Annual Report 2008

YEAR ON YEAR, DAY AFTER DAY

- Despite adverse conditions, H&R WASAG AG achieved a highly satisfactory pre-tax profit (EBT) of €48 million (adjusted for a provision relating to a €22 million anti-trust fine).

- For the first time, sales exceeded the €1 billion threshold.

- Operational profitability was further improved.

- The "Project 40" capacity expansion, involving an overall investment volume of about €35 million, was successfully completed in the 1st quarter of 2009.

- Chemical-Pharmaceutical Raw Materials: once again, strong growth abroad; Asian business rose by 65%.

- Despite special burden related to anti-trust fine, a dividend of €0.40 was proposed.

The H&R WASAG group in figures (IFRS)

		2008	2007	2006	2005	2004
Sales	€ m	1,035.2	797.9	816.8	650.1	497.1
Operating income (EBITDA)	€ m	53.4	92.7	100.9	45.4	32.9
EBIT	€ m	37.1	79.2	84.0	28.0	16.5
Pre-tax earnings	€ m	26.0	73.0	75.0	18.9	9.8
Net income before minority interests	€ m	11.8	51.6	45.6	10.9	7.5
Consolidated net income	€ m	11.7	52.0	43.3	9.9	6.5
Operating cash flow	€ m	16.0	39.6	59.2	20.5	16.6
Consolidated earnings per ordinary share (basic)	€	0.39	1.72	1.54	0.37	0.34
Dividend per ordinary share	€	0.40[1]	0.80	0.70	0.30	0.30

[1] Dividend proposal from the Executive and Supevisory Boards for the resolution to be passed by the Shareholders' Meeting

		2008	2007	2006	2005	2004
Balance sheet total	€ m	432.5	398.3	410.1	372.7	329.3
Shareholders' equity	€ m	165.4	173.3	118.4	75.0	84.3
Equity ratio	%	38	43	29	20	26
Employees (31 December)		1,340	1,227	1,821	1,811	1,634

< Key figures

Adjusted key-figures

		2008	2007	2006	2005	2004
Adjusted operating income (EBITDA)	€ m	75.4	78.9	94.1	37.6	25.9
Adjusted EBIT	€ m	59.1	65.4	81.2	23.4	14.1
Adjusted pre-tax earnings	€ m	48.0	59.8	73.7	15.1	8.8

Key figures for 2004–2007 are adjusted for the sold-off Explosives Division; 2008 key figures are adjusted for the provision relating to the anti-trust fine

The divisions in figures (IFRS)

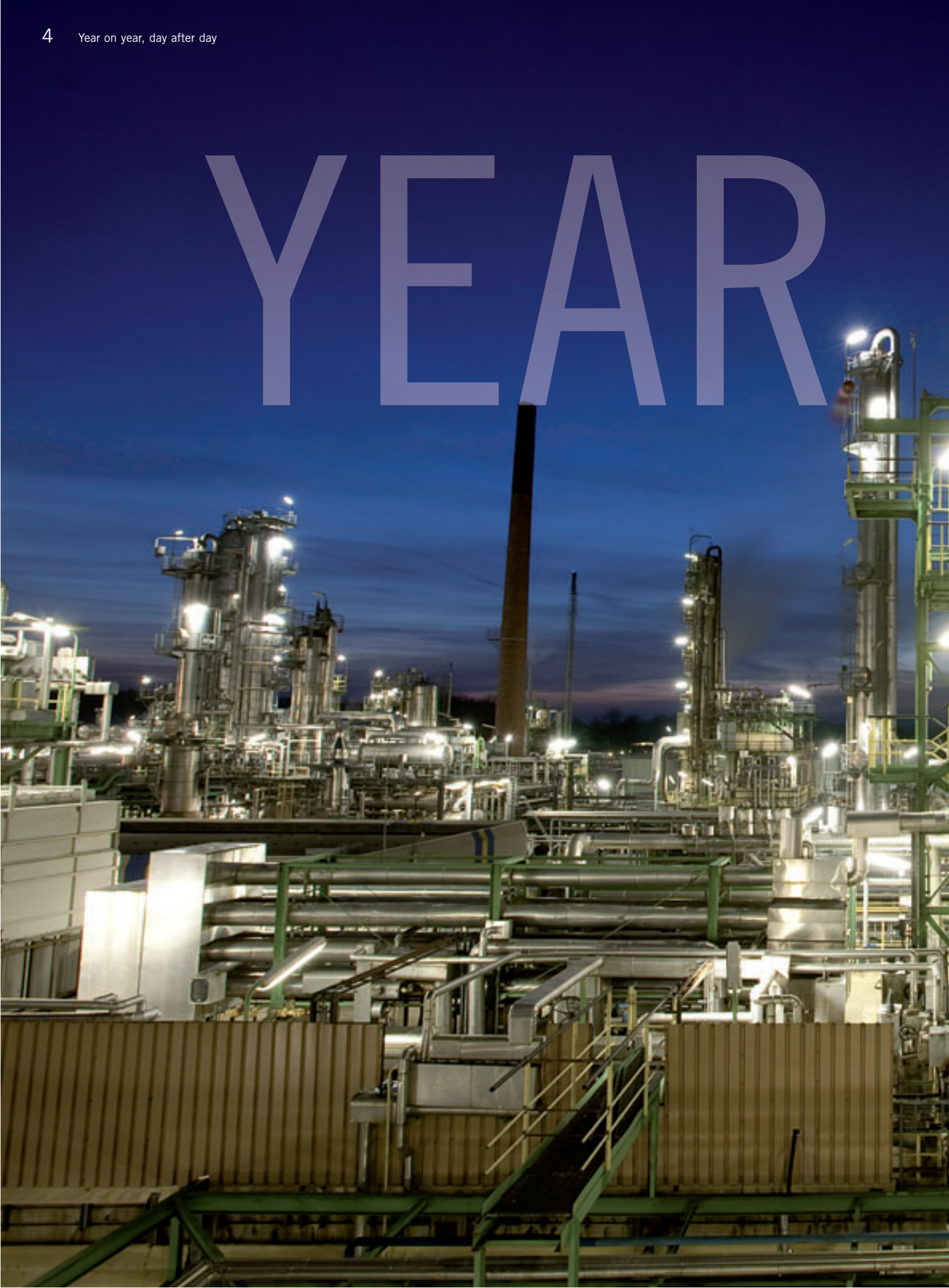
		2008[1]	2007	2006	2005	2004
Sales						
Chemical-Pharmaceutical Raw Materials	€ m	987.6	729.3	700.5	556.8	409.1
Plastics	€ m	47.6	47.3	43.0	38.0	34.9
Explosives	€ m	0.0	21.3	73.3	55.1	53.1
Operating income (EBITDA)[2]						
Chemical-Pharmaceutical Raw Materials	€ m	72.5	81.1	98.3	36.1	23.4
Plastics	€ m	2.1	3.9	2.9	4.2	5.2
Explosives	€ m	–0.5	13.6	5.5	8.5	7.0

