

PRODUCTS

>800

With the aid of modern production sites and intelligent processes, we are able to produce more than 800 high-quality chemical-pharmaceutical specialty products from hydrocarbons.

**SALES** 

€1,188.4 million

Despite the Covid-19 pandemic, sales in the 2021 financial year amounted to almost €1.2 billion.

# ➤ WASTEWATER 179.3 |/†

Since 2011 we have reduced our wastewater volume by almost 180 liters per ton of feedstock. Most of the wastewater can be returned to the environment.

# → WASTE **2.79** kg/†

The approach we follow is to always reduce the amount of waste caused by our production process as much as possible. We have achieved this through a high degree of vertical integration.

# CAPITAL EXPENDITURE\* **€48.7** million

Our capital expenditure aims to keep our sites technologically up-to-date, thus not only maintaining our existing facilities but preparing for the future.

### CARBON EMISSIONS

5.1%

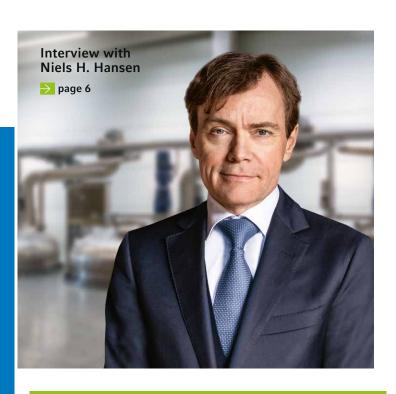
We keep a close eye on our emissions. In 2021 we reduced the amount of carbon dioxide we emitted by more than 5% in comparison to the previous year.

<sup>\*</sup> Excluding lease agreements.

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#### Interview with Niels H. Hansen

The year 2021 was turbulent and continued to be dominated by Covid-19. What were the issues that most concerned H&R?

**NHH** We have been able to track the development of the pandemic primarily on the basis of the competitive situation. The high demand initially continued and we were able to generate very good revenues. In particular, the very good

margins for base oils toward the middle of the year made a strong contribution to our best result since the company's IPO twenty years ago. With a certain return to normality, raw materials became more expensive in the second half of the year. At the same time, we noticed stronger competition, meaning that we had to manage higher pressure on both the procurement and sales sides. For us, the focus was always on continuous supply to customers. We were able to ensure this at all times.

#### 07

#### What role did the topic of sustainability play at H&R in the past year?

**NHH** The rising demand of our customers and consumers for sustainable and more climate-friendly products makes it clear that the alternatives to fossil-based raw materials are becoming increasingly important. The high volatility on the raw materials markets has once again shown in the past year how important it is that we resolutely pursue our path in the direction of transformation. We are of the opinion that topics such as sustainability, resource conservation and the efficient use of raw materials need to be driven forward. As a company, we aim to offer feasible solutions.

By means of the synthesis process, the hydrogen produced by us will be combined with green CO<sub>2</sub>, and e-fuels and synthetic waxes will be produced from this. In addition to product volumes that are relevant for the first time, the demonstration project will also provide important findings about scaling the production of synthesized specialty products. We have also reestablished the topic of sustainability and introduced the function of a Transformation Manager. This function is intended to supervise the internal change and the achievement of the strategic sustainability goal.

#### So, a clear commitment to corporate responsibility?

**NHH** I am pleased to answer that with a clear yes. At our 2021 Annual Shareholders' Meeting, we clearly laid out our sustainability targets. By 2030, 70% of the core products that we produce should be created on the basis of renewable raw materials, and we are aiming for carbon-neutral production by 2035. As a company in the chemical-pharmaceutical industry, we are taking our responsibility seriously. The focus of target achievement is on a change in the two production sites that are important for the entire Group toward more renewable sources of raw materials and consequently the strategic development of the refinery operating model.

# What concrete projects are being focused on in the coming few years for achieving the set goals?

**NHH** We still regard the selection of our raw materials as the factor with the greatest leverage. We are pursuing our "three-pillar strategy" for a path away from using predominantly mineral-oil-based raw materials, toward the use of renewable components and synthetic raw materials. With the commissioning of the power-to-liquid plant in the first half of 2022, we will reach another milestone.



>> By 2030, 70% of the core products that we produce should be created on the basis of renewable raw materials, and we are aiming for carbonneutral production by 2035.

Niels H. Hansen, Managing Director of H&R GmbH & Co. KGaA

#### On a broad scale

# Creating Sustainable Specialty Products with New Feedstocks

The NextGate project paves the way for H&R to create synthesized and more climate-friendly products. Now, the focus is on the step-by-step conversion of production as a whole, with the intention of making it carbon neutral by 2035. Ulrike Vollrath heads up the Innovative Process Technology department and is supporting the successful realization of this vision with her team.

# H&R is undergoing a process of change. This means that there is a lot that needs to be done technologically ...

**UV** That's true. My team gained two additional employees with strong expertise in 2021. That is a clear sign of progress. By having staff with different technical specialisms on board, we have access to a wealth of important expertise that will help us to achieve something great. Given what we plan to do, this is a must. In the coming years, a significant proportion of our feedstocks are set to have sustainable origins. There are various options for this.

#### Is a changeover as easy as that?

**UV** Yes, thanks to our ability to use hybrid processes. By jointly processing raw materials from fossil and sustainable sources, it gives us a certain degree of flexibility in the use of materials. But over the long term, our activities will change radically. In ten years, we will be less of a classic refinery and more of a technology park, with significantly changed processes – perhaps not immediately at both locations, but that will also only be a question of time.







# >> By using alternative hydrocarbons, we are driving forward the defossilization in our industry.

Ulrike Vollrath, Head of Innovative Process Technology

#### More or less sustainable feedstocks – what does this refer to?

**UV** We pursue a three-pillar strategy when it comes to new feedstocks. That means that as an alternative to the fossil feedstock, we also use recycled, bio-based and synthetic qualities. For example, paraffin slack wax can in principle also be produced sustainably, e.g., from reusable plastics. Additional possible primary feedstocks are biomass, sewage sludge or waste, which can then be submitted for pyrolysis treatment in order to manufacture certain products.

#### It sounds as though other environmental issues could also be solved with this ...

**UV** If you look at it in terms of making sense of the materials that are already in the world, yes. At the moment, we are looking at numerous options very closely. For this, we make contact with companies that offer these products and initially test the product characteristics in small quantities. If these are appropriate, we look at the samples in detail in our demonstration plants.

#### How easily can the products be substituted?

**UV** The characteristics are very similar, but not 100% the same. That is why we need to test and adapt the formulations. This particularly applies to the challenging process stages for which the products are destined for the cosmetics or pharmaceutical industries. In addition, new products need to go through an approval process. If the quantities increase – which is the plan – we intend to have the appropriate processing operations and press ahead with approval with the customer.

#### Is the demand for sustainable products even there?

**UV** Absolutely! The topic of sustainable supply chains moves the entire industry today and consequently also our buyers. The need for discussion stretches across our entire portfolio, from candles, construction materials, adhesives and cosmetics to industry. We are conducting intensive discussions with numerous customers. The aim of this is predominantly to test the possibilities. But we can see clearly that our customers are supporting the path we have chosen. A fundamental change in thinking is currently taking place with end customers. Sustainable products will be a must in the coming years



Here's to good cooperation

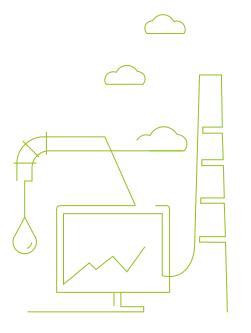
# Innovative Solutions for the Rapid Supply of Sustainable Products

For the reversal of climate change to succeed, we not only need new technologies, but also fast action. According to current calculations of the Intergovernmental Panel on Climate Change IPCC, we will already have exceeded the still acceptable limit of 1.5 degrees Celsius of global warming in 20 years. Cooperation is a good accelerator.

e initiated this type of cooperation at the end of 2020 when we founded the P2X Europe joint venture with the energy solution provider for transport, Mabanaft. In the future, our joint venture will facilitate the marketing of synthetic hydrocarbons on an industrial scale. The most important target markets for e-fuels are aviation and selected road traffic sectors. The buyers of the specialty wax products are wide-ranging customer groups from the chemical-pharmaceutical industry and the cosmetics sector.

#### PEM electrolysis: The origin

Since 2017, we have been producing hydrogen from certified green electricity at the site in Hamburg, which we have been using in our refinery processes so far. At the same time, our 5 MW electrolysis plant is also providing the basis for broader use of hydrogen as a resource.



#### **NextGate: The proof**

With our NextGate demonstration plant – also in Hamburg – we are taking the next step and will produce synthetic raw waxes and fuels in a climate-friendly manner using a power-to-liquid system. Production is starting in the first half of the year. The plant has a production capacity of 350 tons per year. Around 150 tons of waxes will be produced per year, which we can process further and provide to our customers in the cosmetics, pharmaceuticals and food industries. The remaining 200 tons of e-fuels will go to the market via the joint venture.

#### **Nordic Electrofuel:** The accelerator

We are pushing the door open to marketing on an industrial scale through additional marketing and sales cooperation. An example of this is our collaboration with Nordic Electrofuel. The Norwegian company is planning the construction of several modern e-fuel production plants in Porsgrunn, which is situated around 150 kilometers southwest of the Norwegian capital, Oslo, as well as in other parts of Norway. P2X Europe will begin to purchase and market synthesized quantities of fuels and waxes manufactured in a climate-friendly manner from 2024 - in the jet fuel business and the chemical base materials industry. In the first phase, a demonstration plant will supply 8,000 tons of fuels and waxes per year. The annual production capacities will be gradually expanded to more than 800,000 tons.

#### P2X: The marketing platform

The cooperation between P2X Europe Nordic and Electrofuel strengthens the supply base of our joint venture and will help to rapidly promote the market penetration with carbon-reduced power-to-liquid products and thereby make a significant contribution to defossilizing our industry.



#### i) At a glance

We know the "inner value" of more than 100 different raw materials – through our own analyses and test runs.
We are also working on adding more and more sustainable qualities in the future – both bio-based and synthesized.

Read more at www.hur.com

This shows that "green cooperation" is effective. And worthwhile. Our solution makes us an innovation leader in our market for hydrogen-based products and business models. That is a leading edge that our customers will appreciate in the truest sense of the word in the future.

#### A good place to be

### On Board with H&R

Defined processes, a good working atmosphere, development opportunities – there are many reasons to work with H&R.

But, perhaps the most important reason is that our specialists perform their jobs with great passion. And that's infectious.



otivation and qualification are crucial for our company's success. That's why we create a positive working environment at H&R and support team spirit, commitment and independent action wherever possible.

The basis for our collaboration provides a modern and well-structured company organization, in which everyone clearly knows their duties, their levels of authority and their responsibilities. A clear organizational chart, and precise job and function descriptions for each employee help with this.

#### Finding the best

When we are searching for new staff, we only look at the best candidate for the job. We take both technical and social skills into consideration. Religion, gender and other personal characteristics are irrelevant for us. We want employees who will integrate optimally into our company with their skills. We are also interested in people seeking a lateral career move, who may on paper only appear to be the second-best option. The major digital job portals help us with recruitment. But good candidates often also find their way to us through recommendations and personal networks. When it comes to management staff, we call on the experience of recruitment consultants. They have another way of accessing the market and can speed up the search process significantly with their intuition.

We are also embracing new approaches for finding and keeping younger new talent – for example, with the launch of our Instagram account for H&R vocational trainees. This new account has been managed by our vocational trainees since this spring and shows what is currently happening at H&R and what makes daily life with us so exciting.

Specialty chemicals are a special business. That is why we also train our junior staff "from the inside". Chemists, lab technicians and even "normal" specialists for office management can develop their knowledge with us from the ground up. We also offer academic junior staff an attractive "specialist route" at the H&R Group. Within the scope of dual study programs, they can combine theory and practice with one another at an early stage in the chemical and process engineering fields, as well as in other engineering areas.

#### Modern diversity, high standards

Anyone who looks at our careers page today will be in for a surprise, as the traditional oil industry professions are now scarce. Instead, there are project managers for sustainable process technology, software developers, and experts for synthetic materials. We need engineers who calculate the carbon footprint and process engineers who have knowledge about sustainable feedstock.



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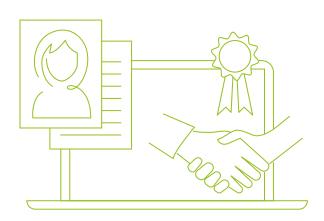
apprentices began their training at the German production sites in 2021

#### (i) At a glance



@hur\_azubis

H&R is now on Instagram.
Scan the QR code to gain
an insight into our training
professions at the Hamburg
and Salzbergen sites.



