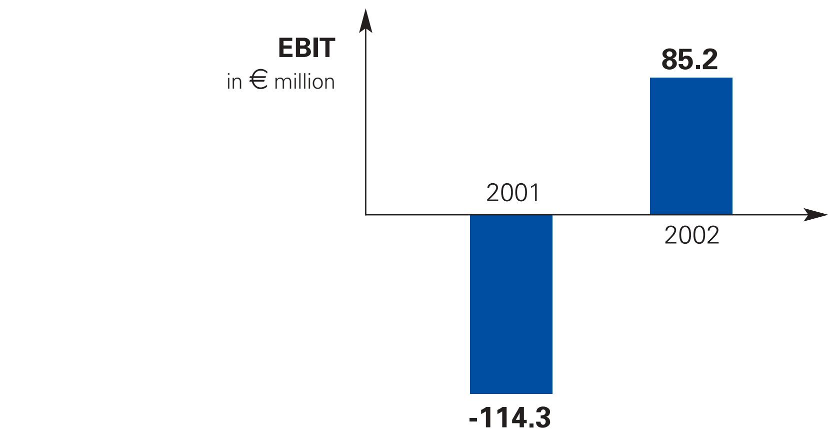
RHI Group

in € million	**2002**	2001*
Sales revenue	**1.351,9**	1.867,2
EBITDA	**143.4**	-24.2
EBIT	**85.2**	-114.3
Net income/loss for the year	**65.9**	-863.1
Employees	**8,473**	11,086

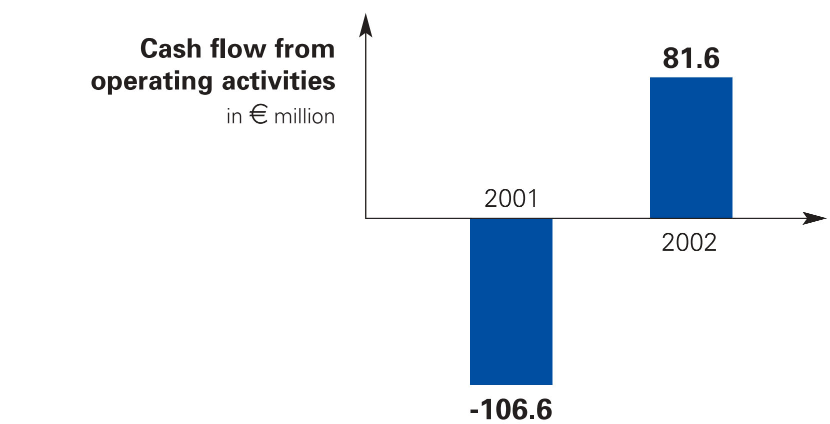
** The figures for 2001 still contain the refractories investments in the USA, which were deconsolidated at December 31, 2001. EBITDA and EBIT for 2001 were affected by special one-off, extraordinary factors in addition to the operating activities of the group. These include writedowns, one-off expenses and provisions for risks.*

RHI back on course after turnaround in 2002

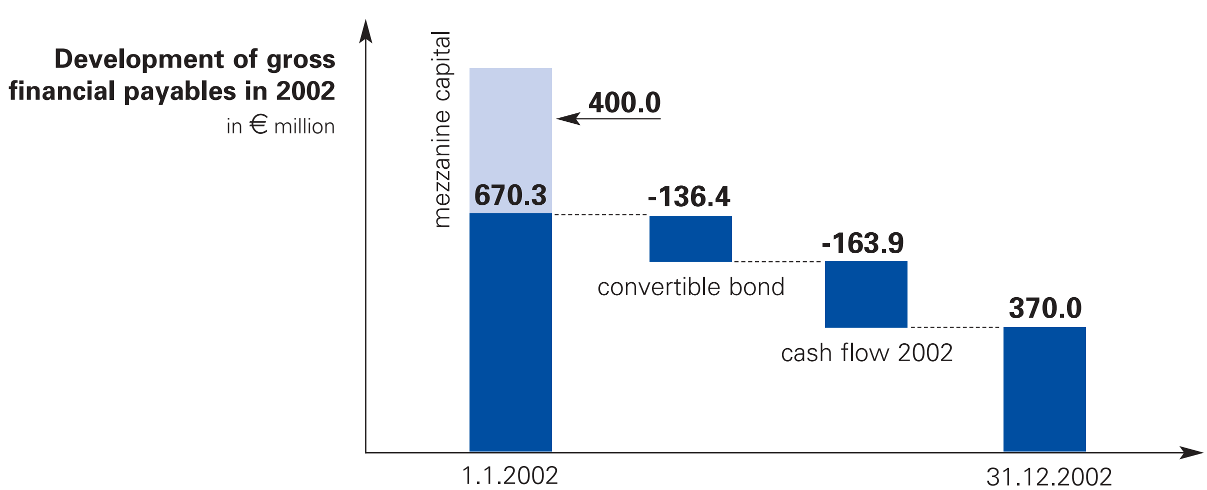
>> Portfolio restructuring successful, EBIT margin for 2002 at 6.3%



>> Cash flow from operating activities facilitates debt retirement



>> Capital restructuring targets exceeded in 2002



RHI Group 2002: Capital restructuring successful, portfolio optimized, turnaround in results achieved

The year 2002 signified a break with the past and a new start, following a critical year in 2001. The events listed below shaped the RHI Group and probably make 2002 the most important year in the company's history.

>> New team takes up office on RHI's Management Board
>> Concerted effort to solve the US asbestos crisis
>> Extraordinary meeting of stockholders lends support to capital restructuring concept
>> Convertible bonds worth € 144.72 million issued
>> Engineering division sold
>> Refractories, our core business, confirms worldwide earnings power in 2002
>> RHI achieves turnaround in results and cash flow
>> Stock price recovers from low of € 4.35 to over € 8.

Extensive capital restructuring secures group's future

Bolstered by the international earnings power of the refractories business outside the US, RHI's core Austrian banks declared themselves willing in November 2001 to provide a € 200 senior debt credit facility for a wholesale restructuring of the group's capital and net worth. This has enabled RHI to meet its long-term obligations to customers, suppliers and other creditors.

After detailed analysis of the legal and economic implications of all available options, the company took a landmark decision at the end of 2001 to focus the group's activities on the commercially attractive refractories business not including the US.

This step was triggered by the number of asbestos litigation claims lodged against US companies in 2001, which had spiraled to an extent far exceeding the limit covered by liability insurance. As RHI was neither willing nor able to meet these claims, the RHI Group suspended its financing of its US subsidiaries. The overwhelming majority of the US companies have since filed Chapter 11 of the US Bankruptcy Code and are currently undergoing reorganization.

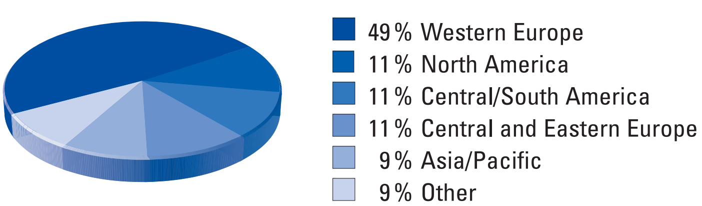
The consequent deconsolidation of the US companies at December 31, 2001 meant that the investments held in the companies concerned and the loans granted to them had to be written down in the 2001 financial statements. Due to the charges taken and provisions set up, which affected the income statement, RHI reported a net loss after minorities for 2001 of € 863.1 million. Consequently, RHI's consolidated balance sheet shows a negative equity of € -548.6 million at December 31, 2001. After conversion of € 400 million of bank liabilities into mezzanine capital due to subordination agreements made with financing banks as part of the restructuring concept, stockholders' equity including mezzanine capital at this point in time was still negative at € -148.6 million.

RHI Group: Sales revenue

in € million	2002*	2001**
Refractories	**1,067.2**	1,521.5
Insulating	**164.4**	161.5
Engineering	**72.8**	195.5
Consolidation/other	**47,5**	-11.3
RHI Group	**1,351.9**	1,867.2

* *Engineering sold/deconsolidated at June 30, 2002*
** *Refractories 2001 still includes US activities*

RHI Group: Sales revenue by region



With a comprehensive capital restructuring plan, RHI AG managed to avert insolvency on the basis of a positive going-concern forecast. A very long-term, sustainable concept was drawn up with the financing banks.
The core elements are:

- >> Provision of the necessary liquidity to finance the continuing business operations of the RHI Group (so-called "liquidity-securing credit facility" in excess of € 200 million)
- >> Restructuring of core operating refractories business Veitsch-Radex GmbH (change of legal form, revaluation)
- >> Conversion of € 400 million of bank liabilities due to subordination agreements concluded with the seventeen so-called stand-still banks and conversion into subordinated mezzanine capital until January 02, 2007.
- >> Interest reduction on remaining bank liabilities (so-called senior debt) to a preferential interest rate of EURIBOR/LIBOR plus 0.5 percentage points until December 31, 2006
- >> Issue of a subordinated convertible bond of tranche A with a total value of € 72,360,000, maturing on December 31, 2009, exchangeable for the first time from January 1, 2007 onwards, bearing interest at 6% p.a. depending on results. No rights to be issued to stockholders, issue to be subscribed by stand-still banks
- >> Issue of a subordinated convertible bond of tranche B with a total value of up to € 72,360,000, maturing at December 31, 2009, exchangeable for the first time from January 1, 2003 onwards, bearing interest at 6% p.a. depending on results, rights to be issued to stockholders.
- >> € 100 million from tranche A and tranche B to be underwritten by core banks.

All agreements required for the aforementioned core elements to become effective with regard to the stand-still banks are now in place. At the extraordinary meeting of RHI AG on February 15, 2002, the Management Board was authorized to carry out a conditional capital increase to facilitate the issue of both convertible bonds of tranches A and B and to build up long-term equity.

The core elements of the capital restructuring, geared to the long term, are the basis for:

- >> contractually securing the liquidity of the RHI Group long-term
- >> continuing to optimize and expand the group's core refractories business worldwide
- >> focusing company policy on cash flow to continue the group's debt retirement program
- >> building up the group's equity base in the long-term to regain an appropriate gearing level in the long term.

Convertible bond issue

On April 4, 2002, the RHI Group used the authorization it had been granted to issue the tranche A convertible bond. This tranche with a value of € 72.36 million was fully subscribed by banks in May 2002. In addition, tranche B convertible bond was issued. This is divided into 1,809 parts each with a nominal value of € 40,000. RHI stockholders were able to exercise their rights from April 8, 2002 to April 26, 2002.

RHI exercised its agreed put option as part of the capital restructuring on May 6, 2002 and placed € 27.64 million of the tranche B convertible bond with the banks. In the first phase of the issue, the volume of both tranches placed amounted to € 115.20 up to the expiry date on May 15, 2002. The remaining € 29.52 million was offered to investors as tranche C as part of a private placement. This placement was completed by the expiry date, August 30, 2002, after RHI had received corresponding orders and reservations. The total volume of convertible bonds sold in 2002 amounted to € 136.40 million, the remaining € 8.32 million are designated for RHI management option programs from 2003-2005. After completing this program, the total proceeds from the issue amounting to € 144.72 million will be used to repay bank loans.

Strategic realignment of group portfolio successfully initiated

One of the main objectives of the RHI Group's business plan drawn up at the beginning of 2002 as part of the capital restructuring concept was to focus the group on commercially attractive, forward-looking core competencies. With this objective in mind, the international refractories business has become the cornerstone of the capital restructuring, and the commercial basis for RHI's future.

RHI Refractories has extremely well established brands, products and system solutions, which have made this division the technology leader among refractories suppliers worldwide. This position has been hardly compromised at all by the sell-off of the US refractories firms. RHI Refractories has an excellent market position and is highly competitive across the globe with its business units Steel & Flow Control, Cement & Lime, Non-ferrous metals, Glass, Environment, Energy and Chemicals. All the business units managed to rank among the top 3 suppliers in their respective markets. With a world market share of 13%, RHI is neck-and-neck with its most significant global rival in terms of the market leader position. The results for 2002, with a refractories EBIT margin of over 9% and global sales revenue of € 1,067.2 million, prove that RHI's decision to focus on its core competence, Refractories, was, and still is, the right move.

Insulating, RHI's second division, which is managed by Heraklith AG and was converted to an open corporation as of March 12, 2003, has been given a new operative and strategic direction. Its sales plans and activities from 2001 were scaled down and suspended. Heraklith has two clear objectives as part of RHI's portfolio strategy and capital restructuring:

- >> Expansion of market position in the emerging economies of Central and Eastern Europe and in other attractive export markets
- >> Realizing increases in efficiency in the core markets of Germany and Austria.

In addition, Heraklith has redefined the operating structure of the Insulating group and has defined three Business Units responsible for its market activities from 2003 onwards. This step will continue to improve the cost and earnings situation, enabling Heraklith to make an important contribution to results and cash flows in future. These measures perfectly complement and support, on the one hand, the positive, long-term business development of Heraklith AG, and, on the other, pave the way for future strategic partnerships.

Engineering has not been part of the RHI group portfolio since mid-2002. Our assessment of RHI's engineering strategy, initiated in 2001, led to our ultimate decision to sell off the division as part of the capital restructuring plan. We completed this key portfolio realignment on June 30, 2002.

Business development and 2002 results confirm turnaround

Despite the weak construction sector in Europe and a merely average industrial performance worldwide, RHI produced good results in 2002, exceeding its budgeted sales revenue and results targets. This means a successful turnaround in comparison to 2001.
RHI consolidated sales revenue in 2002 amounted to € 1,351.9 million (2001: € 1,867.2 million). The decline of 28% is mainly due to the deconsolidation of the US refractories business at December 31, 2001 and of engineering activities at June 30, 2002. Without its US activities, Refractories generated sales revenue of € 1,067.2 million (previous year: € 1,521.5 million). The comparative figure for the previous year is € 1,034.0 million. Insulating generated sales revenue of € 164.4 million despite very poor market conditions in its core markets (previous year: € 161.5 million). The Engineering Division, deconsolidated at June 30, 2002, contributed € 72.8 million (previous year: € 195.5 million) to consolidated sales revenue. Other/consolidation (€ 47.5 million) consists of intra-group sales and sales revenue from three firms formerly part of RHI's Waterproofing Division. Although the companies concerned were sold in 2001, the buyer was not initially able to raise the agreed purchase prices. RHI resumed ownership of these firms in 2002 to limit the financial damage, and consolidated them in its 2002 financial statements. The division is to be resold in 2003.

Despite a decline of 28% in group sales revenue in comparison to 2001, the results for 2002 have been significantly boosted by improved operative contributions and by the absence of the extraordinary charges taken in 2001.

Consolidated EBITDA for 2002 was € 143.4 million (previous year: € -24.2 million), EBIT amounted to € 85.2 million (previous year: € -114.3 million). This is bearing in mind that EBIT for the previous year was adversely affected by one-off charges. If we compare operating EBIT of € 7.9 million in the previous year with EBIT in 2002, we can see a marked improvement. This is mainly due to the clearly negative EBIT contributions from US Refractories in 2001 and to the increase in EBIT from non-US Refractories in 2002. In addition, EBIT from Insulating, Engineering and overhead/ other are up year-on-year. All in all, RHI generated EBIT of € 85.2 million in 2002, containing neither positive nor negative extraordinary one-off effects. The group's EBIT margin is 6.3%, the figure for its core refractories business being 9.3%.

RHI Group: Operating result (EBIT)

in € million	**2002**	2001*
Refractories	**98.8**	-71.5
Insulating	**4.1**	-6.9
Engineering	**0.0**	-7.5
Overhead/other	**- 17.7**	-28.4
RHI Group	**85.2**	-114.3

** EBIT 2001 includes US refractories and one-off effects*

RHI Group: Income statement

in € million	**2002**	2001
Sales revenue	**1,351.9**	1,867.2
EBITDA	**143.4**	-24.2
EBIT	**85.2**	-114.3
Financial result	**-23.0**	-90.6
EBT	**62.2**	-204.9
Extraordinary result	**19.9**	-590.7
Taxes	**-12.7**	-60.8
Net income/loss for the year	**69.4**	-856.4
Minorities	**-3.5**	-6.7
Net income/loss after minorities	**65.9**	-863.1

RHI Group: Cash flow and financial payables

in € million	**2002**	2001
Cash flow from operating activities	**81.6**	-106.6
Cash flow from investing activities	**-37.8**	-59.4
Cash flow from financing activities	**-70.4**	165.1
Financial payables gross	**370.0**	670.3
Financial payables net (after mezzanine capital)	**324.3**	595.7

This once again clearly illustrates the operative earnings power of the core refractories business in 2002, on which RHI's capital restructuring is based. The aforementioned margin of 9.3% corresponds to an EBIT contribution from refractories of € 98.8 million. We have thus exceeded the targets set for 2002, despite the mediocre performance of the world industrial sector. Thanks to this positive development, the RHI Group has managed to exceed its budgeted EBIT target of € 78 million (€ 71 million without Engineering) for 2002.

The positive effect of the capital restructuring is also clearly reflected in the financial result for 2002. While the 2001 financial result at € -90.6 million was affected by high and market-rate interest payments on bank loans worth over € 1,000 million, the figure for 2002 was reduced to € -23.0 million. There are three major factors affecting this result:

>> The provision of interest-free mezzanine capital amounting to € 400 million
>> A preferential interest rate of EURIBOR/LIBOR + 0.5 basis points on the remaining bank loans
>> The ongoing reduction in outstanding debt due to operative earnings and US payments in connection with Chapter 11 proceedings in 2002.

All in all, gross financial payables had been reduced to € 370.0 million at December 31, 2002 (Dec. 31, 2001: € 670.3 million). Including group cash and cash equivalents amounting to € 45.7 million, net financial payables amounted to € 324.3 million at December 31, 2002. The proceeds from the convertible bond issue in 2002 also contributed to these positive figures year-on-year. This was used to repay bank loans as planned. Since the group has generated a positive EBT in 2002, thus covering interest payments due on the convertible bonds, the financial result for 2002 also contained appropriate deferred interest to be paid out at June 30, 2003.

The financial statements for 2002 contain a positive, extraordinary result of € 19.9 million, mainly attributable to the conclusion of a legal dispute in the US (resulting from the GIT acquisition), amounting to € 15.3 million. The previous year's figure contains significant, negative effects arising from writedowns, risk provisions and from the deconsolidation of the US refractories firms.

Following the positive EBIT and the improvement to the financial result, RHI net income for 2002 amounts to € 69.4 million (previous year: € -856.4 million). Net income after minorities is € 65.9 million (previous year: € -863.1 million).

Stockholders' equity including mezzanine capital amounted to € 18.2 million (previous year: € -148.6 million) at December 31, 2002 due to the issue of convertible bonds and to net income after minorities, which is in the black in the first annual financial statements following the capital restructuring.

US Chapter 11 proceedings

The Chapter 11 proceedings of the deconsolidated US refractories firms have developed in line with expectations. The firms concerned are currently working on the business plans required for successful reorganization under Chapter 11 to be submitted for approval to the relevant court in Pittsburgh/USA. All parties directly and indirectly involved in the proceedings (e.g. the companies themselves, their former owners, the creditors concerned, and their lawyers) are in the process of defining their positions with regard to the further development of the proceedings. The non-asbestos creditors of the US firms submitted their final, binding claims at February 28, 2003 ("bar date").

The next important steps in the proceedings are the clarification of claims lodged by asbestos creditors and their settlement, and the presentation of reorganization plans by Chapter 11 companies. From RHI's perspective (as of March 2003), the Chapter 11 proceedings are expected to continue according to schedule. RHI is not expecting a negative financial impact from the outcome of the US Chapter 11 proceedings of our subsidiaries GIT and North American Refractories Co. (NARCO). The further timescale for this is significantly dependent on Honeywell and Halliburton, both former owners of Chapter 11 companies, who play a major role in the proceedings. All involved parties hope to conclude the Chapter 11 proceedings by the end of 2003.

Optimistic outlook 2003

RHI's Supervisory Board has approved an investment budget for 2003 for the RHI Group, including initial funds to set up a second refractories plant in China with an initial capacity of 40,000 annual tons. The project is scheduled for completion in 2005. This and other investments in production sites worldwide will set the stage for the further expansion and optimization of the core refractories business in 2003. This will, once again, significantly strengthen the position of RHI Refractories as global technology leader.

Results are forecast to be positive overall in 2003, with sales revenue and results expected to improve again in both the Refractories and the Insulating divisions.

RHI expects the further reduction in bank payables and low interest rates in comparison to 2002 to have a positive impact on net income in 2003. However, the optimistic outlook for 2003 as a whole will have to be revised if the Iraq conflict and a war of longer duration does lasting damage to the world economy and to the situation for key customer industries.

RHI Refractories

The RHI Refractories Division, which has been marketed worldwide under the RHI Refractories brand since 2001, is the market and technology leader with a worldwide production and sales network. Business associates in over 180 countries from the iron & steel, cement, lime, non-ferrous metals, glass, environment, energy, and chemicals industries trust in our many years of experience and expertise in the high temperature segment. RHI Refractories has extremely well established brands, products and system solutions and is the core business of the RHI Group.