[1] 2008 key figures are adjusted for the provision relating to the anti-trust fine
[2] Due to consolidation postings and the effect of other activities, the cumulative result of the various divisions deviates from the Group result

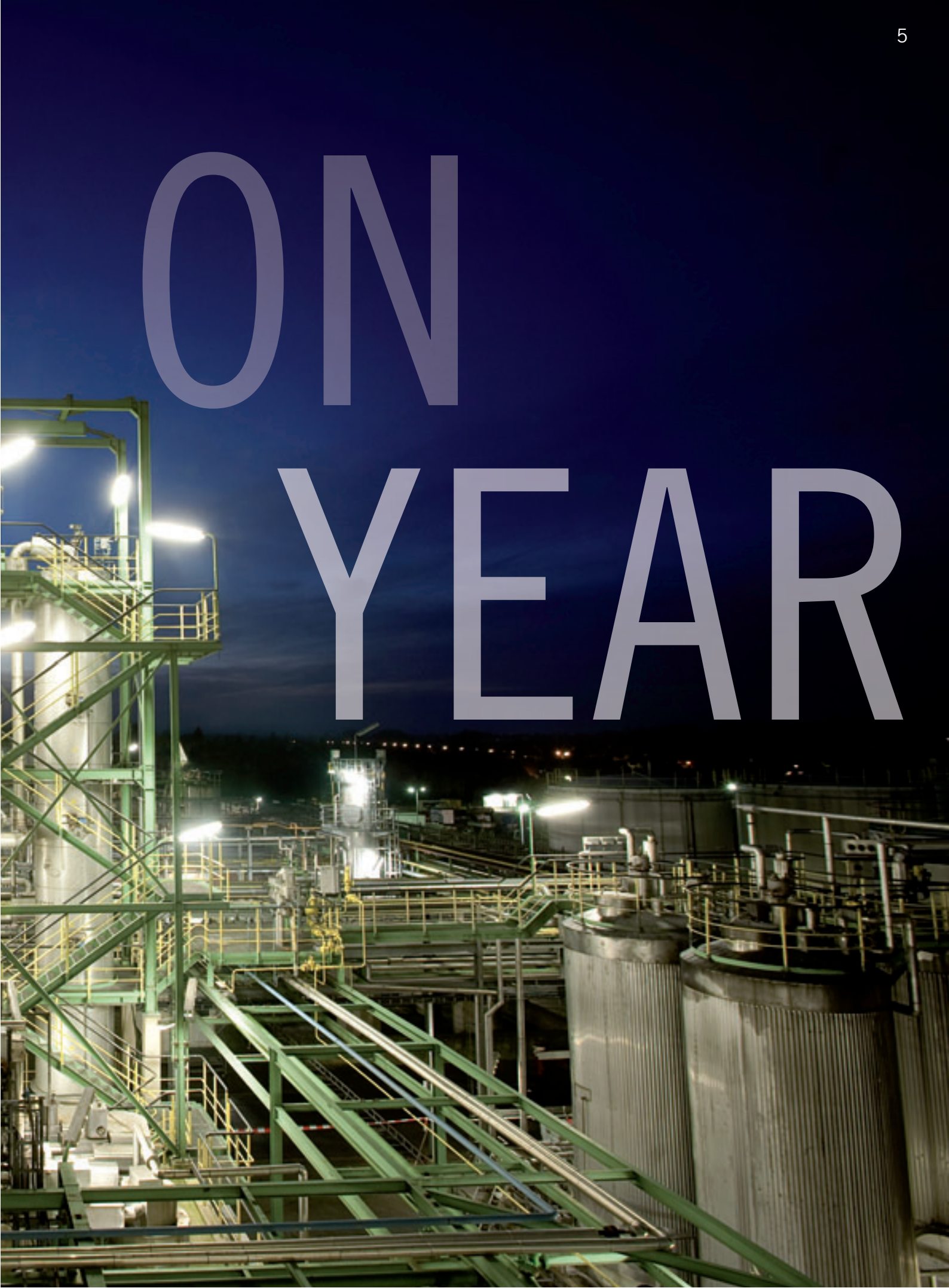
Crude oil is a gift from nature. Its value in our daily lives goes beyond the “dollars per barrel” market price or the frequently quoted price of petrol. Crude oil is the natural product behind countless facets of our modern lifestyle. It provides the foundation for innovations that enrich our lives. Year on year, and day after day, H&R WASAG AG uses this natural resource to produce more than 800 reliable, innovative and high-quality materials, from which innumerable products are made for use in our daily lives. The spectrum of products ranges from environmentally friendly plasticisers, which are not subject to labelling regulations and keep rubber compounds supple over long periods of time, to pure white oils, which form the basis for numerous pharmaceutical products. Our production of high-precision plastic parts regularly provides components that are used in automobiles as an alternative to metal parts. This makes the vehicles lighter and improves their fuel efficiency. Our high-quality paraffin can be found in lighter fluids and matches, in printing ink and car finishes. And it can provide the romantic atmosphere of a candle-light dinner at the end of the day.