Anyone who joins us today will be part of the transformation toward a refinery group that fits into the world of a circular economy.

#### Insular thinking is a no-go

Everyone joining our company will be introduced to this idea right from the beginning. We know that insular thinking cannot work in a complex system. It is important that our employees also know what is happening to the right and left of their work areas. To a certain extent, comprehensive knowledge is also a question of health and safety for us. No one is allowed to move around on our refinery premises without having been briefed on the fundamental rules of conduct.

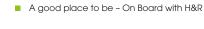
other events. From a specific hierarchy level, additional training topics, such as compliance and employee management, are offered to our staff. The training courses are assigned on the basis of job profiles and in consultation with specialists and managers.

#### Growing and updating knowledge

Continuing education is an integral part of what we do. All employees that can be reached electronically are automatically linked to our professionally-supported training system. Through the system, employees are allocated electronic training courses according to their job profiles, which they complete within a year. In 2021, the total number of training courses reached more than 28,000. This number is distributed across around 1,000 employees worldwide from 142 Group departments.

We train effectively and efficiently. In total, our employees underwent 5,675 hours of training in the past year, which comes to an average training time of 5.34 hours per participating employee. The rate of successfully completed training courses is usually around 95%. The standard training courses include the topics of environmental and health protection, as well as social and intercultural skills. In addition, there are always job-specific training courses. These include hazardous substance and fire safety briefings, which are always held in person, as are numerous







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years of entrepreneurial activity and strategic thinking shape the H&R Group.

#### H&R – A family business on the stock exchange

One of the special features of our H&R Group is that we are family-run and our roots are anchored deeply in the history of the founding and majority-shareholder family. Everyone who works for us can sense this. All of our employees receive performance-based remuneration on the basis of collective bargaining agreements. They work in flat hierarchies and the practiced working time models enable a professional life that is very compatible with private requirements. Anyone who wants to can get involved with us in a variety of ways. And with added-value. To this end, we have, for example, backed up our improvement management with an attractive bonus system.



Well-informed

# Communication Leads to Transformation

Successful change needs a team that works well together. The corporate culture needs to be right. Everyone needs to be aware of their roles – and particularly the path they are embarking on together. For this to succeed, H&R has numerous ideas up its sleeve.

Ithough change is nothing special in our company, the path that we have found ourselves on in recent years is leading our H&R Group into a completely new era. We have taken the first step with the conversion of our refinery production — away from classic lubricant joint production toward the application-specific production of specialty products. This enables us to create a higher-quality portfolio of products that are tailored to our customers' requirements. We have already initiated the second step of replacing fossil feedstock with sustainable alternatives by producing our own hydrogen, and we are currently expanding this with the power-to-liquid system for the production of synthesized e-fuels and waxes.

In theory, such a conversion sounds simple. But in practice, it is highly complex. The processes that need to be changed involve multi-layered expertise, countless years of experience and, above all, well-rehearsed team effort. We need to coordinate with each other in the Group in a new way – not only in the processes themselves, but also in the upstream and downstream stages.

#### Transformation team – driver and point of contact

For the implementation of the first stage, we have already significantly intensified communication within our Group – management staff events serve to keep management teams informed, and workforce and company meetings update our employees. We also produce newsletters to keep our teams at the sites routinely updated about our plans and company developments.

That is not sufficient for our second, more fundamental stage. From this spring, we will have a transformation team, which, under the leadership of an experienced manager, will explicitly ensure that we can successfully complete the transition toward our sustainability goals. The team will launch transformation-related projects, manage/monitor appropriate processes and be a fixed point of contact for all of the units in the Group.

Our managers will take on a very important role in keeping everyone informed about the transformation. The commercial and technical directors and those in charge of different areas of the company, such as engineering, innovative process



>> Those we communicate with today are the ones who will spread our core messages tomorrow.

Tanja Passlack, IR/PR Manager

technologies and raw materials purchasing will be responsible for disseminating information throughout the organization. The advantage here is that, as managers, they know the form in which the transformation efforts affect their areas of responsibility. And, as managers, they can pass on the information associated with this clearly and initiate the required processes in a precise manner.

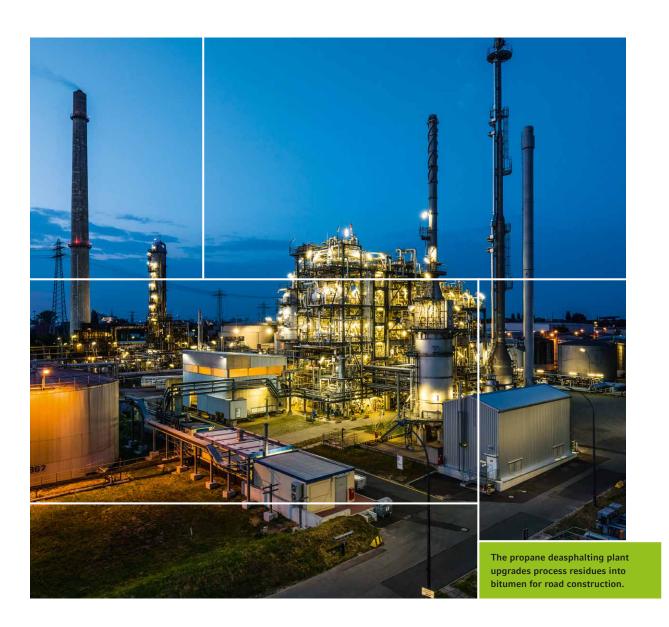
#### Taking time for discussion

Providing information is good. Talking to one another is better. In line with this philosophy, we invited staff from both of our production sites to a hybrid dialogue event this February. The focus of the professionally supported round of interviews was an exchange of information on our corporate development topics. The employees took the opportunity to ask questions or make contributions. Anyone who was not able to follow the event live, which was streamed on YouTube, has the opportunity to watch the recording at any time on the intranet. This was well-received. We are planning to arrange additional discussion events with various participants over the course of the year.

#### **Diversely linked**

#### A Network Around the World

Our group has an international presence and we have access to a global network of our own processing plants, distribution sites and partner refineries. The number of our customers we serve has also grown over many years and gives us a sense of security, particularly in times of change.



ur Group is at home on all continents. Our roots lie in Europe. Our headquarters and both of the main production sites are here in Germany. We have local processing sites in North America, South America, Africa, Australia and New Zealand. The same is true in South East Asia, where we have an especially large presence. The Asian markets are particularly vibrant and have a special importance for us strategically, as many of our customers are based there with relevant production sites.

#### Well-earned trust

Our relationships with our customers have developed over the course of many years and are very stable. This is reflected in our long-term contractual business relationships, which we maintain through our sales network. Many of our customers have been with us for decades. The Hansen & Rosenthal Group, with a history spanning more than 100 years, is closely linked with H&R and represents the values of a family business. These values are very helpful for establishing and maintaining long-term relationships. Customer engagement, adherence to delivery dates, continuity and quality awareness are basic promises that do not need to be negotiated with us.

Many of our international sites came to us through the integration of H&R Ölwerke Schindler in 2001. With these sites, we were able to expand our network with sales and processing units that were strategically well-positioned. We are now physically close to our customers all over the world and deliver consistent quality – regardless of whether they request our services in Europe or Asia. Some of our global processing sites are linked to partner refineries that are a particularly good fit for us in terms of the base products they produce. They have a level of vertical

We are securing our future viability through our own training program.



integration that enables us to further process the products according to the needs of our customers.

#### Association work and representation of interests

Standards and certifications are very important in the chemical industry. We not only intend to fulfill them, but also to be actively involved in their continued development. For this purpose, our management and specialist staff are currently involved in more than 65 national and international bodies, committees and interest groups. In these circles, we discuss experiences and trends, and take part in setting the framework for our day-to-day business. The subject areas that we cover are widely diversified and extend from areas such as materials, product safety and waste to the increasingly important fields of environment and energy, and the topics of compliance and accounting law.

42.3%

of our employees work at our international sites.

#### At a glance

Our Group has German roots and a global network of subsidiaries. We operate locally and are regarded as a market player in the local industrial sectors.

We have a particular presence in Asia, where we have a large number of production partnerships and processing sites, and where we serve the markets through our sales/ distribution units.

Read more at www.hur.com



#### Well-coordinated

### The Interplay of Forces

Our business environment is currently uncomfortable. The pandemic, inflation, faltering supply chains and a critical global political situation are making daily life unusually difficult. In addition to this, we are undergoing an internal transformation. In this situation, functioning coordination processes between managers and stakeholders are particularly important.

he communication channels in our group of companies are traditionally very short. Not only is that very helpful for making fast decisions, but it also promotes a good culture of cooperation. Regular and frequent, even informal, communication within the group of managers plays a key role in ensuring that we collaboratively take the right steps in the vast majority of cases for the successful balancing of interests.

#### A family influence

For our legal structure, we have chosen the rarely selected legal form of a partnership limited by shares (KGaA) for our presence on the trading floor. It allows individuals or families to raise capital on or off the stock exchange, without losing entrepreneurial influence. This fits us perfectly, as the long-term strategic foresight of a majority-owned founding family shines through in our day-to-day business.

#### By consensus

Our employees are extremely important. Ultimately, it is the commitment of the entire workforce that enables us to achieve our goals. Our Supervisory Board is made up of shareholder and employee representatives in accordance with the One-Third Participation Act, meaning that not only the interests of the owners but also those of the workforce carry weight when it comes to policy-making issues.

We maintain long-term relationships with financing partners, on both the equity capital and debt capital sides. Both groups value the fact that the principle of prudence plays a key role with us. Nothing changes about this primacy of prudence, even though we are currently embarking on raising our refinery processes to a new level. It would be risky if we were to simply continue in an environment that is changing so radically.

1860

The year crude oil was processed in Salzbergen for the first time



paraffin molding in Salzbergen

#### Risk-aware and entrepreneurial over the long term

For us to stay on the right track, strategically, operationally and - of course - also economically, we perform professional risk management. It regularly reflects back to us, irrespective of our interests, where we are at the moment and where fields of action may be opening up. Our conservative accounting policies help us to track our planning over the long term. This not only gives our equity providers security, but also our employees and partners.

A key asset for the successful continuation of our corporate history is our strong reputation, which we have built up over many years thanks to our steadfast reliability. It gives us the important leap of faith in an internal and external relationship, which we specifically need in those areas where we are breaking new ground. Our strict compliance rules and a code of conduct help us to protect this reputation.





We have been reporting on our sustainability as part of our non-financial reporting for several years now. Since last year, this has been integrated into our sustainability report.

Our non-financial statement in accordance with the CSR Directive Implementation Act (CSR-RUG) is comprised of the following contents.

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# Independent assurance practitioner's report on a limited assurance engagement on the non-financial reporting of a group of companies

### Management Board

The H&R Group is well aware of its role in society and the responsibility it bears as a result. The company operates in an ever-growing regulatory framework yet always takes advantage of opportunities to evolve, to drive forward a balance between business, the environment and society.

## Reporting Profile and Environment of the H&R Group

#### Reporting Profile and Environment

This non-financial report (NFR) of the H&R Group contains disclosures in accordance with Section 289b—e of the German Commercial Code (HGB) in conjunction with 315b—c HGB and Article 8 of the EU Taxonomy for sustainable activities (2020/852) on material, non-financial aspects of our business activities in areas involving environmental, employee and social concerns, respect for human rights and the fight against corruption. The non-financial report was audited on a voluntary basis with limited assurance in accordance with ISAE 3000 for the first time for 2021.

#### **Legal Requirements and Framework**

No international framework has been applied in preparing the NFR, as the H&R Group's sustainability reporting process is still under development. It was therefore not yet possible for us to collect complete global key figures on all the material topics for the 2021 financial year. Nevertheless, the reporting provides a representative overview of the Group. The inclusion of the two German refinery sites ensures that the main drivers of our key performance indicators, which are also relevant to our sustainability strategy, are taken into account comprehensively.

# H&R KGaA's Business Model and Strategy

For a detailed presentation of the mission, the markets and corporate structure, please refer to the 2021 consolidated management report.

With the help of modern refineries and process technology, we use hydrocarbons to produce more than 800 chemical-pharmaceutical specialty products such as label-free process oils, white oils and paraffins. Precision plastic parts complete our portfolio. Our products are components in the

processes and products of numerous industries, for example, in the automotive industry. Today, we manufacture and sell our products worldwide through an organically developed network. We rely on our own facilities and sales/distribution units, as well as on production partnerships.

