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Weak US economy affects earnings development; Europe, Asia and South America still on track in Q2/2001

RHI

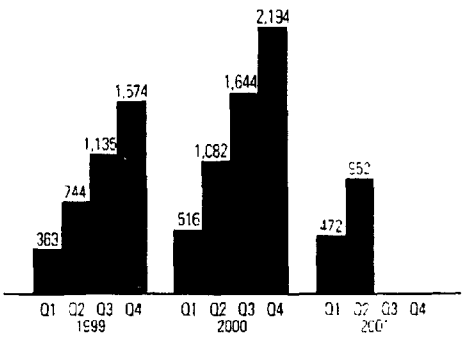
Quarterly Report 2/2001

Good refractories business in Europe, Asia and South America, and weak US economy characterize RHI business development

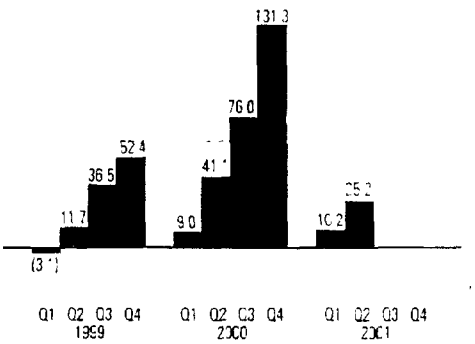
In the second quarter of 2001, the RHI group generated lower sales revenues than in the same period of the previous year. This was due to the deconsolidation of the waterproofing division and lower contributions to sales revenue in North America as a result of the economic situation. The different developments of the worldwide refractories business with positive contributions to sales and earnings in Europe/Asia/South America and weak business in North America continued in the second quarter of 2001. It was the weak capacity utilization of the US steel industry in particular that affected the development of sales revenue and earnings. RHI has once again stepped up its efforts in North America to improve the unsatisfactory earnings situation of the first half of 2001 sustainably.

In the first half of 2001, the RHI group reported sales revenues totaling € 952.1 million, € 130.2 million or 12% below the comparable figure of the previous year. Of this amount, € 77.7 million was attributable to the deconsolidation of the sold waterproofing division. In addition, this decline reflects lower contributions to sales revenue from the refractories business in North America due to the economic situation. However, sales revenue rose in the engineering and insulating divisions in the first half of 2001. As reported in the first quarter of 2001, the above-mentioned decline in sales revenue in North America includes the sale of two refractories plants in North America, through which the consolidated group lost sales revenues in the amount of € 25 million.

Sales revenue accumulated, in € million



EBIT accumulated, in € million



EBITDA (earnings before interest, taxes, depreciation and amortization) of the RHI group amounted to € 78.4 million in the first half of 2001, the operating result (EBIT) of the RHI group came to € 25.2 million, following € 41.4 million in the same period of the previous year.

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The contributions to earnings by the refractories division in Europe, Asia and South America remained at a good level in the second quarter of 2001. The economic downturn in Europe was not reflected in the results of this region. Moreover, incoming orders in Europe do not indicate a significant decline in business in this key region. A drop in demand by some client industries due to the economic situation have so far been offset completely by additional business with existing and especially new customers. Overall, the sales and earnings situation in these regions in the first half of 2001 still exceeded the ambitious expectations and the comparable figures of the previous year.

Despite the generally weaker economic situation in the refractories segment, no major decline in business is to be expected in Europe. A slight drop in demand by the steel industry expected by the end of 2001 will be compensated by increased business in other client industries.

In North America, the refractories division did not generate the expected contribution to earnings due to the weak economic situation, especially in the steel industry. The decline in demand by the main client industries, which has been persisting since Q4/2000, led to a drop in sales revenue by approx. 20% in the first half of 2001. Sales volume to the steel industry was affected to a greater extent by the economic slump than this was the case for other client industries. Although no clear recovery tendencies were identifiable in the second quarter of 2001, steel production stabilized at an overall still unsatisfactory level. The new RHI Americas management, which was appointed in May 2001, once again stepped up efforts considerably on the sales and cost sides to ensure a turnaround in the second half of 2001.

A reliable forecast regarding the development of sales volume of refractories in the USA is still difficult. Fierce competition still leads to great pressure on prices. Important indicators of the climate in industry and production indicate a slow recovery of the economic environment in the USA. A sustainable increase in production of the steel market in the USA, which is important for the refractories industry, is to be expected at the beginning of 2002 at the earliest.

RHI group

in € million	2nd quarter		1st half	
	2001	2000	**2001**	2000
Sales revenue	**480.2**	566.0	**952.1**	1,082.3
EBITDA	**43.4**	60.0	**78.4**	97.0
Operating result (EBIT)	**15.0**	32.1	**25.2**	41.1

RHI's engineering division increased sales volume by 15% in the first six months of 2001 as compared to the same period of the previous year, due to acquisitions and projects. The insulating division also reported positive sales figures, which exceeded those of the previous year by 5%. The engineering division's contribution to EBIT was within expectations in the first half of 2001, while the result of the insulating division remained at the level of the previous year.

The outlook for the whole year 2001 is influenced substantially by the worldwide economic situation of the key industries important to the refractories sector. The RHI Board of Management expects stable and overall satisfactory contributions to earnings for the refractories business in Europe/Asia/South America in the second half of 2001. In North America, all efforts have been geared to ensuring a turnaround, even with a persisting weak market development, and to achieving a balanced result for the whole year. The operating result (EBIT) of the RHI group will not reach the level of the previous year due to the cyclical impact on business in North America.