Thanks to its years of experience and expert handling of this valuable natural resource, H&R WASAG AG has become one of the leading specialised suppliers in this field. Our top priority is the satisfaction of our clients and the recipients of end products that contain our natural resource materials and high-precision plastic parts. Our products are customised to fit our clients' needs as we strive to provide consistent, high quality goods, regardless of volume. And we meet that goal day after day.
We do our best to adapt to our clients' wishes, in order to supply the optimal material for every end product. We work in close cooperation with our clients to develop new products each year. It is a challenge to meet their needs, and we enjoy meeting that challenge with full commitment. Manufacturers from a wide variety of industrial sectors put their trust in us every day.

YEAR



ON YEAR




WE
VTG


GIVE

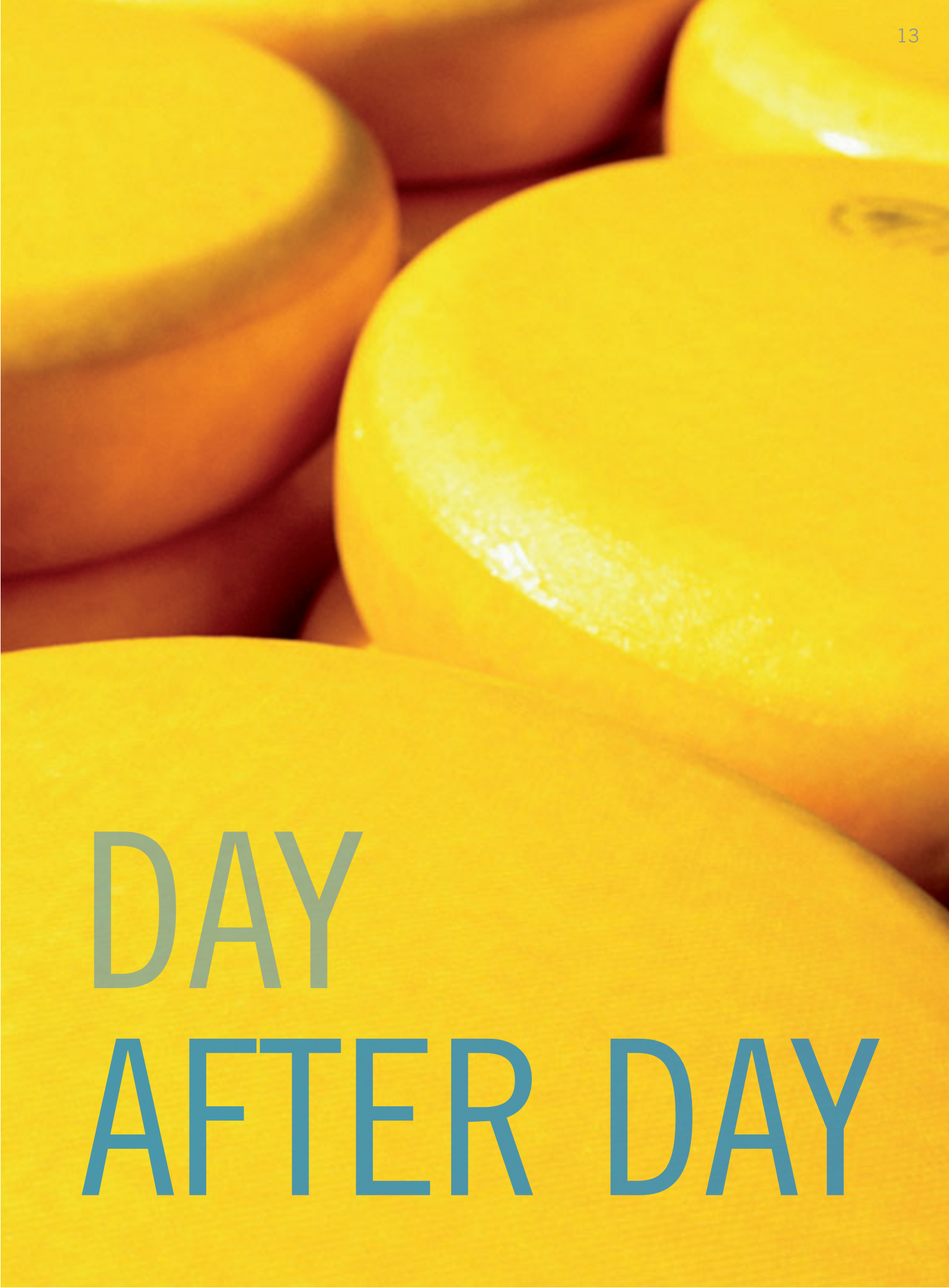
OUR BEST

YOU CAN THE

SEE RESULTS

Fulfilling clients' highest qualitative demands is H&R WASAG's ambition. One way we meet these demands is with our paraffin. After all, paraffin is often used in the food industry. It goes into products that protect valuable foods from dryness or contamination as they make their way to the client. A good example of this is the paraffin-based wax that coats cheese rinds. In this way, we contribute to consumers' daily culinary pleasures.

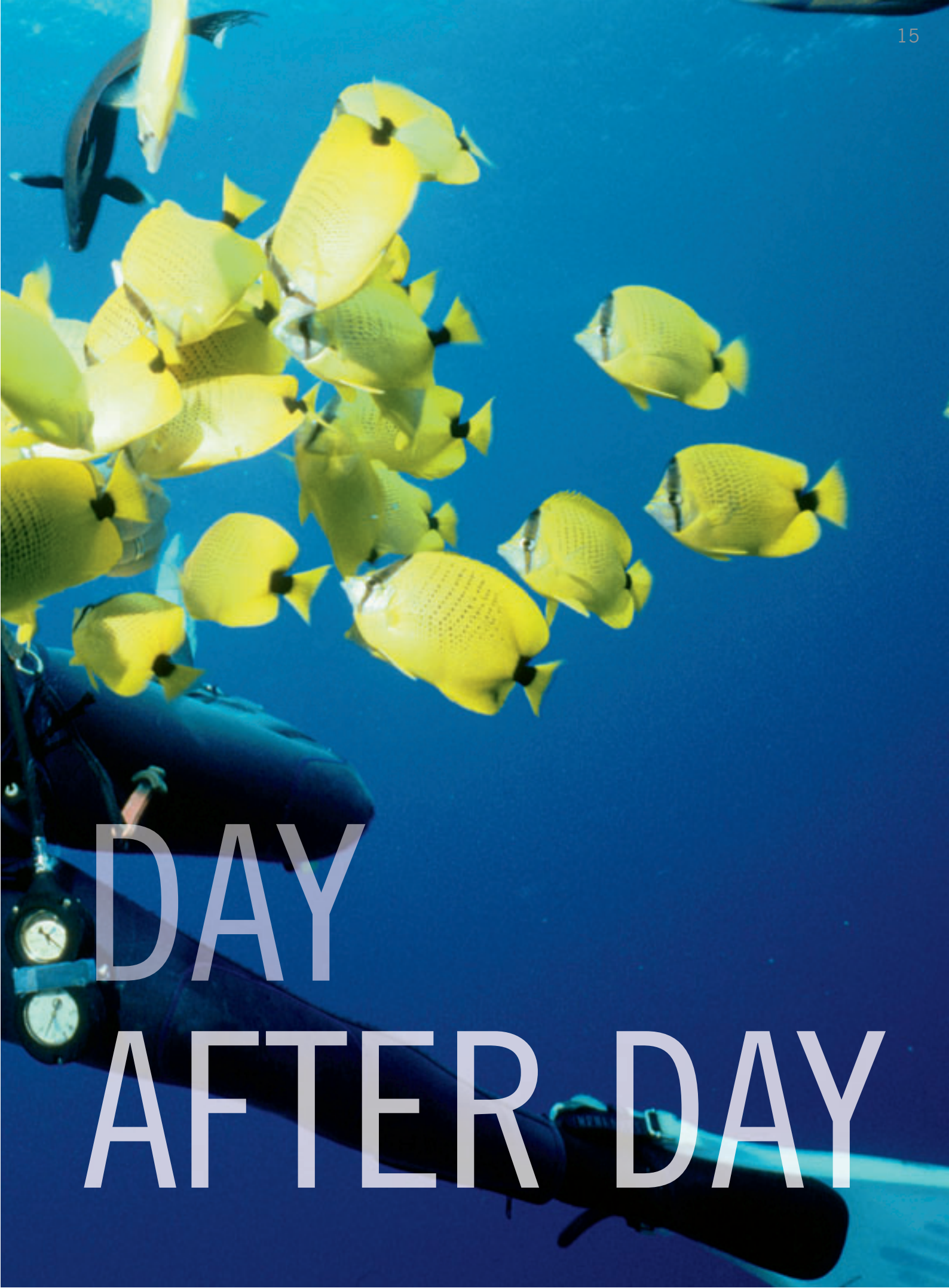
Our paraffins.