In total, the Group consists of 47 subsidiaries. The ChemPharm Refining and ChemPharm Sales segments are subdivided into production sites (Germany), processing sites (UK, Netherlands, Japan, Singapore, Malaysia, China, Thailand, Indonesia, South Africa) and sales sites (India, Vietnam, Australia, United States, Brazil). In the Plastics segment, we operate production sites in Germany, the Czech Republic and China.

As a Group with global operations, we not only compete with other market participants in general, but we also face a variety of global economic factors. These include various economic-political systems as well as cultural particularities and regional challenges that our activities and our products are met with and which the H&R Group must address in its strategic orientation. The German refinery sites form the core of these efforts. They are, on the one hand, the largest units in the H&R Group. The overwhelming majority of the core products sold in Germany through the ChemPharm Refining segment and globally through the ChemPharm Sales segment are produced at these two locations. They are therefore especially important as suppliers for providing chemical-pharmaceutical raw materials for our Group-wide sales and processing networks. At the same time, they are also the primary cause of the Group's energy needs and its emissions. The two production sites in Hamburg and Salzbergen are therefore at the forefront of the Group's sustainability strategy.

- MANAGEMENT BOARD Climate Protection and Resource Conservation Product Responsibility Employees
- Reporting Profile and Environment of the H&R Group
- H&R KGaA's Business Model and Strategy
- EU Taxonomy Regulation and Taxonomy-eligible Activities

The following table details the figures for which a strictly German approach was applied and where a Group-wide approach was applied:

	Germany	Group
Material Topics for H&R		
Energy Consumption and Carbon		
Emissions		
Waste		_
Water and Wastewater	•	_
Human Resources Management, Em-		
ployee Recruitment and Retention		
Training and Continuing Education		-
Occupational Health and Safety		
Safety and Environmental Compatibility	•	•
Social Commitment		-
Respect for Human Rights and Supplier		
Management		
Combating Corruption and Bribery	•	•

We have set clear goals for the Group in terms of sustainability.

- We aim to process roughly 10,000 tons of non-fossil raw materials in 2022.
- By 2030, 70% of the core products we manufacture should be based on renewable raw materials.
- We aim to achieve CO<sub>2</sub> neutrality in our production by 2035.

A committee is responsible for setting and monitoring targets at Group level. In addition to the Group's Executive Board, this committee also includes the higher-level management of the refineries and senior employees from global product management. This ensures that in formulating our targets we take into account both market and Group strategic concerns in addition to operational factors.

We have not yet defined quantitative partial objectives that determine by when which resource is to be used to achieve how large a proportion of the Group's total sales or production volume.

According to the definition of the Intergovernmental Panel on Climate Change (IPCC), carbon neutrality is achieved when there is a balance between the  $\mathrm{CO}_2$  emitted into the atmosphere and the  $\mathrm{CO}_2$  removed from the atmosphere. H&R has already laid the foundation for achieving this goal by implementing new process technologies and expanding its product portfolio through these projects from a few products (generally aimed at the automobile industry) to solutions for a variety

of industries. What had in the past been strictly business with lubricants that had been acquired through the takeover of the refineries in Salzbergen (formerly BASF / Wintershall) and the refinery in Hamburg in addition to the international site network (formerly BP) has become a specialty business. We no longer view ourselves as lubricant suppliers but as a specialty producer that offers its customers products that can be used in applications beyond purely energy production (such as mobility and heat generation). Multifaceted and especially long-lasting use options as well as functionality throughout the entire life cycle have formed the core of application development and our product portfolio since the Group's founding. They are reflected in added value for the customer by making their products easier to process or making them longer lasting, for example.

The Group sustainability objectives are therefore not new, even if they were only publicly defined with such clarity at the 2021 Annual Shareholders' Meeting.

A key factor in achieving our goals is our three-pillar strategy for raw material supplies with fossil, bio-based and synthetic qualities. It outlines our development from using predominantly mineral-oil-based raw materials to increasingly using renewable components and synthetic raw materials. We intend to produce the latter by using long-chain hydrocarbon compounds methanized from hydrogen and  $\mathrm{CO}_2$  in our refinery processes. We produce the hydrogen by means of water electrolysis with the aid of wind power/electricity, which is certified as green electricity. The  $\mathrm{CO}_2$  originates from the flue gas from thermal waste recovery, so it does not end up in the atmosphere.

For non-fossil raw material sources, we also strive to use renewable raw materials. These are not only bio-based raw materials such as renewable biomass from plants, wood or algae, but also natural resources that can be "regenerated" in a short space of time. For us, these include energy from solar, wind, hydro and geothermal plants and the raw materials that can be gained from this, such as synthetic gases, and finally also recycled raw materials sources such as plastic waste.

# EU Taxonomy Regulation and Taxonomy-eligible Activities

Regulation (EU) 2020/852 of the European Parliament and the Council from June 2020 on the creation of a framework to simplify sustainable investments and amend Regulation (EU) 2019/2088, defines the requirements for sustainable investments and also regulates their reporting. It contains criteria to determine whether a business activity can be classified

as ecologically sustainable in order to assess the degree of ecological sustainability of an investment. The EU Taxonomy regulation requires financial market participants and groups who are obligated to publish non-financial reports to disclose how and to what extent the activities of the company are connected to ecologically sustainable business activity.

In the 2021 reporting period, the three key performance indicators (KPIs) of turnover, capital expenditure (CapEx) and operating expenditure (OpEx) must be disclosed in relation to Taxonomy-eligible and Taxonomy non-eligible economic activities (Art. 10(2) of the delegated act of July 6, 2021). In the first step, the Group – with reference to the activity descriptions in the annexes to 1 and 2 of the legal act to Regulation (EU) 2020/852 of June 4, 2021 – has identified the Taxonomy-eligible economic activities. The NACE codes for classifying economic activities in the European Community were used as indicative support in this context.

The following economic activities were identified as Taxonomy-eligible: The hydrogen electrolysis system at the site in Hamburg, where hydrogen has been produced since November 2017 and is used in further processing steps as a basis for the manufacture of technical and medical white oils, falls under economic activity 3.10 ("Manufacture of hydrogen").

The same applies to the plant for producing e-fuels and synthetic waxes. In a power-to-liquid process, green hydrogen and highly pure biogenic carbon dioxide will be used to produce synthesized fuels and heating fuels as well as the base materials for chemical-pharmaceutical specialty products. Here, the hydrogen is at least partially used to manufacture synthetic fuels and thus its production also falls under 3.10 ("Manufacture of hydrogen") due to the fulfillment of the second part of the activity description "Manufacture of hydrogen-based synthetic fuels."

The decision was made to attribute the economic activities to climate change mitigation, as the contribution to climate change adaptation is of lesser importance and the EU Taxonomy Regulation does not allow double counting.

No (Taxonomy-eligible) sales were incurred in the 2021 financial year. This arises from the fact that hydrogen electrolysis only takes place in order to supply hydrogen as a base material for other production processes within the company. It is not sold to or otherwise used by third parties. The power-to-liquid (PtL) plant is scheduled to go online in the second quarter of 2022. Accordingly, no (Taxonomy-eligible) sales were incurred in the 2021 financial year.

Investments at Group level (denominator) amounted to €69.0 million in the 2021 financial year and include property, plant and equipment in accordance with IAS 16, intangible assets in accordance with IAS 38 and leases in accordance with IAS 16 pursuant to Section 1.1.2.1, lit. a), b) and f) of the Delegated Regulation (EU) 2021/2178 of the European Commission of July 6, 2021. No investments were made in accordance with c) and d) of IAS 40 or e) of IAS 41. The reported figure for total capital expenditure comprises €66.2 million for investments in property, plant and equipment, including leases (€17.5 million), and €2.8 million for investments in intangible assets. It thus corresponds to the presentation in the 2021 consolidated financial statements of H&R GmbH & Co. KGaA.

The hydrogen electrolysis system was constructed in 2017 and has not been changed or expanded since its commissioning. There were therefore no investment expenses in the 2021 financial year.

The (Taxonomy-eligible) investment costs (numerator) spent on property, plant and equipment related to the power-to-liquid (PtL) plant in 2021 amounted to €1.8 million. In relation to the value of total investments, the share of Taxonomy-eligible investments for the PtL plant is 2.6% (CapEx). In addition, the CapEx plan (for the PtL plant) to be presented in accordance with lit. 1.1.2.2. of the Delegated Regulation (EU) 2021/2178 of the European Commission dated July 6, 2021, takes into account annual costs for leasing the synthesis units of €275 thousand for the next five years. Due to imprecise definitions, we have chosen to report the CapEx plan figure as an absolute value.

The operating costs at Group level (denominator) in accordance with Section 1.1.3.1 of Delegated Regulation (EU) 2021/2178 of the European Commission dated July 6, 2021, totaled €19.6 million. In accordance with Section 1.1.3.1, they include the values for a) third-party repair and maintenance, b) R&D costs, and c) short-term leases. The total operating costs reported comprise €16.3 million for a), €2.5 million for b) and €0.8 million for c). These values also correspond to the presentation in the consolidated financial statements of H&R GmbH & Co. KGaA for the 2021 financial year.

The (Taxonomy-eligible) operating costs (numerator) for the hydrogen electrolysis system amounted to €271 thousand in the past year. In terms of the value of total operating costs, the share of Taxonomy-eligible operating costs is 1.4% (OpEx).

No (Taxonomy-eligible) operating costs were incurred for the power-to-liquid plant in 2021, as it has not yet been commissioned.

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#### **Material Risks**

In order to comply with Section 289c of the German Commercial Code (HGB), we have to report the material risks associated with our business activities if they are very likely to materialize and could have a serious negative impact on non-financial aspects of the business model. Here, three materiality requirements apply:

- Risks must be reported if this is required for understanding business development and performance, the business income and the position of the company.
- This must also be relevant for understanding the impact of the business activities of the Group-wide on non-financial aspects.
- Reporting is mandatory only for risks that are very likely to have or do have serious negative impact on these aspects.

H&R operates a Group-wide integrated, Group-wide risk and opportunity management system. Our goal is to identify, assess, communicate and manage relevant risks at an early stage in order to prevent or limit damage to our Group.

Our risk management system is based on a process for identifying and managing risks. To do so, we also draw on sustainability criteria for the risk analysis. All relevant risks are classified uniformly throughout the Group. A risk is classified as low, medium or high based on the parameters "Likelihood of occurrence" and "Potential financial impact". For the 2021 financial year, we have not identified any risks that are considered to be very likely to materialize and could have a serious negative impact on sustainability aspects.

In light of current events, we have also re-assessed the effects of the war in Ukraine on our sustainability strategy and have concluded that there could be consequences for the economic situation of the Group (such as changed contributions to sales and income) though not directly for the implementation of the sustainability goals of the H&R Group.

#### Understanding of Sustainability and Material Topics at the H&R Group – A Group Bearing Responsibility

As an owner-managed group of companies, a sustainability-oriented mindset forms the foundation of our corporate policy. We are convinced that the progress that the Group

achieves in terms of quality management, safety, protection of the environment and human health, and compliance not only enhance the reputation of the Group, but also ensure the profitability and, as a result, the ability to sustainably increase the company's value and guarantee future viability.

This belief is anchored in our motto "Oil is far too valuable to be burned!", which highlights our conviction to utilizing finite resources sensibly. At the same time, we take our responsibility as an employer seriously and place a high priority on employee safety and development. In accordance with a comprehensive approach, we also view the manpower and brainpower of our employees as a valuable resource.

We combine these aspects with our approach of flawlessly controlling and continuously improving production processes and associated services. This is anchored in our corporate policy, which can be viewed on our corporate website. Conceptually, we also utilize an integrated management system (IMS) that encompasses all Group processes and their associated workflows. Employees of the H&R Group can access the full version of the handbook for the integrated management system on the intranet or excerpts from it in the training system. This allows us to ensure awareness for the importance of the impeccable quality of our products and thus meet our quality objective to provide consumers with high-quality and safe products.

The IMS also gives equal consideration to aspects such as occupational health and safety, environmental protection and quality requirements based on requirements for internationally recognized certifications ISO 9001, ISO 14001, ISO 45001, ISO 50001, OHSAS 18001, ISO 17025, ISO 14067, ISO/TS 16949 and IATF 16949. The integrated management system as such is not specifically certified as the individual components are assessed by the IMS (internally and externally) and certified (externally) in accordance with the applicable ISO standards.

Not all of our Group companies are certified in accordance with all ISO standards. If a customer requires certification in accordance with a particular standard, this certification is carried out. All certifications held by the company are recorded in one file. Should further or regularly occurring requirements arise from this certification, these are recorded in a management review and reported to the Group management by the Executive Boards of the respective subsidiaries at regular intervals.