Refractories Division

in € million	**2002**	2001*
Sales revenue	**1,067.2**	1,521.5
EBITDA	**143.2**	3.6
EBIT	**98.8**	-71.5
Employees	**5,818**	8,708

** The figures for 2001 still contain the refractories investments in the USA, which were deconsolidated at December 31, 2001. EBITDA and EBIT for 2001 were affected by special one-off, extraordinary factors in addition to the operating activities of the group. Comparable sales revenue for 2001 is € 1,034.0 million, comparable EBIT € 72.2 million.*

2002

RHI Refractories 2002: Despite average industrial growth worldwide, business developments and results exceed expectations

The world's economic climate has not improved markedly on the previous year, with key customer industries and sales regions still suffering from a sluggish economy. Only a few of the highly developed and newly industrialized countries of key importance to RHI's industrial customers saw an economic upturn. Europe's economy also remained sluggish in 2002, investments and consumer confidence were down in some cases. The recovery in the US and Japan was only marginal in 2002, and many smaller economies failed to rally as a result. Once again, China bucked the trend in 2002, registering impressive – in some sectors double-digit – uninterrupted growth. The second half of the year also failed to bring the much awaited recovery, with pessimism about a quick economic upturn prevailing.

The steel industry found itself in a precarious situation at the beginning of 2002, due to low prices and poor economic conditions. During this period. the steel industry continued to consolidate globally. The promised imposition of protective tariffs by the US administration upset the market temporarily in the first half of the year, but did not have a long-lasting negative impact on RHI. Although worldwide output in 2002 was 6% up on the previous year, the major part of the increase can be attributed to higher production volume in Asia, particularly in China (+20%). The latter half of the year saw a clear recovery in RHI's main customer markets. This slight increase in output was – at least in part – clearly due to producers and sellers increasing their inventory.

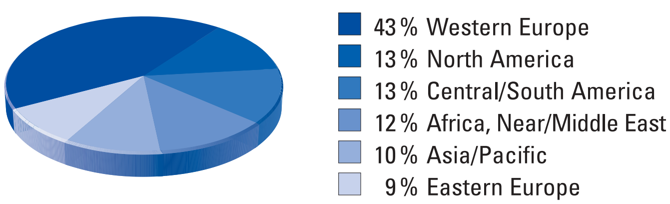
The market and economic situation in the cement, lime, non-ferrous metals, glass, environment, energy, and chemicals industries was also rather subdued, but generally less hostile than the situation in the steel sector. Here too, the trend towards consolidation of producers into a few international groups continued unabated. Many producers also increased their capacities in key newly industrialized and emerging economies in Asia (particularly in China) and in Eastern Europe, where economically viable plants are being taken over and modernized or new capacities built up.

RHI Refractories benefited from this global trend, which affected all customer industries in 2002, putting its own worldwide production and sales network to optimum use in serving its customers.

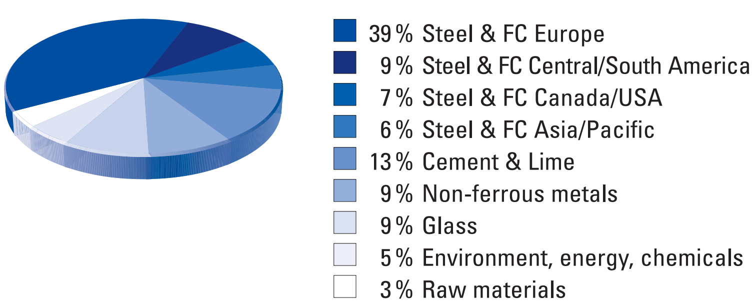
RHI's worldwide reach remains unchanged

RHI has built up an excellent position for itself due to its technology market leadership in the refractories sector. Despite having to sell off the US refractories firms belonging to the GIT and NARCO group due to asbestos problems and Chapter 11 proceedings, RHI Refractories has not given up its worldwide ambitions. Our leading position as technology pioneer and the tried-and-tested work done by our international business units remain the strategic basis of RHI's core refractories business. To optimize market penetration, the steel and flow control units are regionally grouped into Europe (including Eastern Europe, Near/Middle East and Africa), Central/South America, Asia/Pacific (including China). In addition, supraregional key account concepts have been established for steel conglomerates operating globally to ensure these customers are given the best possible service and are supported worldwide with holistic solutions.

RHI Refractories: Sales revenue by region



RHI Refractories: Sales revenue by business unit



The Cement&Lime, Non-ferrous Metals, Glass, Environment, Energy and Chemicals business units are responsible for their sectors worldwide and can implement tailored CRM concepts for their customers directly.

After selling off the US refractories firms, we redeveloped our business unit Canada/USA. This business unit serves the highly important Canadian market, supplying steel and industrial customers, amongst others, from two Canadian works. The US market is also served from Canada. Here we supply key customers, particularly in the US steel industry. Our endeavors to rebuild our US business are progressing very well indeed. All RHI's activities in the US are taking place against the backdrop of the Chapter 11 proceedings and do not jeopardize the restructuring of the former US part of the group. On the contrary, individual customers and market segments are supplied in close cooperation with these firms.

In all regions, RHI Refractories business units utilize a joint distribution infrastructure and so operate a global network, offering the highest standards of service to all customers. Our production sites in Europe, Mexico, Chile, Canada, South Africa, and China and the research and technology center in Leoben/Austria support and perfectly complement our marketing efforts and are still key elements in securing the future of our business.

Good development of business and, above all, results confirms the realignment of Refractories

The figures for 2002 are no longer comparable with those of the previous year due to the deconsolidation of the US refractories firms at December 31, 2001. Sales revenue from refractories amounted to € 1,067.2 million (previous year including USA: € 1,521.5 million), 3% up on like-to-like sales revenue (€ 1,034.0 million) generated by the consolidated firms in Europe, Asia, Central and South America, and Canada in the previous year.

RHI Refractories thus managed once again to prove its strength in a market environment characterized by below-average economic growth. In 2002 as in previous years, our business units only accepted business secured by credit insurance, favorable terms of payment, or where we have sufficient evidence of the customer's creditworthiness to ensure that receivables can be deemed collectible. With a strict credit risk concept, RHI consciously rejects business in certain countries or with individual customers to avoid debtor default as far as possible. This approach has proved successful in 2002.

EBIT development in 2002 illustrates the fact that refractories has continued to implement consistently the price policy it initiated in previous years. The increasing focus of RHI Refractories on high-margin product groups is reflected in the quality of operating results.

EBIT margins increased to 9.3% in 2002, the comparable operating margin for the previous year amounted to 7.0%. This exceeded our expectations in a difficult market environment. This positive development resulted in a refractories EBIT of € 98.8 million in 2002 (previous year including USA and one-off effects € -71.5 million), the comparable operating figure for the previous year is € 72.2 million. This level compares very favorably with the competition, as budgetary targets for 2002 set as part of RHI's capital restructuring have been exceeded.

Steel & Flow Control

Steel output in **Europe** grew only marginally, as important customer sectors were still suffering from the lack of investor and consumer confidence. Low prices for steel, worldwide overcapacity and fierce competitive pressure led to further consolidation in the steel industry.

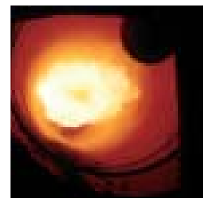
A slight improvement in the situation has been apparent since the third quarter of 2002, the steel industry has managed to raise prices; further increases are expected in 2003. The trend towards specialization and increasing product depth is ongoing in Western Europe. Priority in Eastern Europe was given to more efficient utilization and rationalization of existing plants.

RHI Refractories was able to improve its contributions to results by its increased market share, customer-specific package solutions and service components (so-called Innovative Services and Contract Business).

The steel industry in **Central and South America** was shaped by the precarious, in fact at times critical, situation in many economies. Mexico, Chile, Brazil, Argentina, and Venezuela found themselves in a depression. Despite this difficult climate, key steel producers made headway in international markets due to their favorable cost position, notwithstanding currency and economic crises. Undeterred by this hostile market environment, RHI Refractories once again increased its market share and contributions by consistently working the market, adjusting its price policies and by cutting costs substantially. Customer-specific solutions and contract business gained ground in Central and South America, as elsewhere, improving loyalty and relations between refractories suppliers and customers.

Asia/Pacific, particularly China, the region's key market, is fast becoming the focus of steel activities. China once again registered 20% growth in crude steel output in 2002. Infrastructure projects in China boosted demand considerably. Over 20 steel works projects currently underway (modernizations and new plants) illustrate the potential for technologically high-grade refractories suppliers in China. However, the massive rise in capacity in China has also meant that projects have not been realized in other countries. Steel plant closures have already been announced from 2003 onwards in Japan, Korea and Australia. RHI Refractories stands to benefit from this restructuring and the good long-term prospects for economies in Asia/Pacific. Business volume and contributions improved once again in 2002 thanks to selective targeting of attractive customers.

The steel market in **Canada/USA** was marred by recession, overcapacity, and numerous Chapter 11 cases in the US steel industry, although RHI customers in Canada fared quite well. Marketing activities were coordinated through the Canadian works after the split from the US refractories firms and customers were supplied from Europe and Mexico by the newly structured business unit Canada/USA. RHI Refractories' revenue from steel and non-steel customers in Canada/USA exceeded € 140 million in 2002, generating very positive contributions, and underlining the success of efforts to rebuild US business.



Cement & Lime

The **cement industry** stagnated in Central Europe in 2002, particularly due to the ongoing crisis in the construction industry, in Germany, for example. By contrast, the industry continued to grow considerably in Eastern Europe. Developments in Central and South America remained heterogeneous. While capacity utilization was good in Mexico, South American markets fell short of expectations. Chile alone, remained unaffected by the economic crisis affecting its neighbors. The Asian cement market grew strongly in 2002, spearheaded, as expected, by China. Here, drastic restructuring within the largely outdated cement industry was initiated. RHI Refractories' business volume in this segment remained at last year's level, but earnings power increased once again.

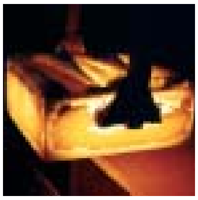
The **lime industry** in Europe was characterized by continuing stagnation in the construction industry, particularly in Germany, the core market. However, sales of burnt lime maintained last year's level in the steel industry. Economic parameters led to the postponement of projects, which are likely to revive the market in 2003. Further consolidation in France also means that the market is not expected to pick up – boosting kiln capacity - until 2003 either. The consolidation of the lime industry in Eastern Europe had positive repercussions in 2002. By contrast, the economic crisis in Argentina and Brazil exacerbated the already tense situation with project business in South America, although some attractive projects were realized in Mexico. Business volume and contributions in the lime segment remained very high in 2002.

Non-ferrous metals

The weak economy and low prices of key **non-ferrous metals** on the London Metal Exchange (LME) characterized the market situation in the non-ferrous metals sector in 2002. No positive trend was apparent with the exception of nickel prices. Copper producers attempted to stem the continuing decline in consumption by cutting and in some cases closing down production. Aluminum prices climbed slightly towards year-end on the back of rising demand. Low LME prices meant that many kilns were running at a loss in 2002. Globalization and consolidation thus continued in 2002, both in the copper industry – where alliances between leading producers were forged – and also in the aluminum sector.

Despite these difficult market conditions, RHI Refractories strengthened its world market position. Sales revenues increased substantially, particularly in Europe and Africa. The main reasons for this were the excellent quality of refractories products and successful cooperation with engineering firms. Close technological cooperation with non-ferrous metal producers in the manufacturing process boosted RHI Refractories market strength even further.

Once again, contributions were very good in 2002 with a further increase in business volume.



Glass

Worldwide output in the **glass industry**, high in previous years, increased again in 2002. Primary production was up 3%. The special glass segment benefited particularly from the TFT thin-glass technology, which boosted market demand. The hollow glass segment continued to stagnate due to the fierce competition between PET-packaging and aluminum cans.

Demand for flat glass rose in Asia, Central and South America and in Eastern Europe, whereas growth was marginal in Western Europe and North America. The worldwide trend towards consolidation of producers into a few major groups continued into 2002.

RHI Refractories undertook attractive, high-margin new kiln and repair projects in the glass industry in 2002. There are signs of further growth potential particularly in Asia (above all in China), South America and Eastern Europe. Volume and contributions from the glass segment were up on the previous year.

Environment, energy, chemicals

The economic climate in the **environment, energy and chemicals** segment remained precarious in 2002. There was a downward trend in maintenance and repairs in Europe and South America in comparison to the previous year. This was partly offset, however, by a slight upturn in project and new kiln business. This can be attributed to a rise in capital expenditure in refineries/petrochemicals and in local authority waste incineration.

European refineries are benefiting from a production shift to low-sulfur diesel fuels, and the chemicals segment is profiting from new technologies for the manufacture of synthetic gas for alternative fuels. These segments are growing in importance, as is waste incineration, which will continue to grow thanks to landfill restrictions. Special waste disposal is also an increasingly interesting segment.

RHI Refractories won key projects in 2002. Business volume and contributions matched last year's level.

Stepping up R&D to extend technology lead

Worldwide concentration of R&D activities on the technology center Leoben/Austria will make a major contribution to the continuing success of RHI Refractories' business, and will strengthen its position as technology and market leader for high-grade ceramic refractories.

By focusing R&D on the core segments of RHI's customer industries, the main priorities are to extend refractories know-how, to protect intellectual property, to support technology, and to drive innovation in all refractories segments.

Building a computer-aided competence network within the refractories area enables us to network partners in the innovation process on a wide basis, thus accelerating knowledge transfer. In addition to cooperation with customers, industrial partners and universities in Christian Doppler laboratories for steel and non-ferrous segments, a new, subsidized national competence network was set up with key customers and universities, focusing on current modeling and simulation for refractories applications in the steel industry.

In our efforts to boost the mobility of ideas and specialists, investments in the internationalization of R&D were stepped up in 2002 to speed up the global knowledge transfer in refractories.

For example, among the wealth of R&D plans, the following projects were completed in 2002:

- >> Market launch of a new burnt brick type based on high-alumina materials used in steel ladles to manufacture high-grade ULC steels
- >> Development of improved binding agent combinations for injection molding compounds used in steel converters and electric kilns
- >> Development of environment-friendly trickling compounds with high durability to line wear layer of steel distributor containers.
- >> Market launch of new product for key special waste incineration customers, improving durability by 50%
- >> Development of a new generation of spinel bricks to fulfill increasing demands on durability in rotary kilns in the cement industry
- >> New raw materials based on spinels and corundums for refractories products for non-ferrous metals, steel, cement and environment, energy, chemicals.

A successful R&D drive was initiated at RHI Refractories in 2002 to promote further technology developments and to continue to extend market leadership.

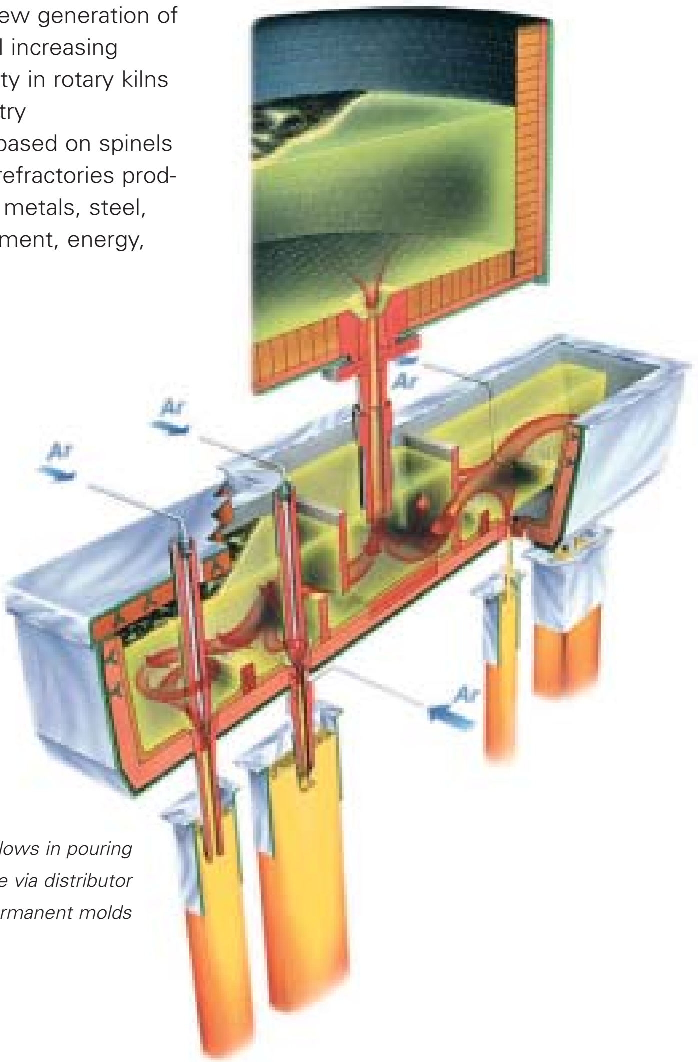


Illustration of flows in pouring liquid steel from ladle via distributor into permanent molds

Second refractories plant in China to optimize worldwide production network

In addition to technological strength, raw materials and production strategy are crucial factors in RHI Refractories' market success and competitive strength.

We have continued to develop our **raw material supplies** over the past few years. Demand for magnesite products is largely met from our own deposits. Our own mines and smelting plants manufacture raw magnesite, sinter magnesia, magnesite causter and spinel as well as smelting products for the manufacture of final refractories products and other materials. Significant competitive advantages can be realized through the development and production of special raw materials. In addition, substantial cost advantages can be realized by optimal use of in-group production as opposed to procurement from elsewhere, and this also avoids strategic dependencies. The already attractive mix of low-cost production by the group and variable levels of procurement will be extended in future.

Our raw materials policy is determined to a great extent by our worldwide production strategy. RHI Refractories now has more than 26 production sites in Europe, Canada, Mexico, Chile, China, and South Africa, with a clearly defined focus on certain refractories technologies, customer sectors and/or regions. Proximity to raw material sources and sales markets are factors used consistently to cut production and logistic costs. Works in Canada, Mexico, Chile, and China have been used in recent years to supply customers in the respective regions as efficiently as possible. RHI has also benefited from the better cost structure at some of these sites in relation to Europe. Works in Canada, Mexico and China will be extended further and tailored to meet requirements in North America and Asia.

Plans are currently underway to build a **new plant in China** in 2003/2004 to supply this highly promising market in future. China will continue to grow rapidly as a producer and exporter of raw materials, semi-finished and finished products, and all refractories customers are likely to see massive growth rates in China as a result.

RHI will only profit from this development and from the momentum it will bring to the Asian market as a whole if it is in a position to target the market appropriately. This explains the need for a second production site in China with an initial capacity of 40,000 annual tons of burnt basic bricks in the port of Dalian (Liaoning Province), a site selected by RHI for its proximity to raw materials and its favorable location. This new plant will supply customers from the cement, glass, non-ferrous metal and steel industry in China and Asia starting in early 2005.

This site in China will be highly competitive internationally due to the high quality of raw materials supplied, the RHI technology employed and the favorable production costs. Distribution networks will be improved in 2003 and 2004 to set the stage for optimal access to the aforementioned market segments. With this key strategic step, RHI Refractories now has two production sites in one of the most important future refractories markets. This is a key component of RHI Refractories' world production.

Outlook

RHI Refractories has come out of the group's crisis in 2001 and its capital restructuring in 2002 with flying colours. The right strategic and operative steps have been taken to strengthen earnings and cash flow from the refractories business worldwide. Business and order intake in the first quarter of 2003 are encouraging, and prospects for 2003 are positive; RHI is confident that it can build on its good results of 2002.

Developments – particularly those in the latter half of 2003 – could nevertheless be marred by only average industrial performance and considerable uncertainties due to the unresolved Iraq conflict. A long-drawn-out war or permanent smoldering of the conflict could damage the world's economy and the position of important RHI customers. Such a scenario could cloud the otherwise cautiously optimistic expectations for 2003.

Heraklith

The Insulating Division is one of the leading suppliers of insulating materials to the European market. Heraklith continues to focus on profitable market segments and attractive emerging markets in Central and Eastern Europe in the rock wool and wood wool building board product groups. The foundation of Heraklith AG as managing company clearly illustrates the operative independence and responsibility of the division within the RHI Group, and paves the way for a wealth of opportunities for future partnerships.

Insulating Division

in € million	**2002**	2001
Sales revenue	**164.4**	161.5
EBITDA	**15.8**	5.4
EBIT	**4.1**	-6.9
Employees	**1,775**	1,823

2002

Heraklith. Heralan. Heraflax.

Heraklith 2002: Recession in core markets increases focus on emerging markets of Central and Eastern Europe

The construction industry, which has been in the throes of recession since the mid-nineties, failed to perform as well as originally forecast in 2002. Once again, Germany fared particularly badly, while other EU countries did slightly better. Construction expenditure in Germany fell in 2002 for the third year running by 6% in comparison to the already poor figures for the previous year. Both public tenders and private commercial investment took a downturn. Heraklith was particularly hit by the decline in housing construction, down 6% on 2001.

Developments in our second core market, Austria, were not much better. The whole market declined by 3% approx., with only the renovations sector registering +2%.

Heraklith managed to score some success in exporting special products to a few European countries such as Italy, Spain and the Netherlands. Developments in important emerging markets such as Croatia, Slovenia, Slovakia, and Russia were very pleasing.