DAY AFTER DAY

Our performance is not only evident in our position among the market leaders. Our strength is particularly visible through innovations that make better products possible in all walks of daily life. A good example are our plasticisers, which are safe for people and the environment and are not subject to labelling regulations. With these plasticisers, H&R WASAG AG ensures that automobile tyres stand up to heavy strain over long periods, or that gymnastic mats retain their elasticity. Even divers' wetsuits benefit from our environmentally sound products – giving them that second skin feel, and making diving a truly natural experience.

Our plasticisers.



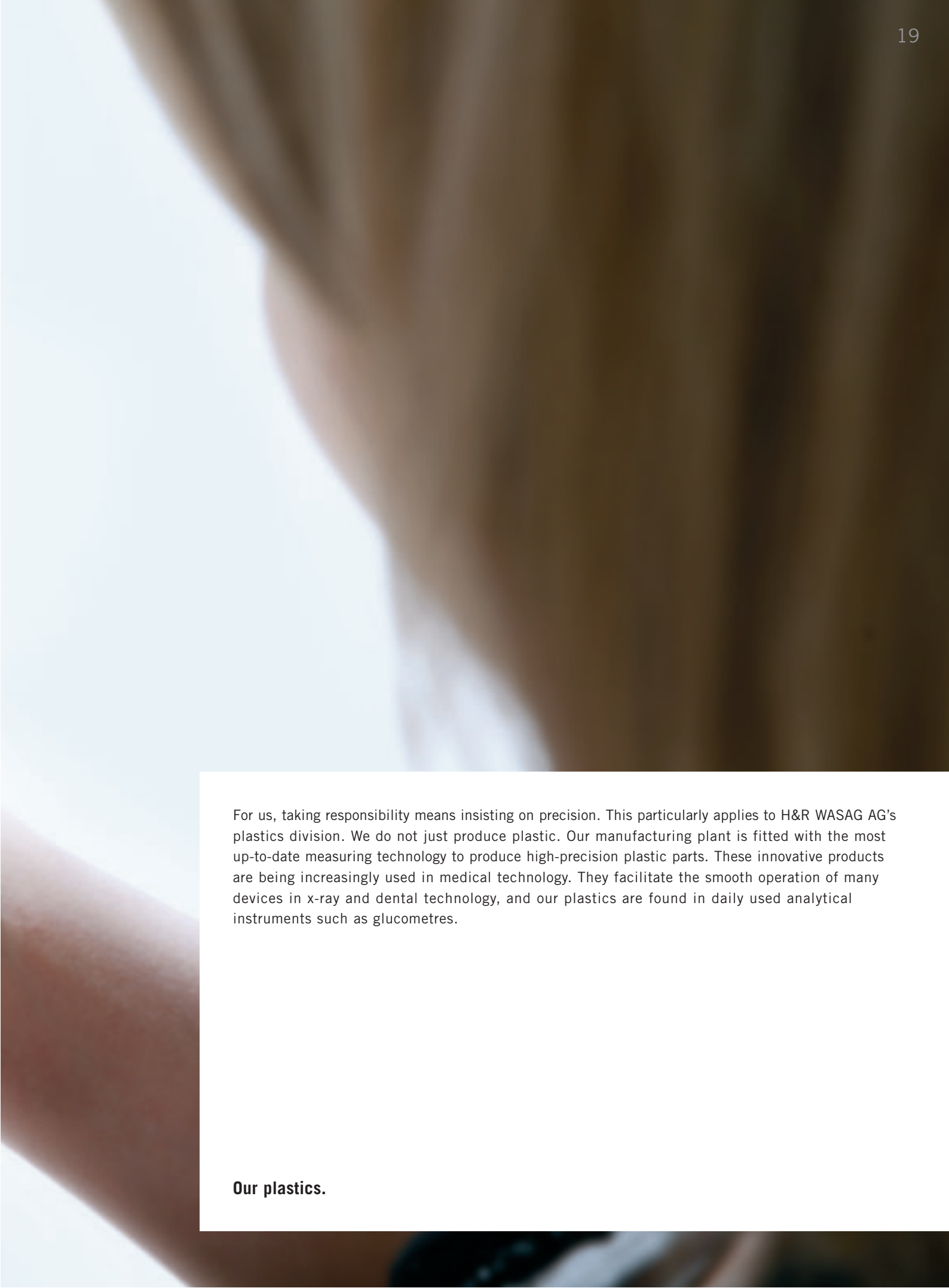
DAY AFTER DAY

DAY AFTER DAY

The key to success at H&R WASAG AG is the perfect mastery of complex chemical processes. The extraction of white oils in our refineries is a good example. These are the result of numerous processing stages, ending with high-pressure hydrogenation. White oils are as clear as water and their purity is described in the European Pharmacopoeia. They are constantly present in many areas of our daily life. White oils go into the production of cosmetic products, drinking cups, and food packaging. Their hygienic purity is decisive in their use as a plasticiser in toothbrushes – just one way in which people use our product several times a day.

Our white oils.

DAY AFTER DAY



For us, taking responsibility means insisting on precision. This particularly applies to H&R WASAG AG's plastics division. We do not just produce plastic. Our manufacturing plant is fitted with the most up-to-date measuring technology to produce high-precision plastic parts. These innovative products are being increasingly used in medical technology. They facilitate the smooth operation of many devices in x-ray and dental technology, and our plastics are found in daily used analytical instruments such as glucometres.

Our plastics.

LETTER FROM THE EXECUTIVE BOARD



The Executive Board of H&R WASAG AG: Andreas Keil, Gert Wendroth (Chairman), Niels H. Hansen (f. l. t. r.)

Dear shareholders,