At the same time, sustainability has been firmly anchored in the organization of the Group since the beginning of 2022. We have introduced the position of a transformation manager to achieve our strategic sustainability goals. This manager coordinates the planned transformation at the two refinery sites of H&R Ölwerke Schindler GmbH and H&R Chemisch-Pharmazeutische Spezialitäten GmbH – both of great importance to the entire Group – toward using more renewable raw materials sources. A core team supports this process, including representatives from global product management and higher-level refinery management. The Group's Executive Board is also directly involved in overseeing the operations of the Group. Together, they select interim goals that still need to be defined and verify goals that have already been achieved.

#### **Challenges**

As a Group that is active in the specialty chemicals sector, we face a wide variety of challenges with our business model. One of the major challenges stems from our vertical integration. The processing steps in our production of specialty products exceed those of other refineries, whose processes end with the production of fuels and base oils. As a result, our products are more complex and have higher margins, though our process also involves higher energy costs and greater consumption of resources.

Our customers' focus is changing, too. Today, they demand not just the same proven product quality, but also expect the H&R Group to be in a position to deliver environmentally friendly and certified products. When we supply our customers with raw materials for processing or products with a reduced carbon footprint, we are also supporting them with their own efforts toward carbon neutrality.

Our customers expect us to conduct our business ethically. This expectation applies to the H&R Group as well as all its partners – upstream and downstream of their own value chains.

The implementation and adherence to these requirements also requires us to retain our skilled employees over the long term. We can generally only succeed in doing so if we offer our employees good jobs and enhanced job security while positioning ourselves as a responsible employer.

Throughout the challenges of the Covid-19 pandemic, which have lasted for nearly two years now, our primary focus was of course on protecting the health of our employees, which we did by means of extensive logistical and administrative protective measures. At the same time, we were able to strengthen the organization through new hirings in key positions.

#### Stakeholder Dialogue

The H&R Group has to show a certain sense of responsibility toward its investors, i.e., toward its majority shareholders and the shareholders that have a vested interest in the Group's performance. But other stakeholders influence our activities, too: Without employees, our business would be impossible. Without reliable raw material suppliers, we would hardly be able to produce anything at all. And the customers who need our products are particularly indispensable when it comes to ensuring our commercial success. Then, there are our financing partners and analysts, as well as stakeholders from the world of politics and civil society, the media and the general public.

Our reporting system makes a key contribution to this process of communication. It provides an insight into how we design internal structures and processes, into the goals we set ourselves and the measures we take to build on our performance and systematically drive the H&R Group in its further development.

In conjunction with the regular publication of our key financial figures, we engage in continual and direct dialogue with our shareholders. We are available to answer questions and receive suggestions personally and also give an account at the Annual Shareholders' Meeting. In addition, we engage in public relations activities which, in addition to the legal requirements for transparency and reporting obligations, also shine light on questions of the business orientation and sustainability strategy of the Group by voluntarily providing information on these topics. We thus reported in the past financial year not only on the key financial figures but also on the projects that are connected with the described transformation

Communication with our employees, for example at company meetings, in collaboration with the Works Council and during subject-specific workshops, is also an important component of our stakeholder dialogue.

Through our membership in economic and special interest associations as well as in concert with approval authorities and political decision-makers, we gain a fuller picture of what is needed to first define and then consistently implement the foundations and goals of a sustainability strategy.

#### **Identification of Material Non-financial Topics**

In 2017, we put together a list of the relevant non-financial issues internally for the first time with the help of the Hamburg-based agency berichtsmanufaktur, which is specialized in sustainability reporting among other things, and coordinated these with the Executive Board. The agency provided

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us with support in defining the material topics on the basis of materiality considerations. This included an examination of the value chain of the H&R Group and the topics discussed, up until 2017, in the "Non-financial Performance Indicators" section of the Group management report. The key issues arise primarily from the challenges referred to above and how we deal with them, as well as from relevant industry and macroeconomic developments. In addition, the H&R Group maintains close contact with its relevant stakeholders throughout the year. In addition to our own contacts, this process provides the parent company's management with an overall picture of our positioning within the relevant competitive, market and, above all, corporate network across various reporting and decision-making levels. Building on the materiality considerations from 2017, we continued to refine our material sustainability topics based on the issues brought to our attention by stakeholders. A materiality analysis with the direct and uniform involvement of internal and external

For purposes of the CSR-RUG, the material topics we have identified from the challenges mentioned above are:

#### MATERIAL TOPICS FOR H&R

stakeholders was not performed.

Energy Consumption and Carbon Emissions	Climate and Environmental Concerns	
Waste		
Water and Wastewater		
Human Resources Management, Employee Recruitment and Retention	Employee Concern	
Training and Continuing Education		
Occupational Health and Safety		
Clearance and Environmental Compatibility	Social Concerns	
Social Commitment		
Respect for Human Rights and Supplier Management	Respect for Human Rights	
Combating Corruption and Bribery	Combating Corruption	

For issues that have been identified as material, our policies, due diligence processes, objectives and results are described below.

#### **Respect for Human Rights**

Compliance in accordance with our code of conduct involves observing recognized human rights at our locations and in our business relationships. Above all, this means protecting the personal dignity and privacy of each individual. In addition, we recognize employees' and/or business partners'

rights to freedom of assembly and association. Compliance with human rights is enshrined both in our Code of Conduct and in our corporate policy. In order to ensure that human rights are also respected in our supply chain, both our corporate policy and a separate Supplier Code are integral parts of the contracts we conclude with our suppliers. If a supplier hires a subcontractor, they must ensure that the subcontractor is aware of and complies with all the obligations that our supplier has entered into with us. These issues are not explicitly reviewed, but general supplier audits are conducted by the departments and/or companies in charge.

#### Supplier Management

The H&R production and processing sites can call upon a flexible network of suppliers to secure their raw material reguirements. These tend to be other refineries, some of which are operated by renowned oil companies operating in the fuel refining sector.

The goal of our supplier management is above all the safe and continual supply to our refineries, processing and sales locations with raw materials and products.

We share an H&R Group-wide Code of Conduct with our suppliers, expecting them to respect and adhere to the principles set out in the Code. The Code is based on the recognized principles of sustainability: economic growth with a view to the long term, respect for human rights and the environment, the careful use of resources, employee protection and the quest to improve quality of life for present and future generations alike.

Compliance with this Code of Conduct is an integral part of the supplier selection and evaluation process in the H&R Group. We have set ourselves the goal to have no breaches of this within the twelve-month period of a financial year. Accordingly, no suppliers are added to our system who are not able to produce corresponding and above all valid quality and process certifications, such as in line with current ISO standards. If complaints or indications that there has been a breach arise during the course of the contractual relationship, the employees responsible for purchasing review the certification status of the suppliers. If we discover any breaches of the Code of Conduct, H&R also considers this to constitute a breach of the contractual relationship as a whole. The first step in such cases involves asking the supplier to remedy the breach. If the supplier fails to meet our request to our satisfaction, we reserve the right to terminate the contractual relationship.

We are not aware of any breaches of our Code by our suppliers last year.



# Combating Corruption and Bribery

The H&R Group has set itself the goal of being seen as upstanding and incorruptible in its business dealings.

To achieve this, we place a great deal of emphasis on the correct dealing with business partners, customers and public authorities and therefore ascribe a core position in our compliance management system and our code of conduct to combating corruption and bribery. The latter clearly states that award decisions are based exclusively on a performance evaluation. Accordingly, we strive for success based on the quality of our performance and will not tolerate any kind of corruption or other unfair business practices that could help to obtain advantages. As a result, the Code of Conduct also contains unambiguous rules covering, among other things, the granting or acceptance of benefits or gifts and the participation in primarily non-commercial events, or sponsorships.

We consider the most important measure in achieving our goals to be our Group-wide training system, which provides training for our employees on the issue of corruption. In addition, our employees know that in case of doubt they can contact the Compliance Manager, their superiors, or the Executive Board at any time. Reports can be made directly or through an anonymous whistleblower system. There is also a quarterly assessment of the inventory of risks at all Groupwide sites, during which the managing directors must report on legal and compliance risks. No cases of corruption were reported during the past reporting year.

**Social Commitment** 

At its sites, the H&R Group is not only a company and employer, but also a neighbor. We consider ourselves to be part of the social structures around our corporate sites and aim to be seen as a responsible and engaged partner.

The H&R Group does not yet pursue an overriding, Group-wide policy regarding its social commitment as we believe that individual approaches are better suited to our internationality and local needs. In keeping with this, we take our social responsibility seriously and utilize a variety of measures to do so. Suggestions and complaints from the public are investigated accordingly; the remedy is usually direct and unbureaucratic. In addition, the H&R Group has set the goal

of holding regular events at its sites such as its "Open House" or, specifically in Hamburg, an event as part of the "Lange Nacht der Industrie" ("long night of industry"), allowing us to engage in important dialogue with interested individuals. In 2021, such events had to be postponed as a result of the Covid-19 pandemic.

Our sites are responsible for their own social activities, which are adapted to the circumstances of the countries in question. In Germany, for example, we support the Landmann Foundation, which provides €12,000 of funding of between €3,000 and €4,000 each for students in our specialty areas (Chemistry, Engineering Sciences).

The H&R Group also is involved with sporting events and youth programs and supports various institutions. We are especially proud of our many dedicated employees who volunteer with various religious, sociopolitical and community activities near our sites. Above all, they are making a difference in areas where what is needed is helping hands, not financial resources. H&R supports these employees by taking their plans into account in shift, workday and vacation planning.

#### ■ Management Approach

# Climate Protection and Resource Conservation

Resources are far too valuable to burn. As a result we also view the raw materials we produce, such as hydrogen, as more than just a source of fuel and therefore use it as a material process component with added value.

#### Management Approach

Our society faces major geopolitical challenges in order to stop climate change. The aim of international climate policy is to limit global warming to less than two degrees Celsius by 2100 as compared to the level before industrialization. The challenges that arise from this, affecting many areas of our daily economic activities, are enormous, with the stipulations essentially requiring the transformation of entire industry sectors. This affects us in the area of mobility as well as in the chemical base materials industry.

Our aim to make responsible use of natural resources and to protect the climate and our environment is an established component of our corporate policy. We are always striving to reduce energy consumption and the amount of environmental pollutants caused by the production process. We also work to help our customers to protect the environment. As part of this, climate-friendly process technologies and raw materials will continue to become increasingly important, paving a new path for the largely fossil-based industry production.

The H&R Group is working toward the goal of specialty production based on renewable raw materials and energy. We want to sustainably reduce fossil-based raw materials and replace these with bio-based, synthesized and recycled raw materials. Rather than achieving full decarbonization in the sense of completely eliminating the use of any carbon sources in the production of our products, we want to support the use of alternative, non-fossil hydrocarbon sources and thus operate our refineries in a climate-friendly manner as the core of our Group-wide business.

We strive to achieve a 70% proportion of products from sustainable raw materials Group-wide by 2030. By 2035, we want to achieve carbon-neutral production. The overall goal was defined for the first time in 2021 as part of the regular Annual Shareholders' Meeting of the listed Group parent company H&R GmbH & Co. KGaA. Partial goals were first defined in 2022 by the Executive Board and operating units. Since the

start of the year, a transformation manager oversees these goals and will adjust them as needed.

Group-wide, our production and processing sites are certified in line with ISO standards 9001 (quality) and 14001 (environment). Our specialty refineries and GAUDLITZ GmbH are also certified in line with ISO standards 45001 (occupational health and safety) and 50001 (energy), which we use to monitor and control our energy, resource and  $\mathrm{CO}_2$  management. Since 2012, we have been reporting figures for our carbon emissions, wastewater and waste as the amount of emissions per ton of feedstock. This allows us to better record the emission load than by means of the absolute amount of emissions, especially as this can change regularly with changes in the setup – for example, due to new systems. As the degree of vertical integration increases and production efficiency improves, we aim to avoid exceeding our own 2011 reference value and where possible to come in below that benchmark.

Our "Environmental Aspects and Impacts" database enables us to identify which of our activities have an impact on the environment. This allows us to identify opportunities for improvement and develop appropriate measures.

Due to the high complexity of the areas of activity and the large number of legal frameworks to be considered, the Group's Executive Board is assisted in carrying out these requirements for monitoring and implementation by an organization of appointed officers. It consists of employees who record the legal requirements that are relevant for their area of responsibility, make these clear for all to understand, ensure their implementation and documentation, in addition to reporting on their activities as an appointed officer. This organization of appointed officers covers the following areas in terms of climate protection and resource conservation:

- Environmental protection
- Energy management
- · Waste management
- · Water protection

The appointed officers meet regularly to compare and discuss these issues, and to make recommendations for department-specific measures and goals. Minutes are kept on the topics covered in these meetings and are saved in the integrated management system.