Dr. Georg Obermeier
Chairman of the Board of Management of RHI AG

Refractories division

in € million	2nd quarter		1st half	
	2001	2000	**2001**	2000
Sales revenue	**385.0**	440.1	**783.0**	867.9
Operating result (EBIT)	**13.8**	27.1	**30.3**	45.1

The worldwide framework conditions for the refractories division did not change substantially in the second quarter of 2001. The industrial cycle, which has been weak in North America since late 2000, has not recovered to date. Especially the steel industry is still suffering from slack demand by different key industries. Prices remain at a low, though now stabilized, level. As a result, the market and sales volumes for the refractories industry in the USA fell clearly short of the previous year and of expectations. Incoming orders and pricing negotiations in the second quarter of 2001 have shown that the levels of sales volume and sales revenue are gradually stabilizing. Although competition among refractories suppliers has grown fiercer once again, important customers have been retained and new customers acquired, though initially at a low price level. Important industry indicators imply that a recovery, especially of the steel sector, will at the earliest occur at the end of the year.

In view of this weakness in the market, the management in the USA has once again significantly stepped up the cost-cutting program to be able to fully compensate variances in price and volume which affect the result in the course of the year. Marketing was increased once again in all relevant industries to further extend the position of the market leader even in the currently weak phase of the market. The decline in sales revenue by about 20% in North America in the first six months of 2001 reflects the economic situation and customer environment. The objective is to make up for a large part of business lost as compared to the previous year in the second quarter. In view of the market situation, earnings in North America were not satisfactory in the first half of 2001. Looking at the whole year 2001, a balanced operating result should be achievable in North America.

The economic situation in the USA has begun to affect business in Europe, Asia and South America. However, in the first half of 2001, refractories business was still at a high level in these regions. Contributions to sales and earnings exceed those of the previous year. Weakening tendencies in some countries or among individual customers were more than offset by the expansion of the worldwide business volume. The recognizable weakening of the business climate in the second half of 2001 in the steel industry will be compensated overall by the successful work of the globally oriented glass, cement & lime and non-ferrous metals business units, after they managed to gain attractive customers in high-price segments.

The level of incoming orders is high in all business units and does not lead to expectations of a significant downturn of the business development in the next few months. The strong US dollar still supports the competitiveness of RHI refractory products, which are delivered from Europe to overseas markets.

Overall, the refractories division generated sales revenues of € 783.0 million in the first half of 2001, 10% down on the figure of the previous year as a result of the situation in North America. The decline in sales revenue by € 84.9 million includes € 25 million of two US plants, which had to be sold in April 2000 to meet the requirements of the Federal Trade Commission (FTC). At € 30.3 million in the first half of 2001, EBIT fell clearly short of the value of the previous year.

Engineering division

in € million	2nd quarter		1st half	
	2001	2000	**2001**	2000
Sales revenue	**44.4**	42.6	**80.3**	69.7
Operating result (EBIT)	**1.8**	1.3	**0.5**	-0.1

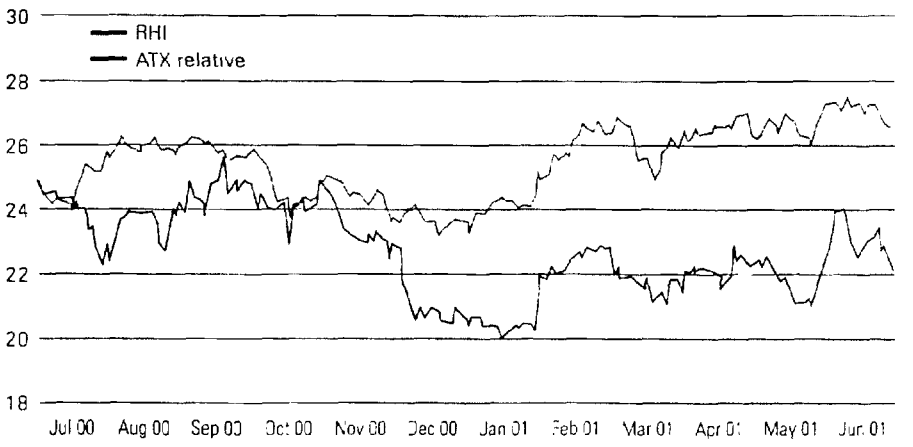
In the engineering division, sales revenue, at € 80.3 million in the first half of 2001, was up 15% on the figure of the previous year. This was primarily due to changes in consolidation. The level of incoming orders is good. This gives rise to expectations of a continuing positive business development. At € 0.5 million, EBIT in the first half of 2001 exceeded the comparable figure of the previous year. As invoicing and earnings of the engineering companies are generally concentrated in the second half of the year, the result of this division is with in the framework of expectations.

Insulating division

in € million	2nd quarter		1st half	
	2001	2000	**2001**	2000
Sales revenue	**49.4**	48.5	**95.4**	90.9
Operating result (EBIT)	**3.1**	2.9	**3.0**	2.8

The insulating division increased its sales revenue to € 95.4 million in the first half of 2001, up 5% on the comparable figure of the previous year. Despite the persisting slump of the building industry in the core markets of Europe, a positive development took place especially in the mineral wool segment. In the export markets and in individual Eastern European countries, business developed better than expected. At € 3.0 million in the first half of 2001, the insulating division's EBIT remained at the level of the previous year.

Performance of the RHI share 7/2000 - 6/2001 (in €)



Important dates 2001:

Results Q3/2001 — November 14, 2001

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