"Day after Day", the title of our annual report, describes well the business developments during 2008, since we seemed to find ourselves confronting a new challenge almost every day. Yet despite the frequently dramatic nature of events, we managed to stay on course: day after day, we delivered the usual, top-quality products to our customers, while increasing our sales volume to record levels and further growing our business in an income-oriented manner.

What sort of challenges did we face? Never before in history were such wild fluctuations in crude oil prices observed within a single year! On 11 July 2008, North Sea Brent crude hit a new record high of US$147.50/barrel. Only six months later, however, the price had sunk to a new four-year low at 36.20 USD. At the end of 2008, crude oil was therefore trading at an incredibly 58% lower price than at the start of year, despite the record highs attained in between. Based on past experience, you already know that we frequently experience margin pressure in times of rapidly rising prices, due to the often long-term nature of our production cycles and delivery contracts. In times of falling prices, on the other hand, we experience the opposite effect. The good news for you as a shareholder: Thanks to our flexible production and our focus on crude oil-based specialty products, we were able to make a profit in all phases of 2008, and could even absorb the inventory effect. Thus, we have once more demonstrated the sustainability of our business model!

Particularly painful was a fine imposed on 1 October 2008 by the European Commission for our participation in an alleged paraffin cartel during the period 1994 – 2005. Late last year, we filed a legal complaint against the fine. For the sake of prudence, we have nonetheless formed a provision covering the full €22 million of the fine. This of course negatively impacted our result for 2008. Thanks to our now stable financial position, however, we were also able to absorb the liquidity

effect caused by the conditional payment of that amount in January 2009. Earnings before taxes (EBT) amounted to €26.0 million. This would have been as high as €48.0 million (previous year not including Explosives Division: €59.8 million) if not for the anti-trust fine, which had nothing to do with the reporting year's operating business. Considering the wild swings on the raw materials markets and the resulting inventory effects for the fourth quarter, this was a highly satisfactory result.