#### **Energy Consumption and Carbon Emissions**

Our goal is to optimize our production processes so as to maximize the proportion of specialty products and to minimize the proportion of barely usable components, or components that can only be used in a combustion process. Our feedstock is a key element in this regard, because the better its quality and the more specifically it is tailored to suit the individual production units, the greater the yield of high-quality specialty products.

The chemicals industry faces the challenge that it cannot be fully decarbonized - even in a greenhouse-gas-neutral world, carbon sources will still be needed for its products. As such, we want to increase the share of hydrocarbon-based raw materials (from organic, synthetic and recycled sources) that we use and reduce the share of crude oil-based source materials. Our aim is therefore to do without feedstock based on fossil sources such as petroleum. Since non-fossil carbon sources such as biomass or removing CO<sub>2</sub> from the air are only possible to a limited extent and/or very costly, the recycling of carbon sources (such as chemical recycling/pyrolysis processes) and the consistent building of a circular (carbon) economy play a central role in achieving carbon neutrality.

But energy consumption also plays an important role here the greater the degree of processing, the more energy has to be used to produce the products. In general, the basic chemicals sector is a branch of the industry with very high final energy consumption, which is currently primarily fulfilled through the direct use of fossil energy sources. To avoid energy-related emissions from burning fossil fuels, high additional demand for renewable energy in the country's energy mix is necessary.

We pursue a Group-wide approach for the efficient use of energy. Our refinery sites are aligned with the ISO standard 50001 and must therefore meet annual environmental targets or improve their environmental performance. The goals that have been set could be carbon reductions, for example,

which can be calculated from energy savings. Worldwide, the processing and sales sites that are not certified and whose energy policies are thus not inherently laid out by the ISO standards have defined Continual Improvement Process (CIP) projects. The goals are not stipulated by the Group at these sites. They can, however, include increased energy efficiency through the use of energy-conserving machinery and tools, through preventative maintenance or an optimization of the process steps.

For the two energy-intensive specialty refineries in Germany, whose energy costs are also significantly higher than the international average, our company has also declared the goal of always keeping their energy consumption as low as possible and ensuring that it is as efficient as possible to reduce the carbon emissions as much as possible.

By doing so, we not only want to improve our own carbon footprint but also to help achieve the climate protection goals called for by the Federal Government and the Paris Climate Agreement. With this in mind, we have established an energy management system pursuant to the ISO standard 50001 at our refinery sites in Hamburg and Salzbergen. It defines company responsibilities and includes commitments to improve energy-related performance and compliance with all applicable statutory requirements relating to energy use. It also provides the framework for individual strategic and operating targets, along with measures for achieving them.

The energy consumption at our refinery sites is recorded on an ongoing basis and evaluated once a week. This allows us to intervene quickly if need be and identify specific measures to save energy. In 2021, these measures comprised energy efficiency optimizations in the steam system and, above all, improvements in the process flows, which led to significant savings in natural gas as an energy source.

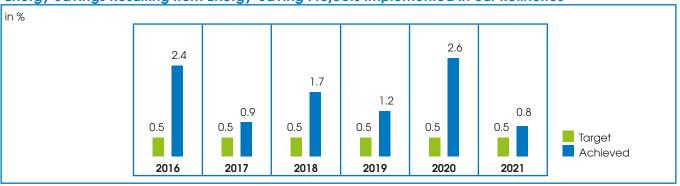
The overall savings achieved through this are not inconsiderable - in the 2021 financial year alone, they amounted to 11,644 MWh.

The self-imposed target for annual energy savings across both refinery sites of 0.5% based on the respective previous year's consumption was again exceeded in 2021, although the savings of 0.8% fell short of the previous year's figure. The sustainability projects were one reason for this. Their aim is primarily to reduce CO<sub>2</sub> and less to conserve energy.



■ Energy Consumption and Carbon Emissions





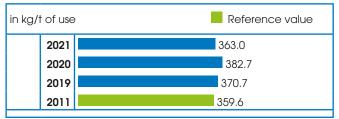
Compliance with the requirements of the ISO standard 50001 is regularly monitored as part of the re-certification. If the requirements are not met, we adjust our measures and processes accordingly. The next independent audit, which will confirm our ongoing compliance with all of the ISO 50001 requirements, will take place in 2022. We also conduct annual internal audits to verify and demonstrate that the requirements of the ISO standard are actually applied in practice within the organization. We avail ourselves of the option under the ISO standard 50001 not to make our energy policy available to the public.

One of the major effects of higher energy efficiency and lower energy consumption is lower emissions of CO<sub>2</sub>. The measures taken to reduce carbon emissions within the Group are largely in line with those taken to reduce primary energy consumption, as outlined in our energy policy. Our flexible-control hydrogen electrolysis (PEM) system, for example, allows us to produce hydrogen from renewable energy sources at our refinery in Hamburg-Neuhof. This means that we can avoid the carbon emissions associated with external production of hydrogen from fossil energy sources and its transportation to our refinery.

To ensure a continual overview of our emissions in the future, we developed an emissions and carbon footprint calculator and had it certified in accordance with ISO standard 14064 in the spring of 2022. This calculator will allow us to determine the direct and indirect emissions for each product. This is carried out Group-wide and fulfills the requirements of a "cradle to grave" view of the life cycle by including not only our own emissions (Scope 1) but also emissions from energy sources (Scope 2) and upstream and downstream supply chains (Scope 3). At the same time, this will add a further instrument to our "CO $_2$  in kg/ton of feedstock" emissions indicator, which shows the emissions of our refinery sites.

From a legal standpoint, the main pillars for determining our carbon emissions per ton of feedstock are, first and foremost, the provisions of the Greenhouse Gas Emissions Trading Act (Treibhausemissionshandelsgesetz/TEHG). In addition, the ISO standard 50001 also calls for the monitoring of relevant data by providing for energy reviews, binding energy efficiency indicators and the introduction of an energy life cycle statement for certain plants. Finally, industry standards and very specific information such as data on individual plant set-ups, processes and production methods used, and the composition of energy sources and other operating resources used, are also included when calculating our carbon emissions. For the 2021 financial year, the emissions per ton of feedstock that resulted from raw materials processing and production at our refinery sites amounted to 363.0kg. The figure for the past financial year was therefore 0.9% higher than the 2011 benchmark (359.6kg), though it was significantly below the previous years.

#### **Carbon Emissions of H&R Refineries**



Carbon emissions have fallen in absolute terms since 2011. Viewed over the past ten years, both refineries of the H&R Group show an approx. 1.2% drop in total emissions based on the 2011 benchmark.

At the same time, we also express our emissions in relation to the raw materials we use. Rather like a high-performance engine, our processing facilities are most efficient when they are operated at peak performance with the highest possible throughput volumes. By contrast, a low-revving engine leads to higher fuel consumption, higher emissions, etc.

In 2021, more products were produced at our two refinery sites than in the previous year. This higher plant output resulted in lower carbon emissions in 2021 compared to the previous year.

The electricity required to produce hydrogen comes from the energy grid and, according to the Federal Environmental Agency, was 41.1% from renewable energy sources in 2021. We purchase Green Energy Certificates to ensure that electricity and water become 100% "green hydrogen."

The production of hydrogen in the electrolysis plant is carried out analogous to the approach laid out in Article 25, paragraph 2 and Appendix V of the EU Directive (EU) 2018/2001, which requires savings of life cycle THG emissions of 73.4% for hydrogen (equals life cycle THG emissions of less than 3 t CO<sub>2</sub>eq/t H2) over a comparable value for fossil fuels of 94 g CO<sub>2</sub> eq/MJ. If hydrogen comes into contact with atmospheric oxygen and the necessary ignition power is added, both burn off as water.

#### Waste

Because of the wide variety of types of waste, the quantity, the complexity of disposal procedures and disposal costs, operational waste management has a high priority for the H&R Group. At the same time, this waste is very materially linked to the processing of raw materials for the coupling process as well as in relation to the processing plants at both refineries. At the international processing and sales sites, there is either no processing waste or only insignificant amounts that are not summarized in a Group waste record. Accordingly, the wastewater volume listed in the following refers solely to our two refinery sites in Germany.

The goal of our waste management is to ensure professional disposal of the waste, thereby adhering to the legal frameworks. At the same time, we want to avoid detriments to the general population that could arise from the waste or the disposal.

As much as possible, we strive to reduce or reuse waste rather than dispose of it.

For the refinery sites, the legal parameters are laid out in Section 60, paragraph 2 of the Act to promote recycling and ensure ecologically friendly waste management (Closed Cycle Waste Management Act - KrWG). Additional requirements arise from the recurring certification in accordance with ISO standard 14001.

The most important measure for adhering to the requirements is the position of the waste officer. This officer oversees the scope and execution of processes stipulated by waste law at the Hamburg and Salzbergen sites. This also includes in particular matters of professional and legal disposal. The classification of the waste, the selection of the specialized disposal contractors and the compliance with the requirements is also monitored at both sites by an external and independent company. It also supports the work of the waste officer with internal audits and audits by the disposal contractors and therefore additionally ensures that laws, provisions, audit obligations and regulations are adhered to. Overall, this ensures the performance of our waste management.

In addition, the waste officer informs Group employees on matters of waste management, using the waste handbook or disposal plan created individually for each location.

The officers report on their activities, which is then provided to the Executive Board.

In general, our waste comprises substances that are directly connected to processing and storage at our production sites.

At the same time, our calculations also include project-related waste that does not originate from our production processes. This may include, for example, soil excavated during construction work, which will be recognized as "Waste per ton of feedstock", just as process waste is. Waste that we cannot currently avoid is disposed of professionally and in compliance with all legal requirements. In general, our goal is to keep the amount of waste as low as possible.

Goals and measures to reduce the amount of waste we generate are identified and implemented as part of our environmental management system, which is certified in accordance with the ISO standard 14001 and also includes specifications on waste management. This standard specifies environmental management requirements that organizations can implement to improve their environmental performance and to achieve environmental targets. It is based on the central elements of planning, implementation, control, and improvement.

#### Waste Generated by H&R Refineries



Water and Wastewater

In total, the waste included in the calculation of our KPI generated by H&R's refinery sites is only a fraction of the raw materials originally used. It includes all substances and materials that cannot be recycled by refineries (other than scrap metal, paper, etc.) or disposed of separately (other than residual operating materials, household waste, etc.) due to their composition. This waste, which is classified as "hazardous" in the Waste Catalogue Ordinance (AVV), and other regulations, is sent for incineration as hazardous waste by special disposal companies and serves as a source of energy. By way of comparison, in 2021 we once again managed to reduce the amount of waste we produce by 9.7% compared to the benchmark year of 2011 (3.09kg/ton of feedstock). In the past financial year, however, at 2.79kg, we generated slightly more waste per ton of feedstock than in the past year. The cause of this was increased project and construction activity in 2021.

#### Water and Wastewater

The prudent and conscious use of water resources is an issue that the H&R Group classifies as material. At the same time, the amount of water that is required is very materially linked to the processing of raw materials for the coupling process as well as in relation to the processing plants at both refineries. At the international processing and sales sites, there is either no wastewater or only insignificant amounts that are not summarized in a Group waste record. Accordingly, the wastewater volume listed in the following refers solely to our two refinery sites in Germany. Our water sources at these sites are the local utility companies. The Salzbergen site also draws water from the Ems River and uses it, in processed form, as process and boiler feed water to provide steam. Water from the river is also used to compensate for evaporation losses in the cooling water circuit. In order to conserve water, we use our cooling water several times in the process in some cases.

Most of the water required for our refineries is used for cooling. This water does not come into contact with our products and can be returned directly to the environment. Both refinery sites have permits for the legal removal and return of water. Only a small proportion of the water is used directly in our refinery processes.

As a rule, the goal of our water/wastewater management is to consume as little water as possible and to generate as little wastewater as possible. In addition, we aim to return wastewater that is clean and adheres to regulatory requirements. For polluted process wastewater, cleaning is ideally carried out on site.

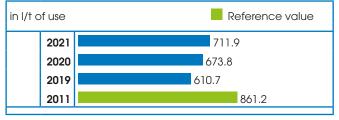
The legal framework for water withdrawal and return is laid out in Section 65 of the Water Management Act (Wasserhaushaltsgesetz - WHG) as well as the Act on Plants for the Handling of Water-hazardous Substances (AwSV). The most important measure for organizational monitoring here is also the organization of appointed officers, for which the on-site water protection officer monitors the operational processes that are material for water economy as well as legal requirements. On top of this, the discharge of wastewater is monitored by the authorities (Lower Saxony Water Management, Coastal Defense and Nature Conservation Agency) through inspections and taking samples.