Sales revenue up 2% despite difficult market conditions

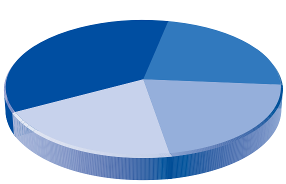
Sales revenue in the Insulating Division amounted to € 164.4 million (2001: € 161.5 million) in the reporting period. A decline in sales revenue in the core German and Austrian markets was offset by increased exports to various west European countries and better market penetration in Central and Eastern Europe. Germany/Austria's share of sales revenue fell from 64% in 2001 to 59% in 2002. As planned, this continued to lessen Heraklith's dependence on its existing core markets, which are not likely to grow considerably in future.

Positive signs in 2002 came from strong volume and revenue development in the rock wool segment in Eastern Europe and success with sales of special products (acoustics) in existing and especially in new markets in Western Europe. Heraklith now exports special products to more than 30 countries internationally beyond its core markets.

EBIT positive and clearly up on previous year despite weak markets

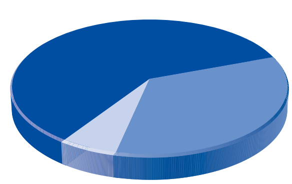
EBIT of the Insulating Division is significantly up on the previous year at € 4.1 million (2001: € -6.9 million). This meets the expectations set as part of RHI's capital restructuring. The negative impact of fierce competition and recession in core markets – Germany and Austria – were more than offset by positive contributions to results due to regional expansion and increased sales revenue from high-margin special products. In addition, earnings power benefited from continuing improvements to manufacturing processes and cost structures, particularly in production. In contrast to EBIT from operating activities before one-off effects of € 2.2 million in 2001, Heraklith almost doubled its EBIT in 2002 to € 4.1 million.

Heraklith: Sales revenue by region



- 36 % Germany
- 23 % Austria
- 21 % Eastern Europe
- 20 % Other countries

Heraklith: Sales revenue by product group



- 60 % Rock wool
- 34 % Wood-wool building boards
- 6 % Natural insulating materials/other

Realignment of Heraklith Group

The restructuring measures initiated at production sites at the end of 2001 were completed in the reporting period, substantially improving the group's production cost structures. The closure of the Sperenberg/Berlin works was completed in 2002, as was the production-side redesign of Ferndorf/Carinthia and Simbach/Niederbayern. This yielded further cost reductions. A key investment was the introduction of new planing technology at Ferndorf/Austria, which went into operation on schedule at the end of the third quarter. At the same time, the market launch of the new generation of acoustic panels is well underway. Heraklith has already secured key initial contracts internationally.

As the construction industry in core markets – particularly in Germany – is not expected to pick up significantly, and as real growth is forecast only for Eastern Europe, the Heraklith Group underwent a strategic face-lift. Together with structural changes, this move is designed to improve the group's earnings power.

Strategic objectives focus on:
>> consolidating market strength in emerging economies of Central/Eastern Europe with intensive market efforts in Russia, Ukraine, Romania, Bulgaria, and Yugoslavia's successor states
>> continuing rationalization measures, closure of some sites, efficiency drives in the core markets Germany and Austria, as these markets are not showing notable growth potential due to the persistent recession.

In the course of restructuring, Österreichische Heraklith GmbH converted to Heraklith AG, a public limited company as of March 12, 2003. This step clearly underlines the operative independence and autonomy of the Insulating Division within the RHI Group.

The operative structure of the Heraklith Group is based on four pillars:
>> Business Unit Buildings
>> Business Unit Ceilings/Inner Walls
>> Business Unit Industrial insulating materials
>> Investment management of foreign companies

The future composition of Heraklith AG's Management Board is as follows: Mag. Roland Platzer will move from RHI AG to become CEO/COO of Heraklith AG. Dr. Eduard Zehetner will take over as CFO of Heraklith AG, while retaining his function as RHI board member. RHI's CEO, Dr. Helmut Draxler will become Chairman of Heraklith AG's Supervisory Board.

Outlook

The main objectives of the Heraklith Group for the years to come remain unchanged:
>> continuation of strategy of segmentation into profitable application fields
>> further regional expansion to attractive growth markets, particularly Central and Eastern Europe
>> marketing of the new product generation "Heradesign" based on fine-grained wood wool and a new manufacturing technology, mainly designed for creative applications for inner walls and ceilings.

RHI is confident that the clear structures established have created the right conditions to allow and support positive, sustainable business development at Heraklith AG, on the one hand, and will pave the way for a wealth of opportunities for future partnerships, on the other.

Thanks to these structural measures, RHI expects EBIT from the Insulating Division to increase in 2003 by about 50% on the previous year.

Engineering

Engineering Division

in € million	2002	2001*
Sales revenue	**72.8**	195.5
EBITDA	**1.0**	-4.8
EBIT	**0.0**	-7.5
Employees	**519**	523

** With the sale of the Engineering Division, the firms concerned were deconsolidated at June 30, 2002. The figures for 2002 therefore only show sales revenue and results up to the point of deconsolidation and are therefore not comparable with the previous year.*

Engineering 2002: RHI's consistent portfolio strategy results in sale of the Engineering Division

RHI's assessment of its engineering strategy, which was initiated in 2001, led to the ultimate decision to no longer include this division in the target portfolio but to sell off the whole division as part of the restructuring program.

One important milestone in the new direction embarked on by the group was its focus on core competencies and strengthening of its leading market position in refractories was the successful sale of Engineering in mid-2002. In June of that year, Deutsche Beteilungs AG acquired the whole engineering business of the RHI Group. The Engineering group employed a total of 780 employees at that point and had generated sales revenue of over € 230 million in 2001, of which € 195.5 million were consolidated in the RHI Group.

The change of ownership offered the Engineering firms attractive opportunities to develop within the Deutsche Beteiligungs AG group of companies.

RHI sold all six Engineering units comprising nine – mainly German – core companies, all with established brand names in their respective markets: Didier-M&P Energietechnik GmbH (66.67% share), Mainz-Kastel; Maerz-Gautschi GmbH, Düsseldorf, Kaefer Raco Engineering GmbH, Bremen, all Germany; Bachmann Industries Inc., USA; Maerz Ofenbau AG, Switzerland; Cimprogetti S.p.A., Italy, parts of Zimmermann & Jansen Group, Düren; Hermann Rappold GmbH (58% share), Wiehl, all Germany.

The objectives of the business plan presented by RHI in combination with the capital restructuring will not be adversely affected by the sale. On the contrary, the positive impact of the sale on liquidity and risk will more than compensate for the lost earnings potential. The consolidated balance sheet was cleared of future pension and purchase price commitments. The purchase price was used additionally to reduce financial payables further.

The consolidated engineering firms had generated sales revenue of € 72.8 million up to their deconsolidation at June 30, 2002. Since the acquirer assumed the results, the resultant EBIT is € 0.0 million.

RHI share

RHI AG stock is traded on the Vienna and Frankfurt Stock Exchanges. The RHI share is represented in Vienna in the Austrian Traded Index (ATX), the key index and most important trading segment of the Austrian capital market. RHI is also a member of the PRIME MARKET of the Vienna Stock Exchange, which, since January 1, 2002, includes the shares of companies that have committed themselves to compliance with strict criteria governing transparency, quality and disclosure. Since the beginning of 2003, RHI has been listed on the Frankfurt Stock Exchange in the General Standard new market segment.

After the downhill slide over the course of 2001, closing at € 7.30 at year-end, the RHI stock fell further to hit a new low of € 4.35 in January 2002 when the management of the US group NARCO filed Chapter 11. Following the publication of an extensive capital restructuring concept, to which RHI stockholders gave the go-ahead at the Extraordinary General Meeting on February 15, 2002, the stock managed to recover considerably despite the US Group GIT's filing Chapter 11, as well. The share briefly rose above € 8 in February, closing on December 31, 2002 at € 7.35 on the Vienna Stock Exchange. In the light of good quarterly results for 2002, attractive prospects for 2003 and a promising price/earnings ratio, interest in the share – particularly among new investors – picked up towards the end of the year. RHI stock temporarily went above the € 9 mark in January 2003, despite difficult conditions on stock exchanges. This positive development underlines the investors' confidence in RHI stock and illustrates that the capital restructuring, our clear strategic direction and the company's 2002 results, which have outstripped expectations, are all factors that have been welcomed by capital markets.

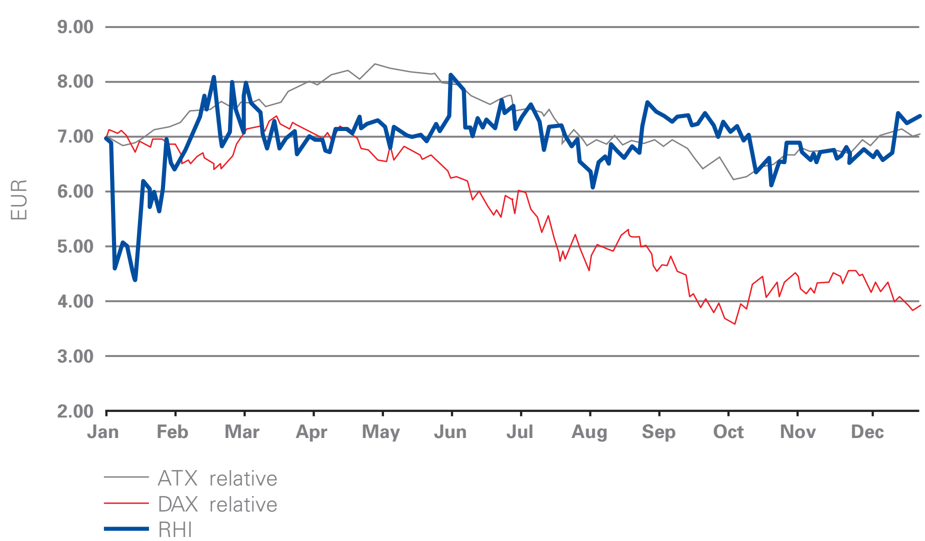
Convertible bonds

At the Extraordinary General Meeting on February 15, 2002, RHI AG's Board of Management gained approval for two capital increases as part of the capital restructuring program, enabling it to issue two subordinated convertible bonds of tranche A and B.

In April 2002, RHI AG's Board of Management decided to use this authorization to issue tranche A with a total nominal value of € 72.36 million, maturity up to and including December 31, 2009. Conversion will not be possible until January 1, 2007. This tranche is reserved for banks; stockholders have no subscription rights. Furthermore, tranche B was issued with an identical nominal value of € 72.36 million, split into 1,809 part convertible bonds with a nominal value of € 40,000, also maturing on December 31, 2009. Tranche B could not be converted until January 1, 2003. No holder has exercised the option to convert so far. RHI AG stockholders were able to exercise their rights to subscribe tranche B between April 8, 2002 and April 26, 2002.

The complete conversion of the bonds may result in a doubling of the current number of 19.92 million voting, no-par common RHI AG stock. The new shares are eligible for dividends from the beginning of the business year in which the conversion is declared.

The RHI share in 2002



Corporate Governance

Shareholders, analysts, investors and the business press were kept regularly up-to-date on all significant events, particularly those relevant to the share price. This was done in accordance with the ad-hoc disclosure requirements of the Vienna and Frankfurt Stock Exchanges.

RHI advocates the legal provisions preventing insider violations and adheres to the issuer compliance regulation effective in Austria since April 4, 2002 to support § 82 (5a) of the Austrian Stock Exchange Act.

RHI also complies with the Directors' Dealings disclosure requirements in accordance with § 15a of the German Securities Act. Disclosures can be accessed on RHI's homepage.

A corporate governance code has been effective since October 1, 2002 in line with international standards regarding management responsibilities of companies. Details on this code are available on the internet at www.corporate-governance.at.

RHI supports corporate governance objectives to strengthen the confidence of domestic and foreign investors in the Austrian capital market. RHI's Management and Supervisory Boards have closely examined the requirements of the Code of Corporate Governance. Its requirements and recommendations are already largely met by RHI. RHI's Board of Management will distribute information on compliance with the code at the company's General Meeting on May 26, 2003. Moreover, RHI will publish an annual declaration on compliance including any deviations on the company website after collecting the opinions of the boards concerned in accordance with line 58 of the Code.

The investor relations department of RHI AG is available to answer queries from all shareholders, investors and capital market participants regarding the share and the company. The most im portant information is also available on the Internet under www.rhi-ag.com.

RHI share: key figures

in €	2002	2001
Share price at year-end[1]	**7.35**	7.30
High [1]	**8.10**	24.11
Low [1]	**4.35**	5.00
Average [1]	**6.92**	18.13
Number of shares[2] (in million units)	**19.92**	19.92
Trading volume (in million units)	**14.85**	15.92
Trading volume (million)	**100**	258
Market capitalization[3] (million)	**146**	145

1) Closing prices on the Vienna Stock Exchange
2) Weighted annual average
3) At year-end

RHI shareholder structure at year-end 2002

89% free float
11% E.ON AG, Düsseldorf

Capital market calendar 2003

08.05.2003 First quarter results 2003
26.05.2003 Annual General Meeting, Studio 44, Rennweg / Vienna
07.08.2003 Half-year results 2003
06.11.2003 Results for 3rd quarter 2003

ISIN

RHI share: AT0000676903

Convertible bond
Tranche A: AT0000443049

Convertible bond
Tranche B: AT0000443056

Convertible bond
Tranche C: AT0000443064

Information on RHI

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Stockholders' fax: +43 / 0 / 50213-6130
e-mail: rhi@rhi-ag.com
Internet: www.rhi-ag.com

Consolidated Financial Statements 2002

Management Report

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

General economic climate

Despite the weak construction sector in Europe and a merely average industrial performance worldwide, RHI produced good results in 2002, exceeding the sales revenue and results targets set up as part of the capital restructuring plan. This means a successful turnaround in comparison to 2001.

The world economic climate has not improved markedly on the previous year, with key customer industries and sales regions still suffering from a sluggish economy. Only a few of the highly developed and newly industrialized countries of key importance to RHI's industrial customers saw an economic upturn. Europe's economy remained sluggish in 2002; investments and consumer confidence were down in some cases. The recovery in the US and Japan was only marginal in 2002, and many smaller economies failed to rally as a result. Once again, China alone bucked the trend in 2002, registering impressive – in some sectors double-digit – uninterrupted growth. The second half of the year also failed to bring the much-awaited recovery, with pessimism about a quick economic upturn prevailing.

The steel industry found itself in a precarious situation at the beginning of 2002, due to low prices and poor economic conditions, with the steel industry continuing to consolidate globally. The promised imposition of protective tariffs by the US administration upset the market temporarily in the first half of the year, but did not have a long-lasting negative impact on RHI. Although worldwide output in 2002 was 6% up on the previous year, the major part of the increase can be attributed to higher production volume in Asia, particularly in China (+20%). The latter half of the year saw a clear recovery of the steel sector in RHI's main customer markets. This slight increase in output was – at least in part – clearly due to producers and sellers increasing their inventory.

The market and economic situation in the cement, lime, non-ferrous metals, glass, environment, energy, and chemicals industries was also rather subdued, but generally less hostile than the situation in the steel sector. Here too, the trend towards consolidation of producers into a few international groups continued unabated in 2002. Many producers also increased their capacities in key newly industrialized and emerging economies in Asia (particularly in China) and in Eastern Europe, where economically viable plants are being taken over and modernized or new capacities built up. RHI Refractories also profited from the global trend affecting all refractories customers in 2002, optimally utilizing its own global production and distribution network for its customers' benefit.

The construction industry, which has been in the throes of recession since the mid-nineties, failed to perform as well as originally forecast in 2002. Once again, Germany fared particularly badly, while other EU countries did slightly better. Construction expenditure in Germany fell in 2002 for the third year running by 6% in comparison to the already poor figures for the previous year. Both public tenders and private commercial investment took a further downturn. Heraklith was particularly hit by the decline in housing construction, down 6% on 2001.

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Capital restructuring

Bolstered by the international earnings power of the refractories business outside the US, RHI's core Austrian banks declared themselves willing in November 2001 to provide a € 200 million senior debt credit facility for a wholesale restructuring of the group's capital and net worth. This has enabled RHI to meet its long-term obligations to customers, suppliers and other creditors.

After detailed analysis of the legal and economic implications of all available options, RHI took a landmark decision at the end of 2001 to focus the group's activities on the commercially attractive refractories business not including the US. This step was triggered by the number of asbestos litigation claims lodged against US companies in 2001, which had spiraled to an extent far exceeding the limit covered by liability insurance. As RHI was neither willing nor able to meet these claims, the RHI Group suspended its financing of its US subsidiaries. The overwhelming majority of the US companies have since filed Chapter 11 of the US Bankruptcy Code and are currently undergoing reorganization.

The consequent deconsolidation of the US companies at December 31, 2001 meant that the investments held in the companies concerned and the loans granted to them had to be written down in the 2001 financial statements. Due to the charges taken and provisions set up, which affected the income statement, RHI reported a net loss after minorities for 2001 of € -863.1 million. Consequently, RHI's consolidated balance sheet showed a negative equity of € -548.6 million at December 31, 2001. After conversion of € 400 million of bank liabilities into mezzanine capital due to subordination agreements made with financing banks as part of the restructuring concept, stockholders' equity including mezzanine capital at this point in time was still negative at € -148.6 million.

With a comprehensive capital restructuring plan, RHI AG managed to avert insolvency on the basis of a positive going-concern forecast. A long-term, sustainable concept was drawn up with the financing banks. The core elements are:

- >> Provision of the necessary liquidity to finance the continuing business operations of the RHI Group (so-called "liquidity-securing credit facility" in excess of€ 200 million)
- >> Restructuring of core operating refractories business Veitsch-Radex GmbH (change of legal form, revaluation)
- >> Conversion of € 400 million of bank liabilities due to subordination agreements concluded with the so-called stand-still banks and conversion into subordinated mezzanine capital until January 02, 2007.
- >> Interest reduction on remaining bank liabilities (so-called senior debt) to a preferential interest rate of EURIBOR/LIBOR plus 0.5 percentage points until December 31, 2006
- >> Issue of a subordinated convertible bond of tranche A to a total value of € 72,360,000, maturing on December 31, 2009, exchangeable for the first time from January 1, 2007 onwards, bearing interest at 6% p.a. depending on results. No rights to be issued to stockholders, issue to be subscribed by stand-still banks
- >> Issue of a subordinated convertible bond of tranche B to a total value of € 72,360,000, maturing at December 31, 2009, exchangeable for the first time from January 1, 2003 onwards, bearing interest at 6% p.a. depending on results, rights to be issued to stockholders.
- >> € 100 million from tranche A and tranche B to be underwritten by core banks.

All agreements required for the aforementioned core elements to become effective with regard to the stand-still banks are now in place. At the extraordinary meeting of RHI AG on February 15, 2002, the Management Board was authorized to carry out a conditional capital increase to facilitate the issue of both convertible bonds of tranches A and B. The core elements of the capital restructuring, geared to the long term, are the basis for:

- >> contractually securing the liquidity of the RHI Group long-term
- >> continuing to optimize and expand the group's core Refractories business worldwide
- >> focusing company policy on cash flow to accelerate the group's debt retirement program
- >> building up the group's equity base in the long-term to regain an appropriate gearing level for the RHI Group in the long term.

Convertible bond issue

On April 4, 2002, the RHI Group used the authorization it had been granted to issue the tranche A convertible bond. This tranche with a value of € 72.36 million was fully subscribed by banks in May 2002. In addition, the tranche B convertible bond was issued. This is divided into 1,809 parts each with a nominal value of € 40,000. RHI stockholders were able to exercise their rights from April 8, 2002 to April 26, 2002.

RHI exercised its agreed put option as part of the capital restructuring on May 6, 2002 and placed € 27.64 million of the € tranche B convertible bond with the banks. In the first phase of the issue, the volume of both tranches placed amounted to € 115.20 million up to the expiry date on May 15, 2002. The remaining € 29.52 million was offered to investors as tranche C as part of a private placement.

This placement was completed by the expiry date, August 30, 2002, after RHI had received corresponding orders and reservations. The total volume of convertible bonds sold in 2002 amounted to € 136.40 million; the remaining € 8.32 million are designated for RHI management option programs from 2003-2005. After completing this program, the total proceeds from the issue amounting to € 144.72 million will be used to repay bank loans.

US Chapter 11 proceedings

The Chapter 11 proceedings of the deconsolidated US refractories firms have developed in line with expectations. The firms concerned are currently working on the business plans required for successful reorganization under Chapter 11 to be submitted for approval to the relevant court in Pittsburgh/USA. All parties directly and indirectly involved in the proceedings (e.g. the companies themselves, their former owners, the creditors concerned, and their lawyers) are in the process of defining their positions with regard to the further development of the proceedings. The non-asbestos creditors of the US firms submitted their final, binding claims at February 28, 2003 ("bar date"). The next important steps in the proceedings are the clarification of claims lodged by asbestos creditors and their settlement, and the presentation of reorganization plans by Chapter 11 companies. From RHI's perspective, the Chapter 11 proceedings are expected to continue according to schedule. We do not expect a negative financial impact from the outcome of the US Chapter 11 proceedings of our subsidiaries GIT and North American Refractories Co. The further timescale for this is significantly dependent on Honeywell and Halliburton, both former owners of Chapter 11 companies, who play a major role in the proceedings. All involved parties hope to conclude the Chapter 11 proceedings by the end of 2003.