The final noteworthy event of fiscal year 2008 was of course the global financial crisis, which developed into a severe recession during the reporting year. Not without reason, analysts call it the worst economic crisis since the 1930s. Besides driving down crude oil prices, the financial crisis is sure to have further ramifications for our business. We are currently expecting demand to slow down in all markets, at least in the 1st half of the year 2009. On the other hand, we are confident that our long-time orientation towards crude oil-based specialty products and our diversified clientele, which is scattered across a number of widely differing industries, will help to significantly cushion the effect of flagging demand. A decisive factor will be the duration of the general economic crisis. In any case, it is almost certain to be of a temporary nature only and will in no way endanger either our business model or our mid to long-term growth potential in the markets we service. And our mid to long-term financing position is on a solid footing as well.

The Chemical-Pharmaceutical Raw Materials Division currently accounts for over 95% of the sales revenues and earnings of the Group. While extreme fluctuations in raw materials prices have driven up sales by 35% to a new record high of €987.6 million, they have also created a new challenge on the sales side. However, the specialised nature of our main products has given us a solid market position, which has in turn enabled our sales force to mitigate the negative effects of price swings through flexible pricing. When calculated on an annual basis, we have actually been able to offset these price fluctuations entirely. At the same time, we have attempted to reduce the duration of price agreements with customers, so as to be able to react more quickly to changing market conditions.

The capacity-expansion investments associated with "Project 40" are scheduled to be complete in the 1st quarter of 2009. Due to the current crisis and the uncertain outlook for the coming quarter, we have decided to temporarily suspend major follow-on projects for 2009. However, this decision does not change the strategic importance of these projects for the long-term performance of the Group. In fiscal year 2009, we will once again work to improve our products, processes and facilities, and will invest roughly €23 million in both refineries.

The troubled global economy had a negative impact on the Plastics Division during the reporting year. Specifically, the reduction of orders from the automotive industry towards the end of the year pushed down the division's operating earnings (EBITDA) from €3.9 million to €2.1 million. On the other hand, sales rose slightly (0.7% to €47.6 million) due to the acquisition of the remaining shares of the Chinese subsidiary which on the other hand again resulted in a slightly increased deficit of that business. However, we are confident that this decision will enable the turn-around of the Chinese operation. Steady business growth in the Czech Republic allowed us to improve our operating income in this territory as well. Thanks to further product innovations, as well as targeted marketing to acquire new customer segments in more industries, we are confident that this division will continue to contribute to the Group's bottom line.

Last but not least, we would like to touch on a painful reality for our shareholders: the fact that our share price once again suffered dramatic losses in 2008. We realise that it is cold comfort to argue that share losses during the reporting year were in line with the downtrend on stock markets worldwide. We also know that we are asking a great deal by reducing our proposed dividend from last year's €0.80 to now €0.40. However, we feel that in the light of the difficult economic environment and given the impact of the cartel fine, this proposed level of dividend is still a positive sign for our shareholders.

Day after day, we fully intend to implement any and all measures that will help improve the value of your shares. In the process, an income-oriented and far-sighted corporate management will serve as the day-to-day guideline for our decisions. At the same time, the Executive Board realises that it must constantly work to keep the trust of the stock market and of our investors – something even more important in times of general market uncertainty than during bull runs. To this end, we intend to not only steadily extend our operating business, but to also communicate openly and accurately with our shareholders and the overall capital market so that you as a shareholder will always be comprehensively informed about the performance of your company – day after day!

Even in these turbulent times, H&R WASAG AG is well positioned for the future. Thanks in large part to our dedicated employees, who have made outstanding efforts on behalf of H&R WASAG AG, we know that we can look to the future with confidence. In conclusion, we would like to thank you and all of our shareholders, many of whom have been with us for years, for your continued confidence.

Yours faithfully,

Salzbergen, 25 March 2009

The Executive Board

G. Wendroth N. H. Hansen A. Keil

REPORT OF THE SUPERVISORY BOARD

Bernd Günther,
Chairman of the Supervisory Board

Dear Sir or Madam,

In the financial year 2008, the Supervisory Board once again concerned itself closely and in detail with the position and prospects of H&R WASAG Aktiengesellschaft and its subsidiaries, and discharged the obligations placed upon it by law and the Articles of Incorporation with great care. The Supervisory Board provided advice to the Executive Board on the running of the company and monitored the activities of the Executive Board in the management of the business. Decisions of fundamental importance were also discussed and agreed with the Supervisory Board at an early stage. The Supervisory Board was kept promptly and comprehensively informed, both orally and in writing, of all planning and strategic developments as well as of the business situation of the Group and its individual companies. Any deviations from plans or budgets were discussed and debated in detail, as were strategic decisions and the funding affairs of the enterprise. The business development, the current and future strategic direction of the Group and its divisions and subsidiaries, together with other relevant issues, were thereby not only considered at the meetings of the Supervisory Board on the basis of reports, but were also regularly discussed between the Chairman of the Supervisory Board and the Executive Board outside of the scheduled meetings.