The water protection officers inform the site employees on matters of water economy, using the electronic instruction system SAM.

The officers report on their activities, which is then provided to the Executive Board.

After deducting the amount of rain falling on sealed surfaces, which is also added to the wastewater but is not included in the wastewater balance, we drained off a total of 711.9 I of domestic or process wastewater per ton of feedstock in 2021. As a result, we were significantly down on the 2011 benchmark (861.2 l) by around 17.3%, but well above the previous year's figure.

#### **Wastewater Generated by H&R Refineries**



### **Product Responsibility**

We want our products to be safe over their full life cycle and while being used as intended – from research, production, marketing and use by customers to disposal.

#### **Management Approach**

Our Group-wide corporate policy is the top-most guideline for our activity. It calls for an improvement of production processes, products and services in a continual process that is built on the knowledge, responsibility and experience of our employees and is supported by our training and education program.

The most important tool here for the implementation is the integrated management system with its safety and risk management system. The management handbook for the IMS also applies Group-wide and is available to all employees in multiple languages via our document database DokWeb.

We pursue a zero-error approach in terms of our product responsibility and the quality of our products. Production is thus regulated by a number of instructions in the individual organizational units and is managed at each location by the employees in production. The production processes in use are commonly used processes that are in line with the state of technology in the petroleum-processing industry. These are processes for distillation, extraction, deparaffination, hydration, formulation and filling processes. The instructions for these processes describe in adequate detail the steps of the activities in the individual organizational units as well as the corresponding interfaces and handover points. They also indicate specific product characteristics, the settings for machinery parameters, carrying out tests and how to handle faulty products. The instructions are on display at the employees' workspaces or are also available electronically via DokWeb.

All processes for production and providing services are validated before approval is given for serial production or before the service is provided. This includes:

- Qualification of processes
- · Qualification of equipment and employees
- Use of defined methods and processes
- Required recordings
- Renewed validation

The goal is to ensure that the resultant product or the process is able to fulfill the requirements (including customer

requirements) for the intended application or use. If the customer wishes, we use approved processes for production process and product approval such as VDA Volume 2, PPF processes and initial sample test report or PPAP based on IATF 16949.

Our code of conduct additionally reminds our entire organization to design our production processes and processing plants in such a way that they conserve resources – as a sign of our respect for the environment, the community, our business partners and our employees. We utilize the environmental media of air, water and soil in our activities only with prior approval and construct or operate our production facilities in accordance with these previously granted legal stipulations.

The relevant legal frameworks for ensuring safe products are the legislation on chemicals and dangerous substances as well as REACH (the European Regulation on the Registration, Evaluation, Authorization and Restriction of Chemicals) and apply to the raw materials processing production units of the H&R Group.

The most important instrument in ensuring that these are adhered to is the position of the officer for product safety. These officers examine the scope and execution of relevant processes and therefore additionally ensure that laws, provisions, audit obligations and regulations are adhered to.

In addition, the product safety officer instructs employees on matters relevant to chemicals legislation. The officers report on their activities, which is then provided to the Executive Board.

For 2021, we are not aware of violations of legal provisions, requirements or labeling obligations.

However, we cannot fully rule out the risks inherent in operating industrial plants (including risks arising from our refineries and our products). To ensure that both the sites and their neighbors are protected, we operate our own firefighting crew at our locations and/or are in close contact with the local emergency teams. Regular drills ensure smooth cooperation.

- Management Board Climate Protection and Resource Conservation PRODUCT RESPONSIBILITY Employees
  - Management Approach
  - Safety and Environmental Compatibility of Products

# Safety and Environmental Compatibility of Products

H&R differentiates between core products and by-products or combustion products. We have set ourselves the goal of having 70% our core products produced sustainably by 2030, i.e., based on bio-based, synthesized or renewable raw materials and to include our customers in this process in a timely manner. In this way, we define together what exactly is needed with which product characteristics. Once these questions are clarified, new products are introduced to the market.

The business area in which H&R operates, the production of hydrocarbon-based specialty products, is a very particular one. Our products are needed in a wide variety of sectors. This makes it all the more important for us to live up to our responsibility toward the environment and our neighbors, as well as our business partners and employees, and to manufacture products that are safe to use and are also as environmentally friendly as possible. The conservation of natural resources and the use of environmentally friendly and safe production processes that save energy are an absolute must. This is why, throughout the H&R Group, it is the joint responsibility of all employees to constantly search for opportunities to reduce the environmental impact of our processes, products and services, as well as the environmental impact within their own working environment. H&R operates a comprehensive improvement management system. In addition, we modernize our manufacturing processes and processing plants and, in the case of the hydrogen electrolysis plant or the power-to-liquids plant, add new technologies to the plant set-up.

# Safe Processes Ensure the Safety of Products in Contact With Humans

Our products are used in a vast range of industries and in almost all areas of day-to-day life, for example, in the food and packaging industries, but also in the cosmetics and pharmaceutical sectors. In the food industry, for example, cheese rinds are coated with paraffin to prevent the cheese from drying out. The packaging industry has various uses for paraffins, including coating the inside of Tetra Pak containers. Medical white oils are used in cosmetic products such as creams and ointments. Since our products also come into direct contact with people in the end products in which they are used, it is particularly important that they are harmless and non-hazardous to health over their entire life cycle.

Raw materials, auxiliary materials, semi-finished and finished goods, materials and empty packaging are monitored through tests to ensure adherence to the defined specifications and inspection planning. The tests are carried out in accordance with standards or internal inspection guidelines that specify the inspection characteristics with tolerances, the scope and method of the inspection as well as the testing

instrument to be used. As part of container filling, initial container tests ensure that there is no cross-contamination between intermediary products and final products in the filling plants when switching products. For this, first samples are taken from filled containers, which are then analyzed to test that the specifications have been adhered to.

The foundation for the testing of our means of transportation and containers (tanker trucks, trucks, tank cars, ships, barrels, canisters, etc.) is a system of checklists, databases and instructions.

When goods are accepted, a conformity assessment is carried out to check quantity/amount, delivery date adherence, packaging, labeling and defects. The results of these order entry tests are also part of supplier assessment. The documentation of these product tests is archived in the laboratory information and management system (LIMS) – where available.

On the other hand, we apply international standards such as Advanced Product Quality Planning (APQP). If a product does not comply with the technical or statutory requirements, or is not consistent with the customer's specifications, it is not approved.

# Protecting the Environment With the Highest Quality Specifications and Efficient Use of Raw Materials

In recent years, we have also concentrated on developing products that meet the highest quality standards. These products offer an alternative to products containing environmental pollutants, for example, or help to protect the environment by virtue of their use. For example, the white oils produced in our refineries are used as components in pesticides to improve the yield of renewable raw materials. Products made of domestic timber varieties are weatherproofed using our paraffins. Their use renders the deforestation of tropical forests unnecessary. In the automotive industry, our innovative plastic products are increasingly being used to substitute metal parts. The resulting weight reduction helps to reduce vehicle fuel consumption even further.

Nevertheless, residue is produced in the processing plants at our raw materials processing production sites. By using our propane deasphalting facilities, we can convert these residues in a cost-effective manner and thus reduce the amount of residues that can only be used for burning. These are transformed in renewed process steps into other specialty products such as paraffins and asphalt for use in the road-building industry and are sold through our NordBit joint venture with the Hamburg-based company Mabanaft. In 2021, the residues from our refineries were increasingly being reused by other refinery operators as raw material known as coker or cracker feed. For 2021, the share of co-products, which were able to be sold in higher-quality applications, was at over 88.9%.

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As we would like to be able to completely avoid combustion products, we are expanding our sales measures in the area of coker/cracker feed. We anticipate a further reduction through the transformation of raw materials use as fewer residues occur from the processing of fossil raw materials with increased use of renewable and synthesized raw materials.

## Long-term Plan to Restructure the Product Portfolio

With our three-pillar strategy, we have taken the first step toward moving from primarily fossil-based raw materials toward more sustainable solutions. At the same time, we are also aiming to diversify these sustainable or renewable qualities into three main pillars. The first projects that have already been implemented, such as our hydrogen electrolysis system in Hamburg, will be followed by further innovation projects. By creating hydrocarbon compounds on the basis of green CO<sub>2</sub> and green hydrogen, we are aiming to transform the chemicals industry and convert our product portfolio to synthesized, bio-based or renewable qualities. Internal project names such as CO<sub>2</sub>NVERSION or NextGate describe the sense of departure from old structures and have a real chance at being implemented as blueprints for future projects or have already been implemented.

# **Employees**

The motivation and qualification of our employees is essential for our corporate success. We want to create a positive work environment and support team spirit, commitment and responsible activity. In the past year, we had to distance ourselves once again and yet also grew closer together.

# **Management Approach**

The Group has a structured corporate organization. This structure is laid out in organizational charts. Where this is not otherwise contractually stipulated, all Group employees have function and job descriptions which clearly cite their tasks, authorizations and responsibilities.

Our company's success is also heavily dependent on the skills, performance capabilities and commitment of our employees.

Maintaining skill sets in the long term is therefore incredibly important; strengthening these is a goal of our training and education policy. We gain the performance capability and commitment of our colleagues by adhering to the applicable labor laws, by negotiating collective bargaining agreements or special corporate agreements as well as through a performance-based remuneration system. Protecting health was once again an important topic in 2021. The COVID-19 pandemic again forced us to set more short-term goals and measures.

Despite these challenges, it was our aim to ensure the operational processes at our refineries, processing and sales locations and thus to allow the heart of our company group to continue beating strongly. The fact that it was not necessary to stop operations entirely or even partially in 2021 is an indication that our measures were appropriate. The latter included largely forgoing in-person dealings. We made extensive use of work-from-home options before the legal requirement to make such working conditions possible came into effect. Those who had to remain on site for operational reasons were protected by hygiene and social distancing rules, guidelines for the use of shared spaces and by the provision of masks and antigen rapid tests. We adapted our measures to the changing requirements, reassessed them at regular intervals and promoted them at all levels of the organization through meetings and by assigning dedicated contacts for specific

issues. A clear definition of the procedures in advance meant we were able to address the handful of indirect and direct suspected cases of infection swiftly and fully. We also benefited from a willingness among our employees to get vaccinated, which led to a vaccination rate that was above the average in Germany or the respective country figures, according to a voluntary internal survey.

And that isn't all – in 2021 as well, new employees in the specialist fields needed by H&R Group joined our workforce. In vital functions such as Compliance, we have reorganized and strengthened our team. The Compliance function has been part of the Legal specialist area since 2021. This enables us to adopt a legally sound approach to compliance matters. Like all H&R employees, these new staff members will make a key contribution to the company's future viability.

We also train our own junior staff and offer appropriate pay and personal training opportunities in order to retain skilled employees within the H&R Group over the long term. Once we have found the right employee, our goal is to work with them for the long term. An indicator for achieving this goal is the turnover rate, which we ascertain for the German sites of the ChemPharm Refining segment and the primary location in Coburg of the Plastics segment.

In addition, a priority with the H&R Group is on safety and ensuring that employees remain able to work, something that we ensure by applying corresponding occupational safety requirements and offering health promotion measures.

In our human resources work, we are guided not only by the local legislation, but also by our globally binding guidelines, such as the Code of Conduct, the corporate policy and our compliance manual.



# Human Resources Management Organization

The human resources management of the H&R Group is organized in such a way as to take into account site-specific and country-specific differences. Local human resources departments at the sites tailor their human resources management approaches to fit country-specific requirements. The particular conditions in local and regional labor markets pose a special challenge to the human resources management, as they sometimes differ greatly, such as in terms of demographics and level of education. They are supported by the Group human resources department in Hamburg.

# **Employee Structure**

At year-end 2021, the number of people employed by the H&R Group remained unchanged at 1,585. The following table shows a breakdown by segment:

#### **Employees by Segment**

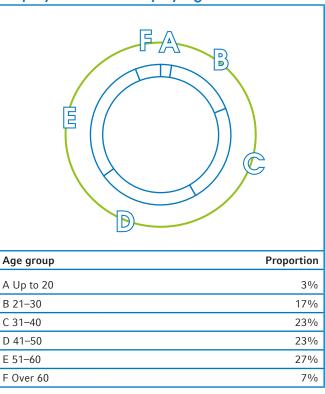
	2021	2020	2019
Employees	1,585	1,585	1,625
of which ChemPharm	1,193	1,153	1,150
of which Plastics	317	382	447
Other	75	50	28
Personnel expenses in € million	99.2	83.0	88.5

A large number of our employees work at the German refineries in Hamburg and Salzbergen in the ChemPharm Refining segment (717 people (December 31, 2020: 699)) and at the GAUDLITZ GmbH site in Coburg (122 people (December 31, 2020: 147)) in the Plastics segment. At the end of the reporting period, these locations had a workforce of exactly 839 (December 31, 2020: 846). At the international processing and sales sites of the Sales segment, a total of 476 workers were employed (December 31, 2020: 454).