Strategy, acquisitions and divestments

The year 2002 signified a break with the past and a new start, following a critical year in 2001. One of the main objectives of the RHI Group's business plan drawn up at the beginning of 2002 as part of the capital restructuring concept was to focus the group on commercially attractive, forward-looking core competencies. With this objective in mind, the international refractories business has become the cornerstone of the capital restructuring, and the commercial basis for RHI's future.

RHI Refractories has extremely well established brands, products and system solutions, which have made this division the technology leader among refractories suppliers worldwide. This position has been hardly compromised at all by the sell-off of the US refractories firms. RHI Refractories has an excellent market position and is highly competitive across the globe with its Business Units Steel & Flow Control, Cement & Lime, Non-ferrous metals, Glass, Environment, Energy and Chemicals. All the business units managed to rank among the top 3 suppliers in their respective markets. With a world market share of 13%, RHI is neck-and-neck with its most significant global rival in terms of the market leader position. The results for 2002, with a Refractories EBIT margin of over 9% and global sales revenue of € 1,067.2 million, prove that RHI's decision to focus on its core competence, Refractories, was, and still is, the right move.

After selling off our US Refractories firms, we have redeveloped our business unit Canada/USA. This business unit serves the highly important Canadian market, supplying steel and industrial customers, amongst others, from two Canadian works. The US market is also served from Canada. Here we supply key customers, particularly in the US steel industry.

Our efforts to rebuild our US business are progressing very well indeed. All RHI's activities in the US are taking place against the backdrop of the Chapter 11 proceedings and do not jeopardize the restructuring of the former US part of the group. On the contrary, individual customers and market segments are supplied in close cooperation with these firms.

Plans are currently underway to build a new plant in China in 2003/2004 to supply this highly promising market in future. China will continue to grow rapidly as a producer and exporter of raw materials, and increasingly of semi-finished and finished products, and all refractories customers are likely to see massive growth rates in China as a result.

RHI will only profit from this development and from the momentum it will bring to the Asian market as a whole if it is in a position to target and supply the market appropriately. This explains the need for a second production site in China with an initial capacity of 40,000 annual tons of burnt basic bricks in the port of Dalian (Liaoning Province), a site selected by RHI for its proximity to raw materials and its favorable location. This is an ideal location from which we can supply customers from the cement, glass, non-ferrous metal and steel industries in China and Asia from the beginning of 2005 onwards.

Insulating, RHI's second division, managed by Heraklith AG (formerly Österreichische Heraklith GmbH), which was converted to an open corporation as of March 12, 2003, has been given a new operative and strategic direction within the RHI Group. Its sales plans and activities from 2001 were scaled down and suspended. Heraklith has two clear objectives as part of RHI's portfolio strategy and capital restructuring:

Expansion of the market position in the emerging economies of Central and Eastern Europe and in other attractive export markets; Realizing increases in efficiency in the core companies and markets of Germany and Austria.

In addition, Heraklith has redefined the operating structure of the Insulating group and has defined three Business Units responsible for its market activities from 2003 onwards. This step will continue to improve our cost and earnings situation, enabling Heraklith to make an important contribution to results and cash flows in future. These measures perfectly complement and support, on the one hand, the positive, long-term business development of Österreichische Heraklith GmbH, and, on the other, pave the way for future strategic partnerships.

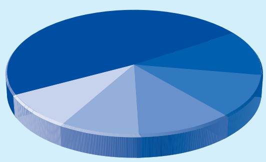
Engineering has not been part of the RHI group portfolio since mid-2002. Our assessment of RHI's Engineering strategy, initiated in 2001, resulted in the ultimate decision to sell off the division as part of the capital restructuring plan. We completed this key portfolio realignment on June 30, 2002.

Sales revenue and earnings position

RHI: Sales revenue and earnings

in € million	2002	2001
Sales revenue	1,351.9	1,867.2
Operating result (EBIT)	85.2	-114.3
Financial result	-23.0	-90.6
EBT	62.2	-204.9
Net income/loss	69.4	-856.4
Net income/loss after minorities	65.9	-863.1

RHI consolidated sales revenue by region



RHI consolidated sales revenue in 2002 amounted to € 1,351.9 million (2001: € 1,867.2 million). The decline of 28% is mainly due to the deconsolidation of the US refractories business at December 31, 2001 and of engineering activities at June 30, 2002. Without its US activities, Refractories generated sales revenue of € 1,067.2 million (previous year: € 1,521.5 million). The comparative figure for the previous year is € 1,034.0 million. Insulating generated sales revenue of € 164.4 million despite very poor market conditions in its core markets (previous year: € 161.5 million). The Engineering division, deconsolidated at June 30, 2002, contributed € 72.8 million (previous year: € 195.5 million) to consolidated sales revenue.

Other/consolidation (€ 47.5 million) consists of intra-group sales and sales revenue from three firms formerly part of RHI's Waterproofing division. Although the companies concerned were sold in 2001, the buyer was not initially able to raise the agreed purchase prices. RHI resumed ownership of these firms in 2002 to limit the financial damage, and consolidated them in its 2002 financial statements. The division is to be resold in 2003.

RHI: sales revenue

in € million	2002*	2001**
Refractories	1,067.2	1.521.5
Insulating	164.4	161.5
Engineering	72.8	195.5
Others and consolidation	47.5	-11.3
RHI Group	1,351.9	1,867.2

**Engineering sold/deconsolidated at June 30, 2002*

***Refractories 2001 still including USA activities*

Despite a decline of 28% in group sales revenue in comparison to 2001, the results for 2002 have been significantly boosted by improved operative contributions and by the absence of the extraordinary charges taken in 2001.

Consolidated EBITDA for 2002 was € 143.4 million (previous year: € -24.2 million), **EBIT** amounted to € 85.2 million (previous year: €-114.3 million). This is bearing in mind that EBIT for the previous year was adversely affected by one-off charges. If we compare operating EBIT of € 7.9 million in the previous year with EBIT in 2002, we can see a marked improvement. This is mainly due to the clearly negative EBIT contributions from US Refractories in 2001, and to the increase in EBIT from non-US Refractories in 2002. In addition, EBIT from Insulating, Engineering and overhead/other are up year-on-year. All in all, RHI generated EBIT of € 85.2 million in 2002, containing neither positive nor negative extraordinary one-off effects.
The group's EBIT margin is 6.3%, the figure for its core refractories business being 9.3%.

RHI: Operating result (EBIT)

in € million	2002	2001*
Refractories	98.8	-71.5
Insulating	4.1	-6.9
Engineering	0.0	-7.5
Overhead/Other	-17.7	-28.4
RHI Group	85.2	-114.3

***EBIT 2001 includes refractories USA and one-off effects*

The positive effect of the capital restructuring is also clearly reflected in the **financial result** for 2002. While the 2001 financial result at € -90.6 million was affected by high and market-rate interest payments on bank loans worth over € 1,000 million, the figure for 2002 was reduced to € -23.0 million. There are three major factors affecting this result:

- >> The provision of interest-free mezzanine capital amounting to € 400 million by stand-still banks
- >> A preferential interest rate of EURIBOR/LIBOR + 0.5 basis points on the remaining bank loans
- >> The ongoing reduction in outstanding debt due to operative earnings and US payments in connection with Chapter 11 proceedings in 2002.

RHI consolidated earnings before tax (EBT) amounted to € 62.2 million (2001: € -204.9 million).

The financial statements for 2002 contain a positive, **extraordinary result** of €19.9 million, mainly attributable to the conclusion of a legal dispute in the US (resulting from the GIT acquisition), amounting to € 15.3 million. The previous year's figure contains significant, negative effects arising from write-downs, risk provisions and from the deconsolidation of the US refractories firms.

Following the positive EBIT and the improvement to the financial result, RHI **net income** for 2002 amounts to € 69.4 million (previous year: €-856.4 million). **Net income after minorities** is € 65.9 million (previous year: € -863.1 million).

Stockholders' equity including mezzanine capital amounted to € 18.2 million (previous year: € -148.6 million) at December 31, 2002 due to the issue of convertible bonds and to net income after minorities, which is in the black in the first annual financial statements following the capital restructuring.

Earnings per share amounted to € 3.31 in 2002 as compared to € -43.33 in the previous year. Due to the high net loss in 2001 and the consequent distortion of equity capital, a proposal not to pay out any dividend for 2002 will be made at RHI AG's Annual General Meeting on May 26, 2003 despite recording positive net income in 2002.

Cash flow, capital expenditure and liquidity

RHI consolidated **cash flow from results** in 2002 amounted to € 144.2 million (2001: € -311.4 million), cash flow from operating activities was € 81.6 million (2001: € -106.6 million).

A total of € 40.9 million (2001: € 51.7 million) was invested in **property, plant and equipment** and in **intangible assets** in 2002. Proceeds from sales amounted to € 3.1 million (2001: € 9.1 million), primarily generated from the sale of non-business-related assets.

€ 10.2 million (2001: € 19.8 million) was earmarked for the acquisition of investments, while € 10.2 million (2001: € 3.6 million) was raised from the sale of subsidiaries.

In total, **cash flow from investing activities** amounted to € -37.8 million (2001: € -59.4 million). Cash flow from financing activities at € -70.4 million (2001: € 165.1 million) contains repaid funds borrowed from financial institutions amounting to € 300.3 million. Part of the amount repaid was raised through the issue of convertible bonds, € 136.4 million of which had been received by the balance sheet date.

Net financial payables of the RHI Group amounted to € 324.3 million (2001: € 595.7 million) at December 31, 2002. The RHI Group had a total credit line of € 526.6 million (€ 730.8 million at December 31, 2001) with international banks at year-end. The significant drop in net financial payables is partly due to the subscription of convertible bonds to a value of € 136.4 million.

RHI: Cash flow

in € million	2002	2001
Cash flow from results	144.2	-311.4
Changes in working capital	-62.6	204.8
Cash flow from operating activities	81.6	-106.6
Cash flow from investing activities	-37.8	-59.4
Cash flow from financing activities*	-70.4	165.1
Consolidation measures, etc.	0.7	1.2
Change in cash and cash equivalents	-25.9	0.3

** including € 90.5 million in payments from Honeywell and Halliburton in 2002*

Risk management

The RHI Group has a centralized approach to risk management. This comprises limiting financial risks such as liquidity, interest rate and currency risks, while securing against debtor default and del credere risks. Moreover, most operative asset risks are controlled centrally via insurance management.

Liquidity risk is limited through group liquidity planning to reveal the short and medium-term development of liquidity. Talks are regularly held with banks and credit insurers to secure the long-term financing of the group.

Liquidity risk has been limited comprehensively in line with group requirements for the next few years by the agreements made with our bank consortium as part of our capital restructuring. We have a long-term revolving credit facility of € 200 million for this purpose.

Credit risk management aims to avoid default risks and to secure the value of receivables as one of the most important components of assets. The portfolio of receivables is monitored and controlled monthly to assess risks (credit-at-risk approach.)

Currency risks from financing the GIT acquisition had been hedged with currency swaps in previous years. After the split from the US group, the US dollar risk exposure of this swap was hedged by a forward exchange contract in 2002.

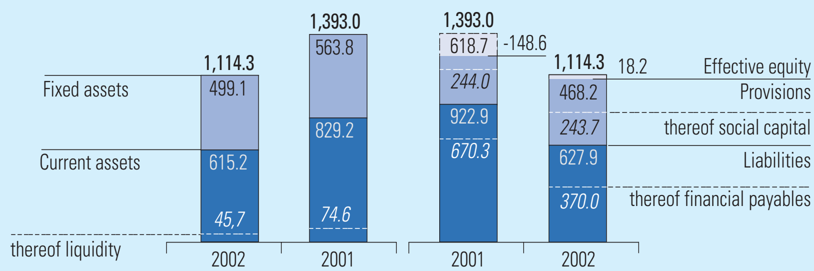
Assets and capital structure

Changes to the consolidated group and foreign currency translation did not have a material impact on the asset structure of the RHI Group at December 31, 2002. The effects from changes to the consolidated group are shown separately in the notes under consolidated companies.

The equity recorded in the financial statements of the RHI Group at December 31, 2002 is negative at € -508.6 million (December 31, 2001: € -548.6 million). Taking the mezzanine capital of € 400.0 million into account and the convertible bonds issued in 2002, effective equity capital at December 31, 2002 is positive at € 18.2 million (December 31, 2001: € -148.6 million). This is equivalent to a ratio of 1.6% (2001: -10.7%).

The proportion of overall borrowing is 37% (2001: 48%). The scheduled refinancing of fixed assets is given with a surplus coverage of 21% (2001: 17%).

Balance sheet structure of RHI Group (in € million)



Production and capacity utilization: Refractories

Capital utilization at Refractories plants differed from region to region in 2002 and was influenced by developments affecting the various customer industries. Capacity utilization was good at the Chilean works in Central and South America, whereas production at Mexican works was down on the previous year due to the weak steel industry. Utilization improved in Mexico, however, in the latter half of the year.

Capacity utilization at works in Canada was better than in 2001. The production site in China was already running at full capacity in 2002. To meet the rising demand for high-quality products in this region, work began to extend capacity during the course of the year, and this is scheduled for completion by the middle of 2003, enabling higher production volumes to be provided for the regional market in the future.

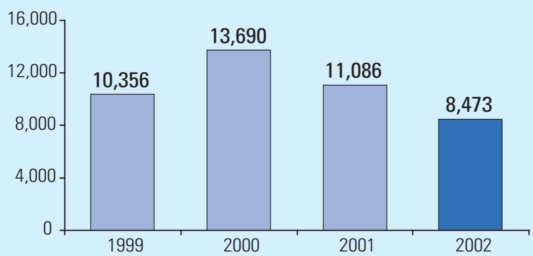
Utilization was good at European works mainly producing for the cement, glass and non-ferrous metals industries. An upwards trend could be seen at the works primarily serving the steel industry in comparison to the latter half of 2001. Capacity utilization improved overall in the second half of 2002. Increasing pressure on costs in Europe led to the decision to close one production site in France. The products manufactured there will be produced or bought in by other sites belonging to the RHI Group. The group managed to secure further price reductions on raw materials in some areas as compared to 2001 with a corresponding positive impact on costs.

In addition to project work on the construction of a second plant in China, capital expenditure in 2002 focused on the San Vito/Italy works and Niederdollendorf/Germany. Both sites mainly produce high-grade products for the glass industry. Expenditure on rationalization and quality improvements has been made to ensure the future profitability of this segment. Work on planning extensions to the Ramos Arizpe plant in Mexico was completed on schedule. The project is scheduled for implementation by the end of 2003.

Personnel

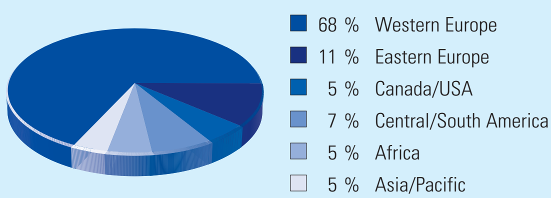
7,821 people were employed in the fully consolidated companies belonging to the RHI Group at December 31, 2002 (2001: 10,355 still including the US companies). The decline of 2,171 is primarily due to the deconsolidation of refractories companies in the USA at December 31, 2001. The reconsolidation of three waterproofing companies with 313 staff had the opposite effect. 524 staff members left the group with the sale of the Engineering Division at June 30, 2002. The remaining staff cuts can be attributed to the ongoing rationalization of Refractories and Insulating, ensuring that social factors are taken into account. These cuts particularly affected Mexico.

At the end of 2002, 2,401 people were employed in Austria (2001: 2,131 employees), accounting for 30.7 % 2001: 20.6 %) of total group staff.



Headcount (annual average):

Regional breakdown of RHI employees



RHI: Personnel ratios

	2002	2001
Sales revenue in € million	1,351.9	1.867.2
Personnel expenses in € million	375.4	616.3
Annual average number of employees	8,473	11,086
Personnel expenses as % of sales revenues	27.8	33.0
Sales revenue per employee in € 1,000	159.6	168.4
Personnel expenses per employee in € 1,000	44.3	55.6

The ratio of personnel expenses to total sales revenue fell to 27.8% in 2002 (2001: 33.0%), while average sales revenue/employee fell by approx. 5% due to portfolio changes in the RHI Group.

Leadership development

As RHI's future is greatly dependent on the knowledge acquired by and technical training provided to its employees, further human resources programs for management and trainee management were initiated in 2002. The modular program includes training in interpersonal and leadership skills, as well as in specific fields of expertise. Together with group-wide successor planning, RHI thus ensures that employees who already have the skills they need to fulfill their tasks as leaders can fill key positions in future.

Employee ownership scheme

Due to the unchanged high degree of acceptance, RHI continued to offer its employee stock ownership plan "4 plus 1" in 2002. This plan grants employees the option to receive bonus stock worth € 730 in total against RHI stock they have purchased to a total value of € 2,920 per annum. At year-end, 1,432 or 60% of the Austrian employees had received RHI stock, illustrating our staff's continuing interest in RHI's share price development.

RHI management option program

Report of the Management and Supervisory Boards in accordance with §§ 95 (6) and 159 (2) Z 3 of the AktG (Stock Corporation Act): At the Extraordinary Meeting of Stockholders on February 15, 2002, the Management Board of RHI AG was authorized to issue subordinate bearer convertible bonds of tranche B to a nominal value of € 72,360,000 by December 31, 2006, maturing at December 31, 2009, split into 1,809 parts, each with a nominal value of € 40,000. The bearers of tranche B convertible bonds are entitled to exchange the bonds at a ratio of 1:5,500 for 5,500 RHI AG stock from January 1, 2003 onwards.

On the basis of the stockholders' meeting of February 15, 2002, the Management Board issued the tranche B convertible bond under the conditions stipulated at the stockholders' meeting, including stockholder subscription rights.

Principles and incentives of convertible bond management option plan 2002

In the race to attract managers of a high social and technical caliber, who are willing to take on responsibility in line with the objectives of the RHI Group, RHI will only succeed in strengthening its market position if managers in key positions are given a share in the enterprise value of RHI AG in the form of options on convertible bonds. The convertible bond management option plan in 2002 therefore aims to grant

options to key employees and board members to promote company
loyalty and strengthen staff commitment and creativity in the interests of raising shareholder value.

The options can be exercised in the years 2003 to 2005 subject to the following conditions:

- >> Options can only be exercised if all the conditions cited in § 2 of the bond conditions regarding the interest due on the part-bonds of tranche B have been fulfilled in the acquisition of the option in the previous year, i.e. the first tranche relates to the financial year 2002, the second tranche to 2003, the third tranche to 2004.
- >> All participants in the option plan are only entitled to exercise their options if certain targets in line with group medium-term planning regarding "consolidated EBIT" and "free cash flow" as cited in the annual report of the RHI Group are met. These targets are set by the Board of Management with the consent of the Supervisory Board for the Management and Supervisory Boards in advance for each following year.
- >> Participants in the convertible bond management option plan for 2002 who are not Board members of RHI AG are only entitled to exercise their options if they also achieve the annual quantitative targets set as their performance-related remuneration component.

Number and division of options to be granted

The convertible bond management option plan 2002 comprises options for a total of 210 bearer part convertible bonds of tranche B. Each option entitles the holder to acquire one part convertible bond of tranche B.

60 options have been allocated to RHI AG Management Board members Dr. Helmut Draxler, Dr. Andreas Meier, Mag. Roland Platzer and Dr. Eduard Zehetner. Each of the four board members is entitled to purchase a maximum of 5 options each year. 150 options are allocated to the remaining participants, each one limited to a maximum of 2 options per year.

So far, no options on RHI AG convertible bonds or stock have been granted to RHI AG Board members, senior management of the RHI Group, corporate bodies, or to other employees at RHI's group companies.

Exercise of options

The options are exercised in three identical tranches in the years 2003, 2004 and 2005. The options can be exercised three months after publication of the consolidated financial statements in accordance with § 83 (3) Stock Exchange Act, i.e. first tranche after publication of the consolidated financial statements for the 2002 financial year, the second tranche after publication of the consolidated financial statements for the 2003 financial year and the third tranche after publication of the consolidated financial statements for the 2004 financial year. Options that cannot be exercised within the exercise period due to the required conditions not being met or for other reasons expire and can no longer be exercised during later exercise periods.

On the first day of each exercise period, the holder must either be a Board member (Management, Supervisory Boards), or must have a valid contract of employment with RHI AG or a group company, without any notification of termination (notice, dismissal, voluntary early retirement/withdrawal) having been served or received by RHI AG. In contrast to the above, existing options remain valid if the holder is made redundant or leaves due to a significant event or circumstance directly affecting RHI AG's sphere of activities. The same applies if RHI AG terminates the holder's employment without providing evidence of significant circumstances, for which the holder can be held responsible, to justify the termination.

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

Transferability of options

The options are granted to the holder personally and cannot therefore be transferred or passed on by inheritance.
The granting of rights to the options, particularly their use as liens or assignment as security, is not permitted.

Research and Development

Worldwide concentration of R&D activities on the technology center Leoben/Austria will make a major contribution to the continuing success of RHI Refractories' business, and will strengthen its position as technology and market leader for high-grade ceramic refractories.

By focusing R&D on the core segments of RHI's customer industries, the main priorities are to extend refractories know-how, to protect intellectual property, to support technology, and to drive innovation in all refractories segments.