We do not currently pursue any Group-wide goals in terms of the proportion of female employees. In the refineries with full-time shift operations as well as the Coburg site of the Plastics segment, the proportion of female employees was 19%. We have not set specific goals in terms of the proportion of female employees.

We currently only record the age structure of our German employees. This has remained roughly the same in recent years. During the reporting period, the 51-to-60 age group made up the largest percentage. The age distribution is thus typical of industrial companies in Germany.

### **Employees in Germany by Age**



We believe that we benefit from the wide range of skills and the dedication of all our employees. We see the diversity of the people we employ as an asset. Employees with disabilities and health conditions are offered particular protection. We work closely with the relevant agencies to find solutions that enable employees with health restrictions to keep their jobs or move to a suitable position. This means we can retain skilled workers and keep long-standing, valuable knowledge within H&R. In 2021, our German sites had 23 employees with severe disabilities, accounting for 2.6% of the workforce. Of those, 17 employees were in the ChemPharm Refining segment and six were in the Plastics segment.

■ Management Board ■ Climate Protection and Resource Conservation ■ Product Responsibility ■ EMPLOYEES

- - Management Organization
- Employee Structure
- Employee Recruitment

A total of 14 employees were on parental leave in Germany (1.6% of all employees), ten of which at the two refinery sites and three at the Coburg site. One person at the level of the Group parent company made use of parental leave.

We will also ascertain these figures for international sites for the first time in 2022.

As a company with global operations with a total of 47 subsidiaries, the H&R Group has a heterogeneous and diverse employee structure that comprises various nationalities, cultures, ethnicities and genders in one Group. We take these differences into account, for example with local senior executives who are connected to the location through culture and familiarity, while also maintaining the success of the Group as the shared goal of our strategic orientation.

# **Employee Recruitment and** Retention

In order to meet its economic and strategic corporate objectives, the H&R Group needs qualified employees for both its production sites and refining locations. The orientation of these goals is as clear as they are simple: We want to fill all open positions in a way that the profile requirements of the position and the skills profile of the employee fit together as best as possible. Human resources work therefore focuses on employee recruitment and retention. We use a differentiated approach to recruit employees. Open positions in the company are advertised internally in collaboration with the employee bodies. In business and administrative departments, we utilize online platforms and job fairs. For vacant executive positions, professional human resources consultants assist us with the search and selection.

When making our final decision in interviews, we take a comprehensive look at the skills of the applicants and consider subject knowledge as well as social skills.

One of the main areas we focus on is recruiting young employees as apprentices training to become chemical technicians or laboratory technicians. With regard to this, at the start of 2022 the H&R Group began to test innovative approaches, such as the Instagram account initiated by our current trainees at the two refineries.

For new employees, the supervisor responsible for them creates onboarding plans and qualification matrixes which detail job-specific aspects as well as instructions for site-specific systems such as an introduction to the IM system. Instruction from qualified individuals on topics such as occupational safety, environmental protection, energy efficiency, operating dangers, accident protection, and how to act in the event of an alarm continue to be obligatory for new employees.

Our performance-related remuneration models and flat hierarchies also make us an attractive employer for experienced professionals. At the German sites, most employment contracts are subject to the terms of collective bargaining agreements. In addition, we offer our employees flexible working hours (part-time arrangements, honor-system working hours), which - to the extent possible, given the processes and operating needs, such as shift work - they also take advantage of. During the pandemic in particular, the Group expanded its options for working remotely, i.e., not on-site or in the office.

The H&R Group operates the improvement suggestion management system "Fit for Future" in Germany. The goal is to utilize the motivation and will of the workforce to make improvements, thus increasing corporate success and contributing to job satisfaction. The task of all senior executives is to take suggestions from employees seriously and support these once they have been evaluated.

Active input from two different perspectives makes it possible to achieve contributions to permanently improve

- the profitability,
- process and product quality as well as
- the occupational safety, health and environmental protec-

in the entire company.

At the same time, an improvement and suggestion system fosters a culture among all our employees of shared responsibility in the company's development. All of the ideas and implemented measures of this improvement management system are recorded and processed online. A bonus system for implemented suggestions also increases the incentive to make suggestions. There are currently no plans to introduce such a system Group-wide.

Our employees are very committed to the H&R Group. This is evident in the high average length of service and the generally low staff turnover rate at the sites in Germany. We calculate the turnover rate exclusively on the basis of voluntary resignations. Employees entering retirement are not counted, as new employees are generally hired to replace them. The rate at the three German sites was at 4.68% in 2021. It is therefore far below the two-digit turnover rate that is common for employees covered by the German social security system. And this is despite the inclusion of the Coburg site and the volatile situation in the German automobile industry.

# Training and Continuing Education

As we can only compete internationally if we have superbly trained employees on board, we consider our spending on advanced training and professional development to be an investment in the future of our Group.

There are currently no Group-wide target figures for the number of trainees. This is due to the structure of German apprenticeships, which combines academic and on-the-job components, unlike in most companies. For the two refinery sites, conversely, target figures were defined for 2021 for the fields of chemical technicians, chemical laboratory assistants, warehouse logistics specialists and office managers and filled as follows:

	Salzbergen target (occupied)	Hamburg target (occupied)
Chemical technicians	4 (3)	4 (2)
Chemical laboratory assistants	2 (2)	2 (2)
Warehouse logistics specialists	1 (1)	-
Office managers	-	1 (0)

The target figures reflect the need and training capacities of the two sites and are reassessed annually.

When choosing advanced training courses, we follow an individual approach that promotes our employees' strengths and helps them to realize their potential and achieve their personal career goals. In addition, the current need for qualification and thus education of employees is evaluated by their supervisor or the employee, also through employee reviews. Legal instruction obligations are taken into account as part of the overall training planning. The effectiveness of training is assessed and documentation of the training is created and archived in the training database of the H&R sites. Details on employee qualifications are regulated, where needed, by site-specific process instructions.

We also use the aforementioned process for employees with temporary contracts or contractual workers such as

contractors or temp workers. The increasing complexity of our plants and equipment also requires well-trained employees. Which is why, for example, we deploy only experienced employees for the supervision of the processes in the refineries as well as shift management in the plants, whom we assign to young, new employees over a period of several years. By pairing up new and experienced staff, there is a continual exchange of knowledge and experience in the shift system. New employees learn about the special features and operation of each facility in detail in the course of their training and in the years that follow. This allows us to ensure the smooth operation of our facilities – and keep important knowledge within the company.

As we have been using the electronic training system SAM provided by Secova for years, the Covid-19 pandemic had next to no impact on our training measures in the 2021 financial year. In 2021, the total number of training courses Group-wide (number of employees multiplied by training courses assigned) was 28,241 (previous year: 23,760 training courses). In 2021, 1,019 of our employees (previous year: 893) out of a total of 142 departments took part in the online training courses, reaching 95.7% of the target number of total training courses (previous year: 93.2%). In total, training amounted to approximately 5,675 hours of training, or just under 5 hours and 34 minutes per employee (previous year: 4 hours and 40 minutes). The content of the training courses is assigned individually so that the topics cover the individual work fields and traditional jobs at our sites as well as more general topics such as environmental protection, health care and social and cross-cultural skills. New content can be added to the training system, depending on the specific needs of the individual subsidiaries or departments. The extent of training presented here does not, however, provide a full picture of our training activities. With the help of the training management information system (SMIS database), we document not only the SAM training activities in the Group, but also the training courses on various process instructions of our process units and legally required instruction on hazardous substances. Such instruction is to be given orally in accordance with the Hazardous Substances Ordinance (GefStoffV), but it is also recorded in SMIS afterward.

- Training and Continuing Education
- Occupational Health and Safety

# Occupational Health and Safety

Protecting the health of our employees is firmly anchored in the Group's corporate policy. Motivated, qualified and, above all, healthy colleagues at all levels and in all Group companies contribute to the success of the company. This principle is part of our integrated management system. Its components primarily the safety and risk management system - regulate how we define processes to uphold health and occupational safety within the Group and monitor their effectiveness.

The major legal regulations that govern the actions of our German Group companies as binding guidelines include the requirements of ISO 45001 on occupational health and safety, the law on company physicians, safety engineers and other specialists for occupational safety – the German Occupational Safety Act (ASiG) for short – and the German Social Accident Insurance Regulation 2 (DGUV V2). The organization of appointed officers ensures adherence to these and monitoring of the relevant processes, training on this matter and reporting to the executive level responsible.

Throughout the Group, the implementation of the corporate policy is carried out through observance and implementation of local laws and regulations.

In general, we act under the principle that all errors, be they accidents, damage to property or injuries, are preventable. Our goal is therefore a zero-accident approach. Events that occur nevertheless which are relevant for the health or occupational safety of our employees as recorded Group-wide according to the standardized criteria of indicators LWIF (lost workday injury frequency - number of work accidents with at least one day lost for every one million working hours) and LWIS (lost workday injury severity - number of days lost per work accident). These are then reported to Group management.

## **Health Protection in a Pandemic**

As explained above, 2021 once again presented us with particular demands in terms of our duty of care toward our employees and the protection of their health. We want to promote the health of our workforce and maintain their performance in the long term. We embraced this responsibility comprehensively and kept our employees informed about the latest developments and recommendations. Throughout the Group, the management levels in particular were responsible for implementing the nationally applicable rules and for ensuring the greatest possible safety.

To give the German sites as an example, regular newsletters on the topic of Covid-19 were sent out to inform the employees on the implementation of the recommendations of the federal government and the Robert Koch Institute, and clear rules were defined for internal workflows. The same applied to the international sites, which informed their workforce of local laws and government recommendations and set regulations for day-to-day working based on these. In addition to operational matters, rules for conduct were also included that were directly connected to day-to-day business, such as clear rules on work-related or private travel and return. The legal provision "3G at work" - vaccinated, recovered or tested was also implemented at the affected production sites.

Throughout the year, a "coronavirus guideline" laid down unambiguous requirements regarding working together at the two refinery sites. In the event of queries, its actual implementation was specified by a task force consisting of management and HR heads with the backing of in-house medical staff.

This was accompanied by comprehensive hygiene regulations covering everything from the procurement of masks to the later provision of rapid tests and the implementation of a corresponding testing system.

As was previously done with the annual flu vaccination drive, the company also organized dates once the vaccine became available on which employees at the German sites could be vaccinated on-site against coronavirus by the company physician. This comprised the first and second doses as well as booster vaccinations.

We also offer the employees at our production sites a comprehensive approach to mobile working, under which our IT department continued to ensure our employees had the flexibility of working away from their usual workplaces in 2021. Comparable models also applied to employees at the international sites, where the regional rules and laws provided for such options.

#### Occupational Health and Safety at the Refineries and Production Plants

The two raw materials processing production sites have a special importance in terms of occupational safety in the H&R Group. In their daily work, many of our employees control, operate and maintain machinery and plants. In addition, our production and processing processes utilize various substances that must be handled with the utmost caution. Because of this, we have made occupational health and safety systematic according to ISO 45001 and certified the sites. Sources of error and risks are thus identified and can be removed or minimized. We view the certification of our occupational safety management as suitable for significantly reducing the number of work accidents and damage and for achieving our aforementioned zero-accident goal. At the same time, we fulfill the legal and regulatory requirements. With this, we not only build the trust of our employees, but we also enhance our reputation with customers, business partners and the authorities.

We comply with the additional statutory requirements stipulated in Section 2 of German Social Accident Insurance Regulation 2 (DGUV V2) and Section 5 of the Occupational Safety Act (ASiG) at both refinery sites by deploying specialists in occupational safety. Organizationally speaking, these are classified directly below the refinery management and are supported in their work by additional safety officers, who in turn are part of the previously mentioned organization of appointed officers.

Occupational health care and safety specialists provide support by taking suitable measures to prevent accidents and work-related illnesses. Our occupational health and safety regulations also promote this objective. Many of the occupational health and safety measures that we take are aimed at raising employees' awareness of potential dangers and avoiding accidents - to protect them as well as their coworkers. Therefore, a key safety issue at all of our sites is providing continuing education to our workforce. We hold regular training sessions on topics related to safety and require all our employees to use our web-based safety instruction system on a regular basis. The training courses are carried out either electronically through our training system SAM or in person. Completion of training is documented in the training management information system (SMIS database). Both before starting to work and at regular intervals thereafter, employees are required to attend briefings and training courses at which they are informed about possible safety risks, potential dangers, and how to properly handle hazardous materials.