Building a computer-aided competence network within the refractories area enables us to network partners in the innovation process on a wide basis, thus accelerating knowledge transfer. In addition to cooperation with customers, industrial partners and universities in Christian Doppler laboratories for steel and non-ferrous metals segments, a new, subsidized national competence network was set up with key customers and universities, focusing on current modeling and simulation for refractories applications in the steel industry.

In our efforts to boost the mobility of ideas and specialists, investments in the internationalization of R&D were stepped up in 2002 to speed up global knowledge transfer in refractories.

For example, among the wealth of R&D plans, the following projects were completed in 2002:

- >> Market launch of a new burnt brick type based on high-alumina materials used in steel ladles to manufacture high-grade ULC steels
- >> Development of improved binding agent combinations for injection molding compounds used in steel converters and electric kilns
- >> Development of environment-friendly trickling compounds with high durability to line wear layer of steel distributor containers.
- >> Market launch of new product for key special waste incineration customers, improving durability by 50%
- >> Development of a new generation of spinel bricks to fulfill increasing demands on durability in rotary kilns in the cement industry
- >> New raw materials based on spinels and corundums for refractories products for non-ferrous metals, steel, cement and environment, energy, chemicals.

A successful R&D drive was initiated at RHI Refractories in 2002 to promote further technology developments and to continue to extend market leadership.

Quality, environmental conservation and safety at work

The project initiated at the beginning of 2001 to create an integrated management system (IMS), combining quality assurance, environmental conservation and safety at work into one system, continued on schedule in 2002. The main idea behind the merging of these systems was to simplify procedures by avoiding redundancies, creating clear structures and responsibilities when establishing and managing processes and procedures, and to significantly improve legal security in all organizational units. The introduction of IMS minimizes the potential for risk both for staff and for outside parties. The quality management system, certified according to ISO 9001 and successfully implemented at all RHI sites, all procedures related to labor law and the protection of health and the environment management system set up in 2002 have now been merged into IMS. 15 sites in Germany, Austria and Spain were certified according to ISO 14001 in 2002, and we have already begun to extend this to other locations in Europe and overseas.

Ensuring the highest possible quality standards for products and services to ensure that customer requirements are satisfied in every respect remains RHI's top priority. This goal is achieved, on the one hand, through consistent technical improvements to production processes, and on the other, through ongoing enhancements to infrastructure in the quality field. In addition to the sites already linked via QLS/CAQ, Aken in Germany and Burlington and Becancour in Canada were added in 2002. Key examples of successful projects are the state-of-the-art testing techniques such as the installation of nondestructive test equipment in Marktredwitz, Germany, the purchase of an X-ray fluorescent device for the Bayuquan site in China or the use of X-ray equipment with high analysis precision at Trieben and Veitsch, Austria, in 2002. Understanding customer requirements is vital to maintaining these high quality standards. As at other production sites in previous years, a quality day was organized at Duisburg in Germany in 2002, where all employees were trained in customer-specific applications of our products.

Using resources sensibly and taking ecological considerations into account has always been a priority for RHI. The establishment and implementation of a certified environmental management system in 2002 has further enhanced the effectiveness of our environmentally sound approach to resource utilization. The new system allows us to record, assess and monitor environment-related data to accelerate the implementation of environmental objectives. The environmental relevance of our products is a factor already taken into consideration during product development, and this ensures that harmful emissions during use by the customer are kept to a minimum. Environmental expenditure, such as the incineration plant at Dolomite Franchi S.p.A.'s Marone works in Italy, completed in 2002, led to a substantial drop in harmful emissions.

The vital role all our employees have to play in achieving these goals at RHI is illustrated in several ways. Beyond the legal requirements regarding safety at work, employee protection and accident prevention, the group is striving to create ergonomically sound jobs and processes. There are programs in place to protect, promote and improve our employees' health and performance, such as occupational and environmental health check-ups or other health promotion schemes. Measures to prevent accident or illness taken by the employee and employer are closely connected within IMS. Regular training and education programs ensure that employees are well equipped to cope with constantly rising technical, methodological and social requirements.

Sales revenue and earnings prospects for 2003

RHI's Supervisory Board has approved an investment budget for 2003 for the RHI Group, including initial funds to set up a second refractories plant in China with an initial capacity of 40,000 annual tons. The project is scheduled for completion in 2005. This and other investments in production sites worldwide will set the stage for the further expansion and optimization of the core refractories business in 2003. This will, once again, significantly strengthen the position of RHI Refractories as global technology leader.

Results are forecast to be positive for all of 2003, with sales revenue and results expected to improve again in both the Refractories and the Insulating Divisions. RHI expects the further reduction in bank payables and low interest rates in comparison to 2002 to have a positive impact on net income in 2003. However, the optimistic outlook for 2003 as a whole will have to be revised if the Iraq conflict and a war of longer duration do lasting damage to the world economy and to the situation for key customer industries.

Material events occurring after the balance sheet date

No events of material importance have occurred since the balance sheet date.

RHI consolidated balance sheet 2002

in million	Notes	31.12.2002 €	31.12.2002 %	31.12.2001 €	31.12.2001 %
ASSETS					
Fixed assets					
Intangible assets	(1), (10)	22.4	2.0	35.1	2.5
Property, plant and equipment	(2), (11)	408.3	36.7	462.2	33.2
Financial assets	(3), (12)	68.4	6.1	66.5	4.8
		499.1	**44.8**	**563.8**	**40.5**
Current assets					
Inventories	(4), (13)	225.8	20.3	262.1	18.8
Receivables and other assets					
Trade receivables	(5), (14)	252.0	22.6	303.8	21.8
Other receivables and assets	(5), (14)	83.8	7.5	168.5	12.1
		335.8	30.1	472.3	33.9
Securities and interests		2.6	0.2	14.5	1.0
Cash and cash equivalents	(6)	45.7	4.1	74.6	5.4
		609.9	**54.7**	**823.5**	**59.1**
Prepaid expenses and deferred charges	(15)	**5.3**	**0.5**	**5.7**	**0.4**
		1,114.3	**100.0**	**1,393.0**	**100.0**
STOCKHOLDERS' EQUITY AND LIABILITIES					
Negative equity					
Common stock	(16)	144.8	13.0	144.8	10.4
Group reserves	(16)	-752.2	-67.5	136.5	9.8
Net income/loss after minorities	(16)	65.9	5.9	-863.1	-62.0
Minority interests	(16)	32.9	3.0	33.2	2.4
		-508.6	**-45.6**	**-548.6**	**-39.4**
Subordinated mezzanine capital					
Subordinated bank loans	(17)	400.0	35.9	400.0	28.7
Subordinated convertible bond	(7), (17)	126.8	11.3	0.0	0.0
Effective equity capital		**18.2**	**1.6**	**-148.6**	**-10.7**
Provisions					
Provisions for severance payments and pensions	(8), (18)	243.7	21.9	244.0	17.5
Other provisions	(8), (19)	224.5	20.1	374.7	27.0
		468.2	**42.0**	**618.7**	**44.5**
Payables					
Financial payables	(9), (20)	370.0	33.2	670.3	48.1
Trade payables	(9), (20)	107.4	9.7	120.5	8.7
Other payables	(9), (20)	149.1	13.4	128.8	9.2
		626.5	**56.3**	**919.6**	**66.0**
Deferred income		**1.4**	**0.1**	**3.3**	**0.2**
		1,114.3	**100.0**	**1,393.0**	**100.0**
Contingent liabilities	(38)	22.5	2.0	48.7	3.5

RHI consolidated income statement 2002

in million	Notes	2002 €	2002 %	2001 €	2001 %
Sales revenue	(21)	1,351.9	100.0	1,867.2	100.0
Changes in inventories and services not yet invoiced		7.6	0.6	-12.3	-0.7
Other own work capitalized		3.2	0.2	6.1	0.3
Operating performance		**1,362.7**	**100.8**	**1,861.0**	**99.7**
Other operating income	(22)	64.5	4.8	79.9	4.3
Cost of material and other production services	(23)	-624.6	-46.2	-825.6	-44.2
Personnel expenses	(24)	-375.4	-27.8	-616.3	-33.0
Depreciation and amortization	(25)	-58.2	-4.3	-109.1	-5.8
Other operating expenses	(26)	-283.8	-21.0	-504.2	-27.0
Operating result		**85.2**	**6.3**	**-114.3**	**-6.1**
Interest result	(27)	-24.9	-1.8	-63.8	-3.4
Other financial results	(28)	1.9	0.1	-26.8	-1.4
Financial result		**-23.0**	**-1.7**	**-90.6**	**-4.9**
Result from ordinary activities		**62.2**	**4.6**	**-204.9**	**-11.0**
Extraordinary result	(29)	19.9	1.4	-590.7	-31.6
Income taxes	(30)	-12.7	-0.9	-60.8	-3.3
Net income/loss		**69.4**	**5.1**	**-856.4**	**-45.9**
Minority interests		-3.5	-0.2	-6.7	-0.4
Net income/loss after minorities		**65.9**	**4.9**	**-863.1**	**-46.2**

RHI consolidated cash flow statement 2002

in € million	Notes	2002	2001
Cash flow from operating activities			
Net result		69.4	-856.4
Depreciation, depletion and amortization		73.8	479.8
Write-offs on financial assets		1.8	18.8
Change in long-term provisions		0.9	43.1
Result from the disposal of fixed assets		-1.7	3.3
Cash flow from results		**144.2**	**-311.4**
Change in working capital			
Decrease in inventories		0.4	56.1
Increase/decrease in prepayments received		19.6	-3.2
Decrease/increase in trade receivables		10.5	-17.5
Decrease in trade payables, notes and drafts payable		-0.6	-34.2
Decrease/increase in short-term provisions (incl. deferred tax liabilities)		-148.9	226.1
Increase in prepayments, group receivables and payables, other receivables and payables, prepaid expenses and deferred charges and deferred income		59.1	891.8
Deconsolidation of the RHI Refractories Holding Group		0.0	-912.9
Undistributed losses/earnings of affiliates		-2.7	-1.4
Cash flow from operating activities *)	**(31)**	**81.6**	**-106.6**
Cash flow from investing activities			
Capital expenditure		-40.9	-51.7
Acquisitions of consolidated companies		0.0	-14.0
Proceeds from the sale of consolidated companies		10.2	3.6
Acquisitions of unconsolidated companies		-10.2	-5.8
Investments in other financial assets		0.0	-0.6
Cash flow from the disposal of property, plant and equipment, intangible assets and other financial assets		3.1	9.1
Cash flow from investing activities	**(32)**	**-37.8**	**-59.4**
Cash flow from financing activities			
Decrease in profit participation rights due to partner retirement		-0.5	0.0
Premium from convertible bond issue		10.1	0.0
Shareholder contributions from minority companies		0.0	0.4
Dividends paid to stockholders of RHI AG		0.0	-14.5
Dividends to minorities		-2.3	-3.5
Sale of treasury shares		0.0	3.3
Dividends paid to stockholders and minorities		7.3	-14.3
Revenue from convertible bond issue		126.3	0.0
Revenue from loans, long-term borrowings and subsidies		0.0	300.0
Decrease/increase in group financial receivables *)		100.7	-101.6
Repayment of short-term borrowings		-63.5	-90.7
Repayment of loans and long-term borrowings		-236.8	0.0
Decrease/increase in group financial payables		-12.3	71.7
Decrease/increase in other financial receivables/payables		7.9	0.0
Cash flow from financing activities		**-70.4**	**165.1**
Other changes in stockholders' equity not affecting the income statement due to consolidation measures		0.7	1.2
Changes in cash and cash equivalents		**-25.9**	**0.3**
Cash and cash equivalents at beginning of year		74.6	73.3
Change in cash and cash equivalents due to foreign currency translation		-3.0	1.0
Cash and cash equivalents at end of year	**(33)**	**45.7**	**74.6**

*) Payments received from Honeywell and Halliburton amounting to € 90.5 million is shown in cash flow from financing activities.

Notes to the Consolidated Financial Statements 2002

Accounting principles, general

The consolidated financial statements for 2002 were drawn up in accordance with the accounting principles of the Austrian Commercial Code (HGB) as amended.

The consolidated financial statements were drawn up in accordance with generally accepted accounting principles to present fairly the net worth position, financial and earnings situation of the group (§ 222 (2) HGB), complying particularly with HGB §§ 244 et seq.

Valuation follows the going concern principle, together with the principles of prudence and the individual valuation of assets and liabilities.

The income statement is drawn up in accordance with § 231 (2) HGB using the total cost method.

Previously applied accounting and valuation methods were retained in the 2002 financial year.

To enhance the clear and concise presentation of items shown in the balance sheet and income statement, individual items are summarized. The necessary individual figures and corresponding details are given in the notes.

All balance sheet figures relate to the balance sheet date in the corresponding year.

All figures in notes and tables are expressed in € million. Individual figures and totals are rounded to the nearest figure. Consequently, small differences between the sums of the individual figures and the totals shown may arise.

Group companies in the sense of § 228 (3) HGB are all companies required to be included in the consolidated financial statements of RHI AG.

Consolidated companies

The consolidated financial statements include (in total) RHI AG and 84 subsidiaries, with RHI AG holding either a direct or indirect majority of voting rights, or exercising common control of management.

Nine companies, whose financial and operating policies are significantly influenced by group companies, are known as associated companies and are consolidated using the equity method.

The consolidated group has changed in comparison to the previous year as follows:

	Full consolidation	Equity method
Status as of 31.12.2001	96	8
Additions	15	1
Disposals	26	0
Status as of 31.12.2002	**85**	**9**

In detail, the following changes were made to the consolidated group over the reporting period:

Fully consolidated companies:
Additions:

Isolit Isolier GmbH, Vienna, Austria
Magnesitwerk Aken Vertriebsgesellschaft mbH, Aken, Germany
Refractory Intellectual Property GmbH, Vienna, Austria
Refractory Intellectual Property GmbH & Co KG, Vienna, Austria
RHI Argentina S.R.L., Buenos Aires, Argentina
RHI Refractories Holding Company, Dover, Delaware, USA
RHI Refractories Site Services GmbH, Wiesbaden, Germany
Veitsch-Radex America Inc., Wilmington, Delaware, USA
Veitsch-Radex GmbH, Vienna, Austria
Veitsch-Radex GmbH & Co, Vienna, Austria
Veitsch-Radex Holding GmbH, Vienna, Austria
Villas Austria GmbH, Fürnitz, Austria
Villas Hungaria Kft., Zalaegerszeg, Hungary
Zimmermann & Jansen Beteiligungs-GmbH, Düren, Germany
Zimmermann & Jansen GmbH, Düren, Germany

Disposals:

The sale of the RHI Group's engineering activities in the form of disposals of investments and business units was completed on June 27, 2002. The deconsolidation of the assets and liabilities of the 14 companies belonging to the Engineering group took place on June 30, 2002.

Bachmann Industries, Inc., Auburn, USA
Cimprogetti S.p.A., Bergamo, Italy
Didier-M&P Energietechnik GmbH, Wiesbaden, Germany
Didier-M&P Engineering Inc., Merrillville, Indiana, USA
DME do Brasil Ltda, Belo Horizonte, Brazil
Hermann Rappold & Co. GmbH, Düren, Germany
IPZ Industrieanlagen Peter Zeisel GmbH, Bochum, Germany
KAEFER-RACO Engineering GmbH, Bremen, Germany
MAERZ Ofenbau AG, Zürich, Switzerland
Maerz-Gautschi Industrieofenanlagen GmbH, Düsseldorf, Germany
Striko UK Ltd., Stone, Staffordshire, Great Britain
StrikoDynarad Corporation, Holland, Michigan, USA
Striko-Westofen GmbH, Wiesbaden, Germany
Walter Brinkmann GmbH & Co KG, Werdohl - Kettling, Germany

Further disposals refer to:
Didier Corporation des Produits Réfractaires, Boucherville, Canada (merger)
Dutch SAPREF B.V., Arnhem, Netherlands (merger)
GIX International GmbH, Hamburg, Germany (liquidation)
Harbison Walker B.V., Rijswijk, Netherlands (liquidation)
INDRESCO de México, S.A. de C.V., Naucalpande, Mexico (merger)
INTOOL de México, S.A. de C.V., Naucalpande, Mexico (merger)
Narco S.E.M. Inc., Quebec, Canada (liquidation)
Radex West GmbH, Urmitz, Germany (merger)
RHI Engineering GmbH, Wiesbaden, Germany (merger)
RHI Refractories México, S.A. de C.V., Garza Garcia, Mexico (merger)
1322578 Ontario Limited, Burlington, Ontario, Canada (liquidation)
1322579 Ontario Limited, Burlington, Ontario, Canada (liquidation)

Consolidated at equity:

MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria, was acquired and consolidated at equity in the reporting period.

Subsidiaries not included in consolidation:

The volume of asbestos litigation brought against individual US-American subsidiaries of the RHI Group increased in 2001. Due to the high number of claims carried forward and to the extensive scope provided by the American legal system to assert claims for damages, particularly of an intangible nature, and to claim for compensation amounts that do not have to be supported by specific evidence to justify the claim, but are more punitive in nature, asbestos litigation claims had increased by the end of 2001 to an extent no longer fully covered by liability insurance.

The main lead companies affected are:
AP Green Industries Inc., Wilmington, Delaware, USA
Global Industrial Technologies, Inc., Wilmington, Delaware, USA
Harbison Walker Refractories Co., Wilmington, Delaware, USA
North American Refractories Co., Cleveland, Ohio, USA

Due to the steps taken by US management, the overwhelming majority of the companies (in the following "US Group") have since filed for protection under Chapter 11 of the US Bankruptcy Code and are currently undergoing reorganization.

Taking the direct and indirect subsidiaries of the aforementioned lead companies into consideration, a total of 49 companies had to be deconsolidated. The assets and liabilities of the US Group were deconsolidated at December 31, 2001, as RHI AG is no longer able to exercise control over these companies due to the Chapter 11 proceedings.

The option to include 15 subsidiaries and associated companies in the consolidated financial statements pursuant to § 249 (2) and § 263 (2) HGB was not exercised as they are deemed not to be of material importance as regards presenting fairly the net worth position, financial and earnings situation of the group. The sales revenue of the companies in question account for approx. 0.4% of total group sales revenue.

The protection of interest clause pursuant to § 265 (3) HGB, according to which details pertaining to consolidated companies can be omitted if, according to the principles of sound business judgment, such details are deemed to be detrimental to the parent company or to another consolidated company, was invoked in part for three companies pursuant to § 265 (2) Z 1 HGB.

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

The **effects of changes in consolidation** on the consolidated balance sheet and income statement at December 31, 2002 are presented below:

in € million	Addition	Disposal	Total
ASSETS			
A. Fixed assets	11.8	-15.6	-3.8
B. Current assets	-2.6	-103.1	-105.7
C. Prepaid expenses and deferred charges	0.1	-0.6	-0.5
	9.3	**-119.3**	**-110.0**

in € million	Addition	Disposal	Total
STOCKHOLDERS' EQUITY AND LIABILITIES			
A. Stockholders' equity	1.7	-10.6	-8.9
B. Provisions	12.7	-34.6	-21.9
C. Liabilities	-5.1	-71.8	-76.9
D. Deferred income	0.0	-2.3	-2.3
	9.3	**-119.3**	**-110.0**

in € million	Addition	Disposal	Total
Sales revenue	56.0	-475.9	-419.9
Operating result	-0.2	130.5	130.3
EBT	-0.9	182.6	181.7

Additions to the consolidated group mainly relate to companies not engaged in the group's core business.

The effect of the deconsolidation of the Engineering group at June 30, 2002 on the balance sheet is € 119.3 million. The change in the income statement is due to the deconsolidation of the US Group at December 31, 2001.

Principles of consolidation

General

The balance sheet date for all the financial statements included in consolidation is December 31, 2002, and all were drawn up in accordance with the RHI accounting manual, which is based on the Austrian Commercial Code as amended.

All the financial statements included were audited by independent certified public accountants.

Methods of consolidation

Capital consolidation is carried at book value or at revalued amounts.

Prorated stockholders' equity includes nominal capital, additional paid-in capital, reserves from retained earnings and accumulated profit or loss.

The **untaxed reserves** of all the consolidated companies are allocated to reserves from retained earnings in accordance with § 253 (3) HGB after allowing for any deferred taxes if deemed to be of material importance. Deferred taxes are not offset if the subsidiaries in question have adequate tax loss carry-forwards.

The option pursuant to § 261 (1) HGB was exercised for the goodwill resulting from initial consolidation after the allocation of hidden reserves and liabilities, which was either immediately and directly offset against reserves in full, or was capitalized as goodwill and amortized over its estimated useful life.

Negative goodwill derived from capital consolidation was allocated to reserves from retained earnings, being similar in nature to stockholders' equity.

Investments over which significant influence is exercised pursuant to § 263 (1) HGB, and group companies which cannot be consolidated according to § 248 HGB, are shown as **associated companies** and valued according to the equity method. Joint ventures are valued on the same basis.

Investments in associated companies are carried at book value on the basis of the latest available financial statements.

The goodwill resulting from initial consolidation according to the equity method is immediately offset against reserves in full; negative goodwill is allocated to reserves, provided it is similar in nature to stockholders' equity.

In the course of subsequent consolidation, prorated annual net income is treated as additions and net losses and dividend payments as disposals. Changes in prorated stockholders' equity due to foreign currency fluctuations are shown as such in the analysis of fixed assets.

Debt consolidation and **consolidation of income and expenditure** are carried out in accordance with the provisions of §§ 255 and 257 HGB.

Profits from inter-company trade are netted in accordance with § 256 HGB.

In the case of **deconsolidation** (the removal of group companies from the consolidated group), the prorated net worth is offset against profit and loss.

Deferred taxes were allocated due to the revenue effects of consolidation in accordance with the provisions of § 258 HGB.

The provision for **deferred taxes** was recognized according to the provisions of the Austrian Commercial Code as amended, with the tax rates in each respective country being applied to the temporary differences between the value of assets and liabilities calculated according to tax and commercial law.

Foreign currency translation

The financial statements of subsidiaries denominated in foreign currencies are translated according to the **modified current rate method**. Accordingly, balance sheet entries, depreciation, reversals of provisions, income taxes, changes in reserves and net income are translated at the mid rate prevailing on the balance sheet date. All other items in the income statement are translated at the average mid rate for 2002.

Differences resulting from translating assets and liabilities denominated in foreign currencies at current rates differing from the previous year are offset against reserves without affecting revenue.

Differences resulting from translating net income in the income statement at the mid rate prevailing on the balance sheet date were recognized as expenses and were recorded under other operating expenses.

The inclusion of Magnesit Anonim Sirketi, Turkey in the consolidated financial statements is based on a hard currency balance sheet denominated in euro.

The following table shows the changes in the exchange rates of major currencies in relation to the euro:

Selected currencies	Balance sheet rate		Average rate	
	31.12.2002	31.12.2001	2002	2001
US dollar	1.05010	0.88350	0.94526	0.89584
Canadian dollar	1.65500	1.41200	1.48376	1.38673
British pound	0.65000	0.60870	0.62882	0.62208
South African rand	9.05000	10.58500	9.89703	7.67871
Renminbi yuan	8.68130	7.46500	7.82366	7.41658
Hungarian forint	235.00000	245.25000	242.70811	256.81618
Croatian kuna	7.485000	7.35000	7.40219	7.53084
Mexican peso	10.92600	8.20398	9.15612	8.37326
Chilean peso	755.31000	601.60874	652.83732	568.84036

Foreign currency receivables and payables as shown in the individual financial statements of the group companies are valued at the lower (receivables) or higher (liabilities) of cost or market at the balance sheet date.

Principles of accounting and valuation

General

The annual financial statements of the companies included in the consolidated financial statements are prepared in accordance with uniform **principles of accounting and valuation** and comply with the provisions on classification and valuation in the Austrian Commercial Code.

Fixed assets

(1) Intangible assets

Intangible assets purchased for a consideration are shown at acquisition cost less scheduled amortization. Scheduled amortization is based on a useful life of three to ten years.

Permanent impairments in value are covered by non-scheduled amortization, if material.

Capitalized goodwill is amortized according to the straight-line method over its estimated useful life of 18 years.

Self-produced intangible assets are not capitalized.

(2) Property, plant and equipment

Property, plant and equipment is valued at acquisition and production cost less scheduled depreciation. Property, plant and equipment is depreciated using the straight-line method on the basis of expected useful economic life. Permanent impairment in value is accounted for by additional non-scheduled depreciation. No **revaluations** were made.

The **production cost of self-constructed assets** includes attributable direct costs plus prorated indirect capitalized costs of production.

Depreciation of **raw material deposits** corresponds to the amount of actually extracted resources in relation to the amount expected to be extracted.

Minor assets are written off in the year of acquisition or production and are shown as disposals.

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

factory buildings	10 - 30 years
other buildings	10 - 50 years
land improvements	5 - 20 years
plant and machinery	4 - 15 years
other plant, furniture and fixtures	4 - 10 years

(3) Financial assets

Unless valued at equity, **investments** are shown at cost less any necessary revaluations.

Long-term loans in foreign currencies are valued at the lower of cost or market on the balance sheet date.

Long-term securities are shown at the lower of cost or market on the balance sheet date.

Current assets

(4) Inventories

Raw materials and supplies are measured at the lower of cost or market. Cost is mainly calculated according to the moving average cost method. The FIFO method was also applied.

Merchandise is valued at acquisition cost.

Finished and unfinished goods and **work in process** are measured at production cost. Measurement adheres to the principle **of lower of cost and realizable value.**

Production costs comprise directly attributable costs and an appropriate share in material and production overheads. In addition, the retirement benefit costs including severance payments and voluntary fringe benefits granted by the company are included pro rata. Interest on loan capital is not capitalized.

Lump-sum write-downs are made for impairments in value not identifiable individually.

Prepayments on orders received are offset against the respective inventory items.

(5) Receivables and other assets

Receivables and other assets are shown at nominal value, strictly at the lower of cost or market. Individual and lump-sum revaluations are made for identifiable risks.

Claims on insurance companies relating to the compensation of asbestos claims carried in the previous year under receivables and other assets are now shown under contingent liabilities, if these are contingent claims.

(6) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, checks and bank deposits.

Equity

(7) Convertible bond issue

The present value of the bond and the equity share were fixed when the convertible bond was issued. The present value of the bond was computed using a market-based interest rate equivalent to a non-convertible bond. The remaining difference between this and the nominal value of the bond, which represents the value of the option to convert, is recorded in capital reserves.

Liabilities

(8) Provisions

Provisions are formed in the amount of the likely expense in accordance with the principle of prudence.

(9) Payables

Payables are shown at the amount repayable in accordance with the principle of prudence. Payables in foreign currencies are shown at acquisition cost or, if higher, at the mid rate on the balance sheet date.

Notes on individual balance sheet items

Assets

Fixed assets

General

Changes in fixed assets are shown in summarized form, followed by a breakdown into the individual main categories. Besides changes in figures for acquisition and production costs, cumulative depreciation is also mentioned in detail.

The differences arising from the translation of acquisition costs and cumulative depreciation at current rates differing from the previous year are shown as **foreign currency changes.**

The following table shows the **changes in fixed assets:**

Fixed assets in € million	Intangible assets	Property, plant and equipment	Financial assets	Total
Acquisition and production costs, January 1, 2002	68.9	1,421.3	100.4	1,590.6
Changes in foreign currency	-0.9	-24.0	2.7	-22.2
Changes in consolidation	-12.2	-5.6	-8.9	-26.7
Additions	1.2	39.7	8.5	49.4
Disposals	1.0	43.4	18.5	62.9
Reclassifications	0.8	-0.8	0.0	0.0
Acquisition and production costs, December 31, 2002	**56.8**	**1,387.2**	**84.2**	**1,528.2**
Accumulated depreciation, January 1, 2002	33.8	959.1	33.9	1,026.8
Changes in foreign currency	-0.3	-8.9	-0.1	-9.3
Changes in consolidation	-3.4	-5.5	-14.0	-22.9
Depreciation 2002	5.2	68.6	1.8	75.6
- thereof non-scheduled	1.0	17.5	1.8	20.3
Disposals	1.0	34.3	5.8	41.1
Reclassifications	0.1	-0.1	0.0	0.0
Accumulated depreciation, December 31, 2002	**34.4**	**978.9**	**15.8**	**1,029.1**
Book value, December 31, 2002	**22.4**	**408.3**	**68.4**	**499.1**
Book value, December 31, 2001	35.1	462.2	66.5	563,8

(10) Intangible assets

Changes in intangible assets are as follows:

Intangible assets in € million	Concessions, industrial property rights, and other rights and licenses	Goodwill	Total
Acquisition and production costs, January 1, 2002	40.4	28.5	68.9
Changes in foreign currency	-0.7	-0.2	-0.9
Changes in consolidation	-5.5	-6.7	-12.2
Additions	0.7	0.5	1.2
Disposals	1.0	0.0	1.0
Reclassifications	0.8	0.0	0.8
Acquisition and production costs, December 31, 2002	**34.7**	**22.1**	**56.8**
Accumulated depreciation, January 1, 2002	30.8	3.0	33.8
Changes in foreign currency	-0.3	0.0	-0.3
Changes in consolidation	-2.5	-0.9	-3.4
Depreciation 2002	2.8	2.4	5.2
- thereof non-scheduled	0.0	1.0	1.0
Disposals	1.0	0.0	1.0
Reclassifications	0.1	0.0	0.1
Accumulated depreciation, December 31, 2002	**29.9**	**4.5**	**34.4**
Book value, December 31, 2002	**4.8**	**17.6**	**22.4**
Book value, December 31, 2001	9.6	25.5	35.1

(11) Property, plant and equipment

Changes in property, plant and equipment are as follows:

Property, plant and equipment in € million	Land, real estate and buildings	Raw material deposits	Machinery and equipment	Other plant, furniture and fixtures	Prepayments and construction in progress	Total
Acquisition and production costs, January 1, 2002	403.8	34.8	740.3	220.4	22.0	1,421.3
Changes in foreign currency	-9.1	0.0	-12.3	-1.7	-0.9	-24.0
Changes in consolidation	-3.0	0.0	2.1	-4.6	-0.1	-5.6
Additions	1.9	0.0	8.2	5.8	23.8	39.7
Disposals	3.5	4.6	28.8	6.3	0.2	43.4
Reclassifications	1.9	0.0	18.8	2.4	-23.9	-0.8
Acquisition and production costs, December 31, 2002	**392.0**	**30.2**	**728.3**	**216.0**	**20.7**	**1,387.2**
Accumulated depreciation, January 1, 2002	210.4	8.5	559.3	180.9	0.0	959.1
Changes in foreign currency	-1.6	0.0	-6.6	-0.7	0.0	-8.9
Changes in consolidation	-1.0	0.0	-1.7	-2.8	0.0	-5.5
Depreciation 2002	12.5	12.0	33.0	11.1	0.0	68.6
- thereof non-scheduled	3.1	11.7	2.4	0.3	0.0	17.5
Disposals	1.2	0.0	27.1	6.0	0.0	34.3
Reclassifications	-0.1	0.0	-0.1	0.1	0.0	-0.1
Accumulated depreciation, December 31, 2002	**219.0**	**20.5**	**556.8**	**182.6**	**0.0**	**978.9**
Book value, December 31, 2002	**173.0**	**9.7**	**171.5**	**33.4**	**20.7**	**408.3**
Book value, December 31, 2001	193.4	26.3	181.0	39.5	22.0	462.2

The **value of land** included in land with buildings is € 68.8 million (31.12.2001: € 74.9 million).

(12) Financial assets

Changes in financial assets are as follows:

Financial assets in € million	Shares in group companies	Long-term loans to group companies	Investments in associated and other companies	Long-term loans to affiliates and other companies	Long-term securities	Total
Acquisition costs, January 1, 2002	15.6	4.0	22.7	25.0	33.1	100.4
Changes in foreign currency	0.0	-0.1	2.8	0.0	0.0	2.7
Changes in consolidation	0.4	0.0	-0.4	-9.8	0.9	-8.9
Additions	0.0	2.2	6.1	0.2	0.0	8.5
Disposals	11.2	2.2	1.6	2.6	0.9	18.5
Acquisition costs, December 31, 2002	**4.8**	**3.9**	**29.6**	**12.8**	**33.1**	**84.2**
Accumulated depreciation, January 1, 2002	14.0	4.0	2.8	11.5	1.6	33.9
Changes in foreign currency	0.0	-0.1	0.0	0.0	0.0	-0.1
Changes in consolidation	-3.9	0.0	-0.3	-9.8	0.0	-14.0
Non-scheduled depreciation 2002	0.0	0.0	0.0	0.0	1.8	1.8
Disposals	5.4	0.0	0.0	0.3	0.1	5.8
Accumulated depreciation, December 31, 2002	**4.7**	**3.9**	**2.5**	**1.4**	**3.3**	**15.8**
Book value, December 31, 2002	**0.1**	**0.0**	**27.1**	**11.4**	**29.8**	**68.4**
Book value, December 31, 2001	1.6	0.0	19.9	13.5	31.5	66.5

Investments and long-term loans are broken down as follows:

Investments and long-term loans	Investments in			Long-term loans to		
in € million	associated companies	other companies	Total	associated companies	other companies	Total
Acquisition costs, January 1, 2002	19.6	3.1	22.7	11.0	14.0	25.0
Changes in foreign currency	2.8	0.0	2.8	0.0	0.0	0.0
Changes in consolidation	0.0	-0.4	-0.4	0.0	-9.8	-9.8
Additions	6.1	0.0	6.1	0.0	0.2	0.2
Disposals	1.6	0.0	1.6	2.0	0.6	2.6
Acquisition costs, December 31, 2002	**26.9**	**2.7**	**29.6**	**9.0**	**3.8**	**12.8**
Accumulated depreciation, January 1, 2002	0.3	2.5	2.8	0.0	11.5	11.5
Changes in consolidation	0.0	-0.3	-0.3	0.0	-9.8	-9.8
Disposals	0.0	0.0	0.0	0.0	0.3	0.3
Accumulated depreciation, December 31, 2002	**0.3**	**2.2**	**2.5**	**0.0**	**1.4**	**1.4**
Book value, December 31, 2002	**26.6**	**0.5**	**27.1**	**9.0**	**2.4**	**11.4**
Book value, December 31, 2001	19.3	0.6	19.9	11.0	2.5	13.5

The terms of **long-term loans** can be taken from the following table:

Long-term loans		31.12.2002	
in € million	Total	Residual term up to 1 year	Residual term more than 1 year
Long-term loans to group companies	9.0	0.8	8.2
Other long-term loans	2.4	1.6	0.8

Long-term loans		31.12.2001	
in € million	Total	Residual term up to 1 year	Residual term more than 1 year
Long-term loans to group companies	11.0	1.0	10.0
Other long-term loans	2.5	1.6	0.9

Other long-term loans mainly relate to mortgage-backed housing loans to employees.

Current assets

(13) Inventories

The following table shows the breakdown of inventories as shown in the balance sheet:

Inventories (in € million)	31.12.2002	31.12.2001
Raw materials and supplies	**60.9**	**79.8**
Unfinished goods	34.7	46.3
- less prepayments received on orders	0.0	-9.4
	34.7	**36.9**
Finished goods and merchandise	113.7	117.1
- less prepayments received on orders	0.0	-1.4
	113.7	**115.7**
Work in process	15.4	17.2
- less prepayments received on orders	-7.4	-4.9
	8.0	**12.3**
Prepayments	**8.5**	**17.4**
Inventories	**225.8**	**262.1**

(14) Receivables and other assets

Receivables		31.12.2002		
	Total	Residual term		
in € million		up to 1 year	1 to 5 years	more than 5 years
Trade receivables	**252.0**	**251.2**	**0.3**	**0.5**
- thereof notes receivable	0.7			
Accounts receivable group	0.0	0.0	0.0	0.0
Accounts receivable affiliates	3.6	3.6	0.0	0.0
Other receivables and assets	80.2	66.1	13.1	1.0
Other receivables and other assets	**83.8**	**69.7**	**13.1**	**1.0**
Receivables and other assets	**335.8**	**320.9**	**13.4**	**1.5**
- thereof notes receivable	**0.7**			

Receivables		31.12.2001		
	Total	Residual term		
in € million		up to 1 year	1 to 5 years	more than 5 years
Trade receivables	**303.8**	**303.2**	**0.1**	**0.5**
- thereof notes receivable	3.4			
Accounts receivable group	92.0	92.0	0.0	0.0
Accounts receivable affiliates	2.2	2.2	0.0	0.0
Other receivables and assets	74.3	68.0	5.5	0.8
Other receivables and other assets	**168.5**	**162.2**	**5.5**	**0.8**
Receivables and other assets	**472.3**	**465.4**	**5.6**	**1.3**
- thereof notes receivable	**3.4**			

Accounts receivable group include trade receivables amounting to € 0.0 million (31.12.2001: € 0.9 million) and other receivables amounting to € 0.0 million (31.12.2001: € 91.1 million).

Accounts receivable affiliates include trade receivables totaling € 1.0 million (31.12.2001: € 1.4 million) and other receivables totaling € 2.6 million (31.12.2001: € 0.8 million).

(15) Prepaid expenses and deferred charges

Deferred tax assets were offset against the provision for deferred taxes.

Stockholders' equity and liabilities

(16) Negative equity

Common stock amounts to € 144,764,569 and consists of 19,920,039 bearer shares.

Conditional capital increase

At the Extraordinary General Meeting of February 15, 2002, the Board of Management of RHI AG was authorized to carry out a conditional capital increase of up to € 72,305,836.31 by issuing up to 9,949,500 bearer shares with voting rights at an issue price of € 7.27.

Approved capital

The Board of Management was authorized at the Extraordinary General Meeting of February 15, 2002, with the consent of the Supervisory Board, to increase capital stock without requiring the further consent of shareholders and excluding shareholder rights on one or several occasions within a period of five years from the registration of the change in the company's articles to a maximum amount of € 72,305,836.31 through the issue of 9,949,500 bearer shares with voting rights at an issue price of € 7.27. The capital increase will be made in kind by the contribution of the claims of convertible bond holders.

No shares were subscribed from the conditional capital increase or from approved capital in the financial year.

The difference resulting from the translation of the balance sheets of foreign group companies amounts to € -25.3 million in the 2002 financial year (2001: € -13.8 million).

The premium from the convertible bond issue is recorded in **capital reserves** in accordance with § 229 (2) Z 2 HGB.

The effective interest expense of the bond is computed using an internal interest rate of 7.3 percent on the basis of the effective value of the liability relating to the convertible bond. This is equivalent to the prevailing market rate on an equivalent non-convertible bond.

The change in **minority interests** can be derived from the changes in stockholders' equity.

The following table shows the **changes in stockholders' equity:**

Negative equity in € million	Common stock	Additional paid-in capital	Retained earnings	Differences from capital consolidation	Group reserves	Net loss/ income after minorities	Minority interests	Total
December 31, 2001	144.8	26.9	333.7	-224.1	136.5	-863.1	33.2	-548.6
Changes in foreign currency			-24.1		-24.1		-1.2	-25.3
Premium from convertible bond issue		10.1			10.1			10.1
Dividend payment							-2.3	-2.3
Allocation to retained earnings			-863.1		-863.1	863.1		0.0
Net income 2002						65.9	3.5	69.4
Other changes			-3.9	-7.7	-11.6		-0.3	-11.9
December 31, 2002	**144.8**	**37.0**	**-557.4**	**-231.8**	**-752.2**	**65.9**	**32.9**	**-508.6**

Negative equity in € million	Common stock	Additional paid-in capital	Retained earnings	Reserves for treasury shares	Differences from capital consolidation	Group reserves	Net income/ loss after minorities	Minority interests	Total
December 31, 2000	144.8	274.3	111.3	3.1	-214.8	173.9	21.2	58.3	398.2
Changes in foreign currency			-14.1			-14.1		0.3	-13.8
Reversal of reserves for treasury stock			3.1	-3.1					0.0
Dividend payment							-14.5	-3.5	-18.0
Allocation to retained earnings		-247.4	254.1			6.7	-6.7		0.0
Net loss 2001							-863.1	6.7	-856.4
Other changes			-20.7		-9.3	-30.0		-28.6	-58.6
December 31, 2001	**144.8**	**26.9**	**333.7**	**0.0**	**-224.1**	**136.5**	**-863.1**	**33.2**	**-548.6**

(17) Subordinated mezzanine capital

Subordinated liabilities payable to financial institutions

€ 400.0 million of liabilities payable to financial institutions were converted into subordinated mezzanine capital effective as of December 31, 2001 for a period of five years, ending on January 2, 2007. Financial institutions have no rights to interest and repayment of principal during this period.

Subordinated convertible bond

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

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

Parts of tranche B were placed privately as tranche C in August 2002 at unchanged convertible bond conditions.

At December 31, 2002, 1,064 parts of tranche B and 537 parts of tranche C had been subscribed, leaving 7 parts of tranche B and 201 parts of tranche C unsubscribed at December 31, 2002. These 208 parts were reserved for an option program for the Board of Management and the group's managers.

The proceeds from the issue of the convertible bonds were used to repay bank liabilities.

Effective equity capital

The effective equity of the RHI Group consists of negative equity amounting to € 508.6 million (31.12.2001: € -548.6 million), subordinated bank loans amounting to € 400.0 million (31.12.2001: € 400.0 million) and the convertible bond issue amounting to € 126.8 million (31.12.2001: € 0.0 million).

(18) Provisions for severance payments and pensions

The following table shows the breakdown of provisions for severance payments and pensions:

Provisions (in € million)	31.12.2002	31.12.2001
Provisions for severance payments	32.4	31.8
Provisions for pensions	211.3	212.2
Provisions	**243.7**	**244.0**

The **provisions for severance payments** were formed in accordance with local regulations.

Provisions for pensions are calculated in accordance with actuarial principles. They are formed in principle according to the individual level premium method, although parts of the group also use the entry age normal method, applying a discount rate of 6% (2001: 6%) for legally binding and irrevocable pension commitments.