Beyond this, we strive for the continual improvement of our safety performance through regular safety inspections by the safety officers and security personnel, detailed internal analyses of any loss events or claims, a special report on safety-related indicators in the categories of occupational safety and health & safety, and the active involvement of the Executive Board. Every H&R Group employee is required to diligently follow all safety rules in their own work area.

Contractors, suppliers and transport companies working for us are also included in the safety strategy. For example, anyone who has to drive on the refinery sites or move around the premises for the first time, or as a one-off, without being accompanied by an H&R employee undergoes video-based induction training in the languages most commonly used by contractors as soon as they enter the site. Completion of the induction training is recorded in a database. The selection process for our contractors and service providers is documented in the handbook for the integrated management system. For the selection, key criteria include the certification status of the potential service provider and whether certification is truly necessary for the intended service. The final selection then takes place through site-specific self-disclosure questionnaires, which also ask for the occupational safety certification SCC.

In case of a relevant event, for example, involving bodily injury or physical loss or damage, or an event that is relevant to business operations, the direct managers and safety managers must immediately notify the company departments that are responsible for health, safety, and environmental protection. As such, occupational health and safety focuses not only on prevention, but also and in particular on the following up of events, addressing these with a catalog of measures. This strengthens the role of the safety officer, who systematically works through all processes and their causes together with those affected and management. The employee representatives are likewise involved in these analyses. The findings are incorporated into training measures - also by including the individuals affected - and are thereby handled proactively. Group-wide, our employees are also encouraged to report close calls. Through this, we want to increase awareness of potential dangerous situations and thus prevent an event or damage from actually occurring.

# **Stringent Standards for Recording Accident Statistics**

Since the beginning of 2019, our accident statistics have been based on the standards of the German Society for Petroleum and Coal Science and Technology (DGMK) as a point of reference. We report the indicators LWIF (lost workday injury frequency – number of work accidents with at least one day lost for every one million working hours) and LWIS (lost workday injury severity – number of days lost per work accident). We take our own employees into account here as well as our contractors and calculate the figures throughout the Group.

Occupational safety data for GAUDLITZ GmbH and its subsidiaries in the Czech Republic and China were not included for the 2021 financial year, as the non-uniform occupational safety guidelines for plastics processing and specialty chemicals do not permit a comparable presentation. As far as the legal representatives of GAUDLITZ GmbH and the management of the H&R Group are aware, no accidents occurred in 2021 that would have a negative impact on the indicators presented below. Occupational safety data for GAUDLITZ GmbH is also set to be included for the first time in 2022 and will be reported as part of segment reporting if necessary.

#### Occupational Safety at H&R's Refineries

	2021	Individual targets	DGMK benchmark	2020	2019	2018
Number of occupational accidents with at least one day lost per million working hours (lost workday injury frequency; LWIF)	2.4	1.0	1.0	5.7	2.0	7.2
Number of occupational accidents with at least one day lost	4	1.0	-	4	4	11
Number of days lost due to accidents	93	-	-	26	244	177
Number of working days lost per occupational accident (lost workday injury severity; LWIS)	23.3	-	38.0	6.5	61.3	19.4
Number of fatal occupational accidents per million working hours	0	_	_	0	0	0

For 2021, we have set the goal for ourselves of achieving an LWIF value of 1.0 at the German production sites. The LWIF figure for our refineries was 2.4 at the end of 2021, however, and fell short of its goal early in the year, largely due to a workplace accident. The DGMK reference value of 1.0 workplace accident was also missed significantly. There was, however, significant

improvement over the previous year (previous year: 5.7). The seriousness of the accidents in accordance with LWIS had a negative effect on lost days, however, which meant that we were able to record a significant improvement over the DGMK reference value of 38.0 with 23.3 days of average lost days, but exceeded our own previous-year value.

## Occupational Safety at the H&R International Processing and Sales Sites

	2021	Individual targets	DGMK benchmark
Number of occupational accidents with at least one day lost per million working hours (lost workday injury frequency; LWIF)	2.8	0.9	1.0
Number of occupational accidents with at least one day lost	3	-	-
Number of days lost due to accidents	11	-	_
Number of working days lost per occupational accident (lost workday injury severity; LWIS)	3.7	30.0	38.0
Number of fatal occupational accidents per million working hours	0	-	-

The international processing and sales sites have pursued the same approach since 2021 and also use the benchmarks of the DGMK as a reference for their own safety performance. However, slightly lower values have been chosen at these sites to suit their own requirements. In 2021, the figure of LWIF was missed, with a total of three accidents that caused our employees or contractors to miss at least one work day. In terms of the severity of these events, however, the international sites fared significantly better than the refinery sites: In total, there were only 11 lost days and an average lost time of 3.7 days per accident.

We are expanding our system of more extensive training measures, regular instruction and daily rounds conducted by the individuals responsible for the site. Here, we will also be relying on our own well-trained employees to pass on to contractors their own practical knowledge of how to remain attentive and safe as they carry out their work at the respective sites. This is already paying off to some extent. The number of reported near-accidents shows an increased awareness and heightened sensitivity to danger. This makes it easier to assess dangerous situations and avoid them in the future.

# Independent assurance practitioner's report on a limited assurance engagement on the non-financial reporting of a group of companies

To H&R GmbH & Co. KGaA, Salzbergen

We have performed a limited assurance engagement on the non-financial statement of H&R GmbH & Co. KGaA, Salzbergen, (the "parent company") for the period from 1 January 2021 to 31 December 2020 (the "consolidated non-financial statement").

The external sources of documentation or expert opinions mentioned in the consolidated non-financial statement are not subject to our assurance engagement.

# Responsibilities of the Legal Representatives

The executive directors of the parent company are responsible for the preparation of the consolidated non-financial statement in accordance with sections 315b, 315c in conjunction with 289c to 289e HGB ["Handelsgesetzbuch": German Commercial Code] and Article 8 of REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 June 2020 on establishing a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (hereinafter the "EU Taxonomy Regulation") and the Delegated Acts adopted thereunder, as well as for making their own interpretation of the wording and terms contained in the EU Taxonomy Regulation and the Delegated Acts adopted thereunder, as set out in section "EU Taxonomy Regulation and taxonomy-eligible activities" of the consolidated non-financial statement.

This responsibility includes the selection and application of appropriate non-financial reporting methods and making assumptions and estimates about individual non-financial disclosures that are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as the executive directors consider necessary

to enable the preparation of a consolidated non-financial statement that is free from material misstatement, whether due to fraud or error

The EU Taxonomy Regulation and the Delegated Acts issued thereunder contain wording and terms that are still subject to considerable interpretation uncertainties and for which clarifications have not yet been published in every case. Therefore, the executive directors have disclosed their interpretation of the EU Taxonomy Regulation and the Delegated Acts adopted thereunder in section "EU Taxonomy Regulation and taxonomy-eligible activities" of the consolidated non-financial statement They are responsible for the defensibility of this interpretation. Due to the immanent risk that indeterminate legal terms may be interpreted differently, the legal conformity of the interpretation is subject to uncertainties.

# Independence and Quality Assurance of the Assurance Practitioner's Firm

We have complied with the German professional requirements on independence as well as other professional conduct requirements.

Our audit firm applies the national legal requirements and professional pronouncements – in particular the By-laws Regulating the Rights and Duties of Wirtschaftsprüfer and vereidigte Buchprüfer in the exercise of their Profession and the IDW Quality Assurance Standard issued by the Institute of Public Auditors in Germany (IDW): Requirements for Quality Management in the Audit Firm (IDW QS 1) and accordingly maintains a comprehensive quality management system that includes documented policies and procedures with regard to compliance with professional ethical requirements, professional standards as well as relevant statutory and other legal requirements.

# Responsibility of the Assurance Practitioner

Our responsibility is to express a conclusion with limited assurance on the consolidated non-financial statement based on our assurance engagement.

We conducted our assurance engagement in accordance with International Standard to Engagements (ISAE) 3000(Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information" issued by the IAASB. This standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether any matters have come to our attention that cause us to believe that the group's consolidated non-financial financial statement, other than the external sources of documentation or expert opinions mentioned in the consolidated non-financial financial statement, are not prepared, in all material respects, in accordance with sections 315c in conjunction with 289c to 289e HGB and the EU Taxonomy Regulation and the Delegated Acts issued thereunder as well as the interpretation by the executive directors disclosed in section "EU Taxonomy Regulation and taxonomy-eligible activities" of the consolidated non-financial statement.

In a limited assurance engagement, the procedures performed are less extensive than in a reasonable assurance engagement, and accordingly, a substantially lower level of assurance is obtained. The selection of the assurance procedures is subject to the professional judgment of the assurance practitioner.

In the course of our assurance engagement we have, among other things, performed the following assurance procedures and other activities:

- Gain an understanding of the structure of the Group's sustainability organisation and stakeholder engagement
- Inquiries of relevant employees involved in the preparation of the consolidated non-financial statement about the preparation process, and about disclosures in the consolidated non-financial statement
- Identification of likely risks of material misstatement in the non-financial statement
- Analytical procedures on selected disclosures in the nonfinancial reporting of a group of companies
- Reconciliation of selected disclosures with the corresponding data in the consolidated financial statements and group management report
- Evaluation of the presentation of the consolidated nonfinancial reporting of a group of companies
- Evaluation of the process to identify the taxonomyeligible activities and the corresponding disclosures in the consolidated non-financial statement

In determining the disclosures in accordance with Article 8 of the EU Taxonomy Regulation, the executive directors are required to interpret undefined legal terms. Due to the immanent risk that undefined legal terms may be interpreted differently, the legal conformity of their interpretation and, accordingly, our assurance engagement thereon are subject to uncertainties.

## **Assurance Opinion**

Based on the assurance procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the consolidated non-financial statement of the H&R GmbH & Co. KGaA, Salzbergen, for the period from 1 January 2021 to 31 December 2021 is not prepared, in all material respects, in accordance with §§ 315b, 315c in conjunction with 289c to 289e HGB and the EU Taxonomy Regulation and the Delegated Acts issued thereunder as well as the interpretation by the executive directors as disclosed in section "EU Taxonomy Regulation and taxonomy-eligible activities" of the consolidated non-financial statement.

We do not express an assurance opinion on the external sources of documentation or expert opinions mentioned in the consolidated non-financial statement.

### Restriction of Use

We draw attention to the fact that the assurance engagement was conducted for the parent company's purposes and that the report is intended solely to inform the parent company about the result of the assurance engagement. Consequently, it may not be suitable for any other purpose than the aforementioned. Accordingly, the report is not intended to be used by third parties for making (financial) decisions based on it. Our responsibility is to the parent company alone. We do not accept any responsibility to third parties. Our assurance opinion is not modified in this respect.

# General Engagement Terms / Liability / Exclusion of Liability in Relation to Third Parties

The General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms] as of January 1, 2017 as agreed and attached as, are applicable. In accordance with section 9 para. 2 of these General Engagement Terms, our liability for an individual case of damages caused by negligence, with the exception of damages resulting from injury to life, body or health, as well as for damages that constitute a duty of replacement by a producer pursuant to section 1 ProdHaftG [German Product Liability Act – Produkthaftungsgesetz] is limited to EUR 4 million. Our responsibility for the assurance engagement and assurance practitioner's report is to

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H&R GmbH & Co. KGaA alone. We do not accept any responsibility, duty of care, or liability; in particular, third parties are not included in the scope of protection of this contract. Section 334 BGB ["Bürgerliches Gesetzbuch": German Civil Codel, pursuant to which the objections under the contract

Hamburg, 28 April 2022

#### **Grant Thornton AG**

Wirtschaftsprüfungsgesellschaft

Eric Pritsch Cornelia von Oertzen
Wirtschaftsprüfer Wirtschaftsprüfer
[German Public Auditor] [German Public Auditor]

Note: This document is a convenience translation of the German original. The original German language document is the authoritative version.

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## **Disclaimer**

#### **Forward-looking statements**

This document contains forward-looking statements that reflect management's current views with respect to future events. Such statements are subject to risks and uncertainties that are beyond H&R GmbH & Co. KGaA's ability to control or estimate precisely, such as future market and economic conditions, the behavior of other market participants, the ability to successfully integrate acquired businesses and achieve anticipated synergies, and the actions of government regulators. If any of these or other risks and uncertainties occur or if the assumptions underlying any of these statements prove incorrect,

the actual results may be materially different from those expressed or implied by such statements.

H&R GmbH & Co. KGaA does not intend to or assume any separate obligation to update forward-looking statements to reflect events or developments occurring after the date of this report.

This English version of the sustainability report is a translation of the original German version; in the event of variances, the German version shall take precedence over the English translation.



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