(19) Other provisions

Other provisions are broken down as follows:

Other provisions (in € million)	31.12.2002	31.12.2001
Provisions for taxes		
Current taxes	12.5	11.9
Deferred taxes	7.8	14.9
	20.3	**26.8**
Other provisions		
Anniversary bonuses	12.2	12.0
Compensated absences	10.8	10.8
Other payroll-related provisions	12.7	11.0
Group restructuring	20.5	56.3
Warranties	15.7	24.1
Sales discounts, bonuses	9.4	8.8
Other provisions relating to sales activities	6.8	8.8
Damage resulting from mining, manufacturing, smoke, dust and similar causes	7.5	3.7
Legal, auditing and consulting expenses	10.1	19.0
Outstanding invoices	9.8	17.8
Hedging transactions	3.8	83.0
Other	84.9	92.6
	204.2	**347.9**
Other provisions	**224.5**	**374.7**

The **provision for anniversary bonuses** was set up according to actuarial principles using an interest rate of 6% (2001: 6%).

The **provision for group restructuring** contains provisions for plant closures and structural adjustments.

(20) Payables

Payables	31.12.2002			
	Total	Due in		
in € million		up to 1 year	1 to 5 year	more than 5 years
Bank loans and overdrafts	**370.0**	**101.9**	**268.1**	**0.0**
- thereof secured by real estate – mortgages	143.5			
- thereof secured by real estate – other	182.3			
Trade payables	**107.4**	**102.4**	**5.0**	**0.0**
Prepayments received	7.4	7.4	0.0	0.0
Notes and drafts payable	0.1	0.1	0.0	0.0
Accounts payable group	12.1	0.3	0.0	11.8
Accounts payable affiliates	2.8	2.8	0.0	0.0
Other payables	126.7	67.5	58.4	0.8
Other payables	**149.1**	**78.1**	**58.4**	**12.6**
Payables	**626.5**	**282.4**	**331.5**	**12.6**
- thereof secured by real estate	**325.8**			

Other payables (in € million)	31.12.2002	31.12.2001
- thereof taxes	15.6	12.8
- thereof social security	16.6	18.0

Payables	31.12.2001			
	Total	Due in		
in € million		up to 1 year	1 to 5 years	more than 5 years
Bank loans and overdrafts	**670.3**	**165.4**	**402.2**	**102.7**
- thereof secured by real estate – mortgages	146.5			
- thereof secured by real estate – other	456.1			
Trade payables	**120.5**	**119.9**	**0.1**	**0.5**
Prepayments received	14.9	14.9	0.0	0.0
Notes and drafts payable	0.9	0.6	0.3	0.0
Accounts payable group	50.8	2.2	0.0	48.6
Accounts payable affiliates	2.5	2.5	0.0	0.0
Other payables	59.7	57.1	1.7	0.9
Other payables	**128.8**	**77.3**	**2.0**	**49.5**
Payables	**919.6**	**362.6**	**404.3**	**152.7**
- thereof secured by real estate	**602.6**			

At December 31, 2002 the RHI Group had € 526.6 million (31.12.2001: € 730.8 million) available in credit lines.

Long-term bank loans and overdrafts include export financing (including financing for investments) totaling € 147.3 million (31.12.2001: € 264.0 million).

Other collateral pledged to financial institutions consists of:

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

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

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

>> Pledging of securities with a market value of € 1.5 million; and

>> Assignment of export receivables amounting to € 148.1 million.

Accounts payable group include trade payables amounting to € 10.8 million (31.12.2001: € 21.4 million) and other payables amounting to € 1.3 million (31.12.2001: € 29.4 million).

Accounts payable affiliates include trade payables amounting to € 1.2 million (31.12.2001: € 1.0 million) and other payables amounting to € 1.6 million (31.12.2001: € 1.5 million).

Notes on individual items in the income statement

(21) Sales revenue

The following table shows a breakdown of sales revenue in the financial year:

By division (in € million)	2002	2001
Refractories	1,067.2	1,521.5
Engineering	72.8	195.5
Insulating	164.4	161.5
Other and consolidation	47.5	-11.3
Total	**1,351.9**	**1,867.2**

By region (in € million)	2002	2001
Austria	84.8	64.4
Western Europe	574.1	663.3
NAFTA	225.8	687.8
Asia – Pacific	118.1	118.9
Other	349.1	332.8
Total	**1,351.9**	**1,867.2**

Inter-company sales revenue has already been eliminated from the divisional sales revenue stated above.

(22) Other operating income

The following table shows the breakdown of other operating income:

Other operating income (in € million)	2002	2001
Gains from the disposal of fixed assets, excluding financial assets	**2.5**	**5.7**
Gains from the reversal of provisions	**11.5**	**11.2**
Other		
Cost passed on/incidental revenue	8.3	10.3
Foreign exchange gains	21.3	25.7
Grants	1.9	2.1
Reversal of valuation allowance for receivables	2.5	1.4
Compensation for damages	1.2	0.8
Other	15.3	22.7
	50.5	**63.0**
Other operating income	**64.5**	**79.9**

(23) Cost of material and other production services

This item is broken down as follows:

Cost of material and other production services (in € million)	2002	2001
Cost of material		
Raw materials and supplies	493.2	620.4
Merchandise	35.9	64.9
Other	5.2	7.5
	534.3	**692.8**
Cost of services		
Energy	51.2	77.4
External services	20.0	42.3
Other	19.1	13.1
	90.3	**132.8**
Cost of material and other production services	**624.6**	**825.6**

(24) Personnel expenses

The following table shows the breakdown of personnel expenses:

Personnel expenses (in € million)	2002	2001
Wages	130.0	201.7
Salaries	144.3	221.6
Expenses for severance payments	7.6	5.9
Expenses for pensions	20.0	77.8
Expenses for social security and payroll-related taxes and contributions	67.8	84.3
Fringe benefits	5.7	25.0
Personnel expenses	**375.4**	**616.3**

Expenses for pensions in the previous year contained the depreciation of the value of the fund for US-American post-retirement benefits amounting to € 52.1 million.

(25) Depreciation and amortization

Depreciation and amortization (in € million)		2002	2001
a) amortization of intangible assets and depreciation of property, plant and			
equipment, thereof non-scheduled € 18.5 million (2001: € 1.6 million)	73.8		
less use of provision for writedown to lower going-concern value	-15.6		
		58.2	90.1
b) depreciation of current assets, if exceeding the normal depreciation			
in the company		0.0	19.0
Depreciation and amortization		**58.2**	**109.1**

The provision set up in the previous year for the writedown to the lower going-concern value reduces unscheduled depreciation and amortization by € 15.6 million.

(26) Other operating expenses

Other operating expenses consist of

Other operating expenses (in € million)	2002	2001
Taxes other than income taxes	**3.0**	**13.1**
Other		
Shipping expenses	75.3	93.7
Commission expenses	29.2	31.4
Other external services	19.8	44.3
Foreign exchange losses	14.5	26.9
Travel expenses	18.5	25.2
Entertainment expenses	2.2	3.6
External repairs	15.2	34.0
Rent and leasing expenses	16.7	27.0
Legal, auditing and consulting expenses	14.3	36.7
Insurance premiums	10.8	13.0
Office and administrative expenses	5.8	11.8
IT expenses	7.2	11.5
Loss of receivables including valuation allowances	7.4	41.7
Other distribution expenses	5.5	5.9
Postage, telephone charges	6.4	6.7
Credit card and bank charges	6.0	5.4
Other	26.0	72.3
	280.8	**491.1**
Other operating expenses	**283.8**	**504.2**

(27) Interest result

The interest result consists of:

Interest result (in € million)	2002	2001
Income from other securities and financial assets	1.8	3.5
Other interest and similar income, thereof from group companies € 0.6 million (2001: € 0.0 million)	3.3	9.2
Interest and similar expenses, thereof relating to group companies € 0.2 million (2001: € 0.9 million)	-30.0	-76.5
Interest result	**-24.9**	**-63.8**

(28) Other financial results

Other financial results consist of:

Other financial results (in € million)	2002	2001
Investment result		
Income from investments	0.2	0.1
Result from associated companies	2.7	1.4
Expenses from investments, thereof from group companies € 0.0 million (2001: € 4.0 million)	0.0	-4.0
	2.9	**-2.5**
Other financial results		
Gains from the disposal of financial assets and securities and interests, thereof relating to group companies € 0.4 million (2001: € 0.0 million)	0.9	0.2
Write-offs of other financial assets and securities and interests	-1.9	-24.5
	-1.0	**-24.3**
Other financial results	**1.9**	**-26.8**

(29) Extraordinary result

Extraordinary result (in € million)	2002	2001
Extraordinary income	19.9	865.6
Extraordinary expenses	0.0	-1,456.3
Extraordinary result	**19.9**	**-590.7**

Extraordinary income results from the reversal of risk provisions for bank guarantees amounting to € 15.3 million and from the reversal of other provisions amounting to € 4.6 million.

Extraordinary income in 2001 resulted from the deconsolidation of assets and liabilities of the US Group.

Extraordinary expenses of the previous year are broken down as follows:

Extraordinary expenses (in € million)	2001
Restructuring	
Insulating	13.1
Refractories Europe, Latin America	22.0
US Group	
Unscheduled depreciation and amortization	389.7
Writedowns of inventories	10.3
Environmental conservation measures	10.3
Provisions for asbestos risks	275.1
Writedowns of receivables and other provisions for risks	726.5
Other	9.3
Extraordinary expenses	**1,456.3**

Unscheduled depreciation and amortization relates to writedowns to the lower current value of goodwill of the US Group amounting to € 227.6 million and writedowns of property, plant and equipment amounting to € 162.1 million. Provisions for asbestos risks amounting to € 275.1 million were required due to no longer adequate insurance cover for asbestos litigation claims. Writedowns of receivables and other provisions relating to receivables from the US Group amounted to € 618.0 million. Provisions for risks contain € 83.0 million relating to hedging transactions.

(30) Income taxes

Income taxes (in € million)	2002	2001
Current taxes	18.9	22.5
Deferred taxes	-6.2	38.3
Income taxes	**12.7**	**60.8**

Taxes on income are calculated based on the laws and regulations in force in the individual countries.

Deferred taxes in the comparative period contain extraordinary writedowns of deferred tax assets of the US Group amounting to € 41.0 million.

Notes on the cash flow statement

The cash flow statement drawn up in line with the US SFAS (Statement of Financial Accounting Standards) No. 95 (Cash Flow Statement) aims to present more clearly the financial position of the RHI Group.

The cash flow statement illustrates changes in cash and cash equivalents due to cash inflows and outflows during the reporting period, which are classified into cash flows from operating, investing and financing activities, adjusted for the effects of foreign currency translation.

(31) Cash flow from operating activities
Cash flow from operating activities shows the inflow of cash and cash equivalents from the operating activities of those companies included in the consolidated group at the balance sheet date, based on net income generated, after deducting non-cash revenues and adding non-cash expenses and after changes to the funds tied up in working capital.

(32) Cash flow from investing activities
The cash-effect from the purchase or sale of shares in subsidiaries (net change in cash and cash equivalents due to initial consolidation or deconsolidation) is shown separately under cash flow from investing activities.

(33) Cash and cash equivalents
Cash and cash equivalents correspond to the balance sheet item and comprise cash on hand, checks and bank deposits.

Other notes

(34) Total emoluments of the Board of Management and Supervisory Board
Total emoluments of the Board of Management in the past financial year amounted to € 2.7 million (2001: € 1.6 million). Emoluments of former members of the Board of Management and their dependants amounted to € 1.1 million (2001: € 0.3 million).

Emoluments of the Supervisory Board amounted to € 0.1 million (2001: € 0.1 million).

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

(35) Expenses for severance payments and pensions
The following table shows the breakdown of expenses for severance payments and pensions

Expenses for severance payments (in € million)	2002	2001
Board of Management and executives	0.9	0.8
Other employees	6.7	5.1
Expenses for severance payments	**7.6**	**5.9**

Expenses for pensions (in € million)	2002	2001
Board of Management and executives	3.9	3.2
Other employees	16.1	74.6
Expenses for pensions	**20.0**	**77.8**

(36) Personnel
Average employment was:

Employment (average)	2002	2001
Salaried employees	3,379	4,263
Waged workers	5,094	6,823
Total	**8,473**	**11,086**

Employment at **year-end** was:

Employment (year-end)	31.12.2002	31.12.2001
Salaried employees	2,920	3,200
Waged workers	4,901	4,984
Total	**7,821**	**8,184**

(37) Option plan

Options granted

The resolution passed at the Annual General Meeting of May 17, 2001 relating to the conditional increase in capital stock by up to € 14,476,428.55 to grant stock options to employees, managers and members of the Board of Management of RHI AG or of one of its group companies was rescinded at the Extraordinary General Meeting of February 15, 2002.

At the Supervisory Board Meeting of RHI AG of January 21, 2003, the convertible bond management stock option plan published in the Wiener Zeitung on 3/4 January 2003, based on the joint report of the Board of Management and the Supervisory Board in accordance with §§ 94 (6) and 159 (2) Z 3 AktG, was adopted.

The convertible bond management stock option plan 2002 comprises options to acquire a total of 210 part convertible bearer bonds. Each option entitles the holder to acquire one part. The options can be exercised in three identical tranches in 2003, 2004 and 2005.

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

60 options have been allocated to RHI AG Management Board members. Each of the four Board members of RHI AG is entitled to purchase a maximum of 5 options each year. 150 options are allocated to senior management, each person being entitled to acquire a maximum of two options per year.

Options exercised

No options have been exercised by the Board of Management or by employees at senior management level to date.

(38) Contingent liabilities

The following table shows a breakdown of contingent liabilities to third parties shown off balance sheet:

Contingent liabilities (in € million)	2002	2001
Liabilities on guarantees	5.4	9.6
Liabilities on warranties	12.9	37.6
Other liabilities	4.2	1.5
Contingent liabilities	**22.5**	**48.7**

(39) Other commitments

Other financial commitments amount to € 12.0 million in 2002 (2001: € 14.9 million). The following other commitments arise from the use of property, plant and equipment not shown in the balance sheet:

Other commitments (in € million)	2002	2001
in the next year	9.1	11.4
in the next five years	33.2	40.8

RHI Group companies at December 31, 2002

		Type of consolidation	Parent	Currency	Nominal capital in local currency	Investment in group companies %
1.	RHI AG, Vienna, Austria	F		EUR	144,764,569	
	Refractories					
2.	Betriebs- und Baugesellschaft mbH, Wiesbaden, Germany	F	9.	EUR	894,761	100.00
3.	Construcciones Didier, S.L. i.L., Madrid, Spain	F	9.	EUR	3,696,330	100.00
4.	Corrosion Technologies de México, S.A. de C.V. i.L., Monterrey, Mexico	F	24.,35.	MXN	811,250	100.00
5.	Corrosion Technology Peru, S.A., Lima, Peru	F	15.	PEN	31,021	100.00
6.	D.S.I.P.C.-Didier Société Industrielle de Production et de Constructions, Breuillet, France	F	9.	EUR	5,057,010	99.88
7.	Didier Belgium N.V., Evergem, Belgium	F	13.	EUR	74,368	99.99
8.	Didier Vertriebsgesellschaft mbH, Wiesbaden, Germany	F	9.	EUR	178,952	100.00
9.	Didier-Werke AG, Wiesbaden, Germany	F	1.,58.	EUR	63,000,000	96.23
10.	Dolomite Franchi S.p.A., Brescia, Italy	F	27.	EUR	5,940,000	60.00
11.	Dutch MAS B.V., Arnhem, Netherlands	F	9.	EUR	30,000	100.00
12.	Full Line Supply Africa (PTY) Limited, Sandton, South Africa	F	58.	ZAR	100	100.00
13.	GEFRO GmbH, Wiesbaden, Germany	F	9.	EUR	945,890	100.00
14.	Gen-X Technologies Inc., Burlington, Ontario, Canada	F	30.	CAD	20	100.00
15.	GIX International Limited, Wakefield, Great Britain	F	17.	GBP	4	100.00
16.	INDRESCO U.K. Ltd., Wakefield, Great Britain	F	15.	GBP	3,000,003	100.00
17.	Latino America Refractories ApS, Copenhagen, Denmark	F	63.	EUR	20,000	100.00
18.	Magnesit Anonim Sirketi, Istanbul, Turkey	F	11.	TRL	8,393,000,000,000	100.00
19.	Magnesitwerk Aken Vertriebsgesellschaft mbH, Aken, Germany	F	9.	EUR	130,000	100.00
20.	Oy Tulenkestävät Tiilet AB, Helsinki, Finland	F	47.	EUR	5,046	100.00
21.	Radex Vertriebsgesellschaft mbH, Vienna, Austria	F	1.	EUR	36,336	100.00
22.	REFEL S.p.A., San Vito al Tagliamento, Italy	F	9.	EUR	5,200,000	100.00
23.	Refmex, S. de R.L. de C.V., Monterrey, Mexico	F	24.,63.	MXN	28,202,541	100.00
24.	Refractarios Green, S. de R.L. de C.V., Tlalnepantla, Mexico	F	17.,63.	MXN	152,702,877	99.99
25.	Refractory Intellectual Property GmbH, Vienna, Austria	F	1.	EUR	35,000	100.00
26.	Refractory Intellectual Property GmbH & Co KG, Vienna, Austria	F	1.,25.	EUR	10,000	100.00
27.	Refrattari Italiana S.p.A., Genova, Italy	F	58.	EUR	4,160,000	100.00
28.	RHI Africa Investment Holdings (Pty) Ltd., Sandton, South Africa	F	9.	ZAR	215,705	100.00
29.	RHI Argentina S.R.L., Buenos Aires, Argentina	F	17.,63.	ARS	10,000	100.00
30.	RHI Canada Inc., Burlington, Ontario, Canada	F	63.	CAD	3,704,750	100.00
31.	RHI CHILE, S.A., Santiago, Chile (formerly: Harbison-Walker Refractories S.A.)	F	15.,63.	CLP	12,073,359,422	100.00
32.	RHI Dinaris GmbH, Wiesbaden, Germany	F	13.	EUR	500,000	100.00
33.	RHI Finance A/S, Hellerup, Denmark	F	1.	EUR	70,000	100.00
34.	RHI Non Ferrous Metals Engineering GmbH, Leoben, Austria	F	1.	EUR	36,336	100.00
35.	RHI-REFMEX, S.A. de C.V., Ramos Arizpe, Mexico (formerly: Harbison-Walker Refractories, S.A. de C.V.)	F	24.,63.	MXN	80,984,770	100.00
36.	RHI Refractories Africa (Pty) Ltd., Sandton, South Africa	F	28.	ZAR	10,000	100.00
37.	RHI Refractories Andino C.A., Puerto Ordaz, Venezuela	F	63.	VEB	1,600,000,594	100.00
38.	RHI Refractories Asia Ltd., Hong Kong, PR China	F	54.	HKD	1,000	100.00
39.	RHI Refractories Asia Pacific Pte. Ltd., Singapore	F	1.	SGD	300,000	100.00
40.	RHI Refractories España, S.A., Lugones, Spain	F	11.	EUR	1,200,000	100.00
41.	RHI Refractories France S.A., Breuillet, France	F	54.	EUR	703,800	100.00
42.	RHI Refractories Holding Company, Dover, Delaware, USA	F	63.	USD	1	100.00
43.	RHI Refractories Ibérica, S.L., Madrid, Spain	F	54.	EUR	30,050	100.00
44.	RHI Refractories Italiana s.r.l., Brescia, Italy	F	54.	EUR	110,000	100.00
45.	RHI Refractories Liaoning Co.Ltd, Bayuquan, Yingkou Liaoning, PR China	F	59.	CNY	180,000,000	60.00
46.	RHI Refractories Mercosul Ltda, Sao Paulo, Brazil	F	63.,76.	BRL	49,250	100.00
47.	RHI Refractories Nord AB, Stockholm, Sweden	F	54.	SEK	1,000,000	100.00
48.	RHI Refractories Site Services GmbH, Wiesbaden, Germany (formerly: Rheinischer Vulkan, Chamotte- und Dinaswerke GmbH)	F	9.	EUR	1,025,000	100.00
49.	RHI Refractories Spaeter (Site Services) Ltd., Cirencester, Great Britain	F	51.	GBP	2	100.00
50.	RHI Refractories Spaeter (UK) Ltd., Cirencester, Great Britain	F	51.	GBP	10	100.00
51.	RHI Refractories Spaeter GmbH, Urmitz, Germany	F	9.	EUR	256,157	66.67
52.	RHI Refractories UK Limited, Clydebank, Great Britain	F	9.	GBP	5,375,000	100.00
53.	RHI Urmitz GmbH & Co KG, Urmitz, Germany (formerly: Veitsch-Radex Urmitz GmbH)	F	8.,13.	EUR	2.454,250	100.00
54.	SAPREF AG für feuerfestes Material, Basel, Switzerland	F	63.	CHF	4,000,000	100.00
55.	Veitsch-Radex America Inc., Wilmington, Delaware, USA	F	30.	USD	100	100.00
56.	Veitsch-Radex GmbH, Vienna, Austria	F	1.	EUR	35,000	100.00
57.	Veitsch-Radex GmbH & Co, Vienna, Austria	F	1.,56.	EUR	106,000,000	100.00
58.	Veitsch-Radex Holding GmbH, Vienna, Austria	F	57.	EUR	35,000	100.00
59.	Veitsch-Radex Immobilien GmbH, Vienna, Austria	F	1.,58.	EUR	35,000	100.00
60.	Veitsch-Radex-Didier-Australia Pty. Ltd., Pymble, Australia	F	64.	AUD	1,170,002	100.00
61.	Veitsch-Radex Vertriebsgesellschaft mbH, Vienna, Austria	F	1.	EUR	36,336	100.00
62.	Veitscher Vertriebsgesellschaft mbH, Vienna, Austria	F	1.	EUR	36,336	100.00
63.	VRD Americas B.V., Arnhem, Netherlands	F	1.,58.	EUR	34,033,970	100.00
64.	VRD Holdings (Australia) Pty. Ltd., Pymble, Australia	F	1.	AUD	2,570,000	100.00
65.	VRD-Glas GmbH, Wiesbaden, Germany	F	13.	EUR	500,000	100.00

		Type of consolidation	Parent	Currency	Nominal capital in local currency	Investment in group companies %
66.	Zimmermann & Jansen Beteiligungs-GmbH, Düren, Germany	F	9.	EUR	10,226,000	100.00
67.	Zimmermann & Jansen GmbH, Düren, Germany	F	66.	EUR	3,835,000	100.00
68.	AP Green Industries Inc., Wilmington, Delaware, USA, Chapter 11	N	72.	USD	9,028,049	100.00
69.	Didier (Zambia) Ltd., Kitwe, Zambia	N	9.	ZMK	200,000	80.00
70.	Dolomite Franchi GmbH, Hattingen, Germany	N	10.	EUR	25,564	100.00
71.	Dr.-Ing.-Petri & Co. Unterstützungs-Gesellschaft mbH, Duisburg, Germany	N	9.	DEM	50,000	100.00
72.	Global Industrial Technologies, Inc., Wilmington, Delaware, USA, Chapter 11	N	42.	USD	10	100.00
73.	Harbison Walker Refractories Co., Wilmington, Delaware, USA, Chapter 11	N	72.	USD	250	100.00
74.	Investment Log N.V. i.L., Curacao, Netherlands Antilles	N	1.,57.	USD	4,281,000	100.00
75.	Marion South America S.A., Santiago, Chile	N	15.	CLP	10,251,025	99.99
76.	North American Refractories Co., Cleveland, Ohio, USA, Chapter 11	N	42.	USD	20,158,122	100.00
77.	Refractories Consulting & Engineering Gesellschaft m.b.H. i.L., Radenthein, Austria	N	57.	EUR	726,728	100.00
78.	RHI Réfractaires Algérie E.U.R.L., Sidi Amar, Algeria	N	41.	DZD	100,000	100.00
79.	Thor Ceramics Limited, Clydebank, Great Britain	N	9.	GBP	-	100.00
80.	Zimmermann & Jansen Inc., Houston, Texas, USA	N	66.	USD	3,250,000	100.00
81.	Dolomite di Montignoso S.p.A., Genova, Italy	E	27.	EUR	743,600	28.56
82.	Lokalbahn Mixnitz-St.Erhard AG, Vienna, Austria	E	59.	EUR	119,397	100.00
83.	MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	E	1.,87.	EUR	9,447,468	50.00
84.	Società Dolomite Italiana SDI S.p.A., Gardone Val Trompia, Italy	E	27.	EUR	208,000	50.00
85.	Stopinc AG, Hünenberg, Switzerland	E	9.	CHF	1,000,000	50.00
86.	Gas Service AG, Losenitz, Bulgaria	I	67.	BGN	-	51.00
87.	MAGNIFIN Magnesiaprodukte GmbH, Vienna, Austria	I	1.	EUR	35,000	50.00
88.	Marvo-Feuerungs- und Industriebau GmbH, Sindorf-Kerpen, Germany	I	9.	EUR	513,450	33.33
89.	Treuhandgesellschaft Feuerfest mbH, Bonn, Germany	I	9.	DEM	50,000	28.00
90.	Zimmermann & Jansen Siam GmbH, Rayon, Thailand	I	66.	THB	4,000,000	40.00
Insulating						
91.	Deutsche Heraklith GmbH, Simbach, Germany	F	98.	EUR	4,857,400	100.00
92.	Global B&C d.o.o., Ljubljana, Slovenia	F	100.	SIT	2,100,000	100.00
93.	Heraklith Consulting & Engineering GmbH, Ferndorf, Austria	F	103.	EUR	40,000	100.00
94.	Heraklith España S.L., Gijon, Spain	F	98.	EUR	3,005	100.00
95.	Heraklith Hungaria Kft., Zalaegerszeg, Hungary	F	103.	HUF	100,000,000	100.00
96.	Heraklith Nederland B.V., Bussum, Netherlands	F	98.	EUR	18,151	100.00
97.	Heraklith Polska Sp.z.o.o., Sroda, Poland	F	103.	PLN	100,000	100.00
98.	Heraklith VerwaltungsgmbH, Simbach, Germany	F	103.	EUR	26,000	100.00
99.	IDEAL - Baustoffwerk Mathias Reichenberger Gesellschaft m.b.H. & Co. KG., Frankenmarkt, Austria	F	100.,103.	EUR	5,087	100.00
100.	Mathias Reichenberger Gesellschaft m.b.H., Frankenmarkt, Austria	F	103.	EUR	36,336	100.00
101.	Izomat a.s., Nova Bana, Slovakia	F	103.,115.	SKK	499,476,000	
102.	Izomat Bohemia S.r.o., Brno, Czech Republic	F	101.	CZK	200,000	100.00
103.	Österreichische Heraklith GmbH, Ferndorf, Austria	F	57.,59.	EUR	7,500,000	100.00
104.	Termika d.d., Novi Marof, Croatia	F	100.,115.	HRK	37,882,800	
105.	Thüringer Dämmstoffwerke GmbH & Co KG, Bad Berka, Germany	F	98.,107.	EUR	932,596	100.00
106.	1196071 Ontario Inc., Toronto, Canada	N	98.	CAD	750,230	100.00
107.	C&G Verwaltungsgesellschaft mbH, Bad Berka, Germany	N	98.	EUR	26,000	100.00
108.	DCD Prosenice a.s., Prosenice, Czech Republic	N	112.	CZK	38,900,000	100.00
109.	DEKOPT Prosenice spol.s.r.o., Prosenice, Czech Republic	N	108.	CZK	100,000	100.00
110.	Heraklith Canada Ltd., Toronto, Canada	N	106.	CAD	750,000	100.00
111.	PLASTIK DCD a.s., Slavetin, Czech Republic	N	112.	CZK	42,000,000	100.00
112.	DCD Ideal spol. S.r.o., Dynin, Czech Republic	E	100.	CZK	180,000,000	50.00
113.	Lipka spol. S.r.o., Pecky, Czech Republic	E	91.	CZK	102,000	50.00
114.	Magnomin S.A., Athen, Greece	E	103.	GRD	349,671,000	49.00
115.	Termo d.d., Skofja Loka, Slovenia	E	92.,103.	SIT	1,706,620,000	
116.	Heraklith South Africa (Pty) Ltd. i.L., Johannesburg, South Africa	I	103.	ZAR	4,000	49.00
Other						
117.	Isolit Isolier GmbH, Vienna, Austria	F	118.	EUR	646,788	100.00
118.	Villas Austria GmbH, Fürnitz, Austria	F	93.	EUR	3,997,006	100.00
119.	Villas Hungaria Kft., Zalaegerszeg, Hungary	F	93.	HUF	484,000,000	58.00

i.L. in liquidation
F full consolidation
E consolidation at equity
N non-consolidation
I investments

In the reporting period the **Board of Management** consisted of:

Dr. Helmut Draxler, Vienna, Austria
Chairman (since January 14, 2002)
Dr. Andreas Meier, Niklasdorf, Austria
Deputy Chairman (since January 14, 2002)
Roland Platzer, Wernberg, Austria
Dr. Eduard Zehetner, Vienna, Austria

The **Supervisory Board** consisted of:

Michael Gröller, Vienna, Austria
(Supervisory Board Member since February 15, 2002, Deputy Chairman from February 15 to May, 2002, Chairman since May 27, 2002)
Gerd Peskes, Düsseldorf, Germany (Chairman from February 15 to May 27, 2002, Deputy Chaiman since May 27, 2002)
Maximilian Ardelt, Munich, Germany
Gerd Klaus Gregor, Berndorf, Austria
(since February 15, 2002)
Dr. Cornelius Grupp, Lilienfeld, Austria (since July 4, 2002)
Dr. Walter Ressler, Villach, Austria
(Chairman until February 15, 2002)
Stanislaus Prinz zu Sayn-Wittgenstein-Berleburg, Munich, Germany
DDr. Erhard Schaschl, Vienna, Austria
Dr. Friedrich Nemec, Vienna, Austria (Deputy Chairman until February 15, 2002, Supervisory Board Member until July 4, 2002)

Delegated by the works council:

Georg Eder, Ferndorf, Austria
Josef Horn, Trieben, Austria
Leopold Miedl, Vienna, Austria
Karl Wetzelhütter, Breitenau am Hochlantsch, Austria

Vienna, February 27, 2003

The Board of Management:

Dr. Helmut Draxler　　Dr. Andreas Meier

Roland Platzer　　Dr. Eduard Zehetner

Auditors' opinion

We have audited the consolidated financial statements and consolidated management report at December 31, 2002, drawn up by the Board of Management of RHI AG, Vienna, in accordance with the provisions of the Austrian Commercial Code, as amended. We have conducted our audit in accordance with the generally accepted auditing standards in Austria and have formed the following unqualified opinion.

"In our opinion, the consolidated financial statements comply with legal requirements. The consolidated financial statements present fairly the group's net worth, financial position and earnings situation in conformity with generally accepted accounting principles. The group management report is in accordance with the consolidated financial statements."

Vienna, February 27, 2003

PwC INTER-TREUHAND GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed	signed
Hans Ulrich Wessely	Gerhard Prachner
Certified public accountant	Certified public accountant

These financial statements may not be disclosed, published and reproduced pursuant to § 281 (2) HGB in any form differing from the audited version and deviating from the legal provisions together with this auditors' opinion. Mere reference to our audit may only be made after receipt of written consent.

Segment reporting

2002	Refractories	Insulating	Engineering	Consolidation[1]	RHI Group
in € million					
External sales revenue	1,058.8	164.4	72.8	55.9	1,351.9
Internal sales revenue	8.4	0.0	0.0	-8.4	0.0
Total sales revenue	1,067.2	164.4	72.8	47.5	1,351.9
Operating result (EBIT)	98.8	4.1	0.0	-17.7	85.2
EBIT margin	9.3 %	2.5 %	0.0 %		6.3 %
EBITDA	143.2	15.8	1.0	-16.6	143.4
Capital expenditure	27.3	12.1	1.0	0.5	40.9
Employees (annual average)	5,818	1,775	519	361	8,473

2001	Refractories	Insulating	Engineering	Consolidation[1]	RHI Group
in € million					
External sales revenue	1,510.5	161.5	195.2	0.0	1,867.2
Internal sales revenue	11.0	0.0	0.3	-11.3	0.0
Total sales revenue	1,521.5	161.5	195.5	-11.3	1,867.2
Operating result (EBIT)	-71.5	-6.9	-7.5	-28.4	-114.3
EBIT margin	-4.7%	-4.3%	-3.8%		-6.1%
EBITDA	3.6	5.4	-4.8	-28.4	-24.2
Capital expenditure	42.1	7.8	1.8	0.0	51.7
Employees (annual average)	8,708	1,823	523	32	11,086

1) This column contains the respective totals of overheads and consolidation measures as well as other activities, which are not shown as a segment.

Report of RHI AG 2002

Management report

As was pointed out at the beginning of the management report of the RHI Group, the option to summarize the management report of RHI AG with the group management report pursuant to § 267 (3) HGB together with § 251 (3) HGB was exercised. RHI AG had no branch offices in the reporting period.

Due to the high net loss in 2001 and the resulting distortion of equity capital, no dividend will be proposed for 2002 at the Annual General Meeting on May 26, 2003 despite the accumulated profit of RHI AG in 2002.

Report of the Supervisory Board

The Supervisory Board of RHI AG, Vienna, held nine meetings during the course of 2002. At these meetings and on other occasions, the Board of Management informed the Supervisory Board about important matters relating to the management, operating activities and situation of the company. The Supervisory Board therefore had ample opportunity to fulfill its obligation to remain informed of and to monitor company operations. The Board saw no reason to raise objections to the activities and operations of the Board of Management.

The financial statements for the year 2002 were audited and certified without qualification by PwC INTER-TREUHAND GmbH, certified public accountants, auditors and tax consultants, duly appointed auditors at the 23rd General Meeting of Stockholders. Furthermore, the auditors confirmed that the management report prepared by the Board of Management is in accordance with the financial statements. The auditors' opinion was submitted to the members of the Supervisory Board in accordance with § 273 (3) HGB.

At the meeting of the financial audit committee held on March 13, 2003, the financial statements of RHI AG and the RHI Group were examined and preparations were made for the approval thereof.

The Supervisory Board examined the financial statements submitted by the Board of Management and the management report for the year 2002 and approved these at its meeting on April 7, 2003. The financial statements of RHI AG for 2002 have thus been approved in accordance with § 125 (2) AktG (Companies Act). At the same meeting, the Supervisory Board approved the RHI consolidated financial statements.

In the said meeting on April 7, 2003, the Supervisory Board decided – in accordance with § 270 (1) HGB – to propose at this year's general meeting of stockholders the appointment of PwC INTER-TREUHAND GmbH, certified public accountants, auditors and tax consultants, Vienna, as auditors of the financial statements of both RHI AG and the consolidated financial statements for the year 2003.

Vienna, April 7, 2003

Michael Gröller
Chairman

Balance sheet RHI AG 2002*

in € 1,000	31.12.2002	31.12.2001
ASSETS		
Fixed assets		
Intangible assets	24.6	1.2
Property, plant and equipment	135.6	145.2
Financial assets	727,637.4	716,743.9
	727,797.6	**716,890.3**
Current assets		
Inventories	18,397.2	27,233.9
Receivables and other assets	402,442.1	433,453.9
Cash and cash equivalents	1,868.7	2,479.3
	422,708.0	**463,167.1**
Prepaid expenses and deferred charges	**7.2**	**19.6**
	1,150,512.8	**1,180,077.0**
STOCKHOLDERS' EQUITY AND LIABILITIES		
Stockholders' equity		
Stockholders'equity	144,764.6	144,764.6
Additional paid-in capital	36,988.8	26,876.3
Accumulated profit	35,146.1	0.0
	216,899.5	**171,640.9**
Subordinated mezzanine capital		
Subordinated bank loans	362,141.5	362,141.5
Subordinated convertible bond	126,774.8	0.0
Effective equity capital	**705,815.8**	**533,782.4**
Untaxed reserves		
Provisions for severance payments and pensions	8,153.3	7,828.5
Other provisions	72,317.6	109,178.2
	80,470.9	**117,006.7**
Payables		
Financial payables	212,386.1	407,050.2
Trade payables	8,878.8	9,038.8
Other payables	142,961.2	113,198.9
	364,226.1	**529,287.9**
	1,150,512.8	**1,180,077.0**
Contingent liabilities	125,487.2	262,828.0

* The balance sheet and income statement shown here are summarized versions of the audited balance sheet and income statement.

Income statement RHI AG 2002*

in € 1.000	2002	2001
Sales revenue	661,382.0	614,150.5
Changes in inventories and services not yet invoiced	-2,566.0	488.9
Other operating income	20,334.7	22,859.6
Cost of material and other production services	-478,009.4	-470,271.2
Personnel expenses	-8,038.9	-10,811.6
Depreciation and amortization		
a) amortization of intangible assets and depreciation of property, plant and equipment	-54.2	-428.3
b) depreciation of current assets if exceeding the normal depreciation in the company	0.0	-10,000.0
Other operating expenses	-193,376.7	-199,583.2
Operating result	**-328.5**	**-53,595.3**
Income from investments, thereof from		
group companies € 33,890.3 T (2001: € 0.0 T)	33,890.3	0.0
Income from other securities and financial assets, thereof		
from group companies € 46.7 T (2001: € 1,067.0 T)	169.8	1,235.2
Other interest and similar income, thereof from		
group companies € 4,676.9 T (2001: € 0.0 T)	4,935.3	311,8
Gains from the disposal of financial assets	498.6	681,9
Expenses from financial assets and securities and interests,		
thereof relating to group companies € 7,500.0 T (2001: € 678,883.8 T)	-7,600.2	-678,980.3
Interest and similar expenses, thereof relating to		
group companies € 1,338.0 T (2001: € 12,522.2 T)	-16,066.9	-16,728.2
Financial result	**15,826.9**	**-693,479.6**
Result from ordinary activities	**15,498.4**	**-747,074.9**
Extraordinary income	19,715.1	475,509.6
Extraordinary expenses	0.0	-101,039.3
Extraordinary result	**19,715.1**	**374,470.3**
Income taxes	-67.4	0.6
Net income / loss	**35,146.1**	**-372,604.0**
Reversal of untaxed reserves	0.0	15.7
Reversal of additional paid-in capital	0.0	247,477.7
Reversal of reserves from retained earnings	0.0	124,616.4
Profit carried forward	0.0	494.2
Accumulated profit	**35,146.1**	**0.0**

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RHI key data

in € million	2002	2001	2000	1999
SALES REVENUE				
Refractories [1]	1,067.2	1,521.5	1,675.5	1,103.8
Insulating [1]	164.4	161.5	194.1	185.2
Engineering [1]	72.8	195.5	168.2	145.7
Waterproofing [1]			171.2	157.8
Consolidation/other [1]	47.5	-11.3	-15.4	-18.6
RHI Group [2]	1,351.9	1,867.2	2,193.6	1,573.9
EBITDA	143.4	-24.2	241.1	118.8
EBIT				
Refractories	98.8	-71.5	95.7	39.4
Insulating	4.1	-6.9	11.2	9.7
Engineering	0	-7.5	7.6	7.4
Waterproofing			3.7	4.0
Overhead/other	-17.7	-28.4	13.1	-8.1
RHI Group	85.2	-114.3	131.3	52.4
EBT	62.2	-204.9	70.1	40.3
Net income/loss	69.4	-856.4	30.8	-19.0
Net income/loss after minorities	65.9	-863.1	21.2	-26.0
Cash flow from results	144.2	-311.4	73.9	66.2
Cash flow from operating activities	81.6	-106.6	48.6	62.9
Cash flow from investing activities	-37.8	-59.4	-53.1	-435.5
Cash flow from financing activities	-70.4	165.1	14.9	397.9
Fixed assets	499.1	563.8	1,101.3	1,123.4
Working capital [3]	87.1	127.3	423.2	328.2
Net financial payables [4]	324.3	595.7	804.0	730.9
Employees (average)	8,473	11,086	13,690	10,356
EBIT margin (in %) [5]	6.3	-6.1	6.0	3.3
Cash flow / sales revenue (in %) [6]	6.0	-5.7	2.2	4.0
Return on capital employed (in %) [7]	22.4	neg.	11.1	10.8
Equity ratio (in %) [8]	-45.6	-39.4	17.1	13.7
Effective equity capital ratio (in %) [9]	1.6	-10.7	17.1	13.7
Return on average fixed assets (in %) [10]	18.4	neg.	12.6	10.2
Earnings/loss per share [11]	3.31	-43.33	1.07	-1.72
Cash flow per share [12]	4.10	-5.35	2.44	4.16
Dividend per share	0	0	0.73	0.58

1) Total sales revenue (incl. internal sales revenue) of the division
2) External sales revenue of the group
3) Working capital = inventories + receivables and other assets + prepaid expenses and deferred charges - other provisions - trade payables - other payables - deferred income
4) Net financial payables = financial payables - cash and cash equivalents
5) EBIT margin = EBIT / sales revenue
6) Cash flow / sales revenue = cash flow from operating activities / sales revenue
7) Return on capital employed = (cash flow from results + interest expenses + cash expenditure for social capital - capital expenditure to maintain substance) / average (fixed assets + net current assets)
8) Equity ratio = equity according to balance sheet / balance sheet total
9) Effective equity capital ratio = effective equity capital according to balance sheet / balance sheet total
10) Return on average fixed assets (excl. financial assets) = EBIT / average fixed assets (excl. financial assets) (1999 and 2001 adjusted for US activities)
11) Earnings per share = net income after minorities / number of shares (1999 weighted average)
12) Cash flow per share = cash flow from operating activities / number of shares (1999 weighted average)

1998	in € million
	SALES REVENUE
1,154.7	Refractories[1]
164.5	Insulating[1]
156.0	Engineering[1]
153.0	Waterproofing[1]
-15.7	Consolidation/other[1]
1,612.5	RHI Group[2]
147.4	EBITDA
	EBIT
62.8	Refractories
9.4	Insulating
5.7	Engineering
3.3	Waterproofing
-0.2	Overhead/other
81.0	RHI Group
66.3	EBT
53.8	Net income/loss
49.4	Net income/loss after minorities
119.9	Cash flow from results
95.8	Cash flow from operating activities
-87.4	Cash flow from investing activities
5.5	Cash flow from financing activities
590.4	Fixed assets
239.2	Working capital[3]
266.4	Net financial payables[4]
10,412	Employees (annual average)
5.0	EBIT margin (in %)[5]
5.9	Cash flow / sales revenue (in %)[6]
14.2	Return on capital employed (in %)[7]
18.8	Equity ratio (in %)[8]
18.8	Effective equity capital ratio (in %)[9]
15.9	Return on average fixed assets (in %)[10]
3.56	Earnings/loss per share[11]
6.90	Cash flow per share[12]
1.16	Dividend per share

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