The Supervisory Board held altogether five meetings in the course of the year under review. Resolutions were adopted both at the meetings and by the circulating written voting procedure. At the five meetings, all topics of importance were explained by the Executive Board and subjected to intense discussion with the Supervisory Board. Except for two meetings where in each case one member was excused from attendance, the meetings were attended by all members of the Supervisory Board. Reports and draft resolutions were discussed in detail and, wherever required by law or the Articles of Incorporation, the Supervisory Board made its decision after thorough review and debate. But also otherwise, the discussions at all the meetings of the Supervisory Board were characterised by remarkable depth and knowledge, bearing testimony to the high level of commitment and keen interest in the further development of the company on the part of all the members of the Supervisory Board.

The HR Committee, which also acts as a mediation committee, and the Capital Measures Committee, did not meet in the year under review. Both committees consisted of Messrs Bernd Günther, Eckbert von Bohlen und Halbach and Nils Hansen.

Topics addressed at Supervisory Board meetings

Items on the agenda of all the meetings were the latest sales, earnings and financial trends of the Group and its divisions and subsidiaries. The Supervisory Board also concerned itself with a large number of other topics, however.

Thus, at its meeting on 25 February 2008, the Supervisory Board looked in detail at the annual financial statements for 2007 on the basis of the status available at that time. One issue discussed at considerable length was the effect of the changes in the crude oil and base oil prices as the shrinking of the difference between the two prices in the course of the year 2007 meant a reduction in the base oil margin as compared to 2006, which was a good year in this regard. Another topic of intense discussion was the outcome of the deconsolidation arising from sale of the Explosives Division, and the results of the two remaining divisions.

A further agenda item was devoted to detailed consideration of the investment costs and earnings potential of the capacity expansion project "Project 40" as well as the possibility of a new vacuum distillation plant in Salzbergen. The Supervisory Board also concerned itself closely with the current planning for the years 2008 to 2010, paying special attention to the development of sales and earnings, as well as the development in shareholders' equity, the leverage and the level of liquidity. Other topics included the planned new syndicated loan, the status of the "SYTHENGRUND" sand extraction project, the contractual details of the Explosives Division sale, the negotiations on expanding the production of non-labelled plasticisers in Southeast Asia, and the exchange of emission certificates.

At the balance sheet meeting on 7 April 2008, which was also attended by the external auditors, much time was devoted to discussing the annual financial statements of the parent company, the consolidated financial statements and the dependent company report. The auditors reported on the results of their audit which were available up to the date of the meeting, and answered questions in detail. The meeting also dealt with the dividend payment proposal, which had been jointly adopted beforehand by the Executive Board and the Chairman of the Supervisory Board acting on behalf of the Supervisory Board. As all the prerequisites needed for the auditors to be able to issue their certificate were not yet fulfilled, the parent company and consolidated financial statements, management reports and dependent company report were only approved after the balance sheet meeting through a resolution adopted on 10 April 2008 by the circulating voting procedure.

On 7 April 2008, the newly negotiated syndicated loan for up to €300 million, which it was possible to agree this time without the need for security to be furnished, was discussed in detail. The Supervisory Board gave its unanimous consent to conclusion of the syndicated loan. Other topics additionally dealt with included the current situation of the sales organisation, the scheduled downtime at the Hamburg and Salzbergen refineries, and the status of the collective wage negotiations at the Hamburg refinery.

Agenda items at the Supervisory Board meeting held on 24 June 2008 included preparation for the Annual Shareholders' Meeting to be held immediately afterwards as well as the current status of the company and the future strategic development of H&R WASAG AG.

In view of the worsening financial crisis and the extreme volatility of the prices for crude oil and other raw and base materials in the course of the year 2008, one of the main focuses of the Supervisory Board meeting on 27 November 2008 was on the current sales and earnings situation and the prospects for 2009. Besides the future sales and earnings planning, other topics included the development in the production and sales volumes, the rise in net working capital and the resulting consequences for liquidity planning, and future compliance with the covenants in the credit agreements. The Executive Board also informed the Supervisory Board that the increased volatility in the raw material prices made it necessary to undertake an appropriate adjustment to the moving average for the valuation of the inventories. In view of the sharp fluctuations in the crude oil prices, it was proposed that at the end of the year, the system of considering disposals at the average annual price should be replaced by their consideration at the average monthly price. Designed to take account of current developments, this change and the improvements in transparency it would produce met with the express approval of the Supervisory Board.

Having been kept regularly up to date on the latest developments in the EU cartel proceedings, the Supervisory Board was informed by the Executive Board of the decision of the European Commission, on the strength of the notice issued by the cartel authorities on 01 October 2008, to create a provision worth €22 million in order to take care of the risk of claims being made on the company as joint and several debtor. After detailed discussion, the earnings and investment planning for the years 2009 – 2011 was also approved by the Supervisory Board.

At its meeting on 13 December 2008, the Supervisory Board chiefly concerned itself with the development of the international business on the basis of a corresponding report submitted by the Executive Board. Key points were possible increases in production capacities for non-labelled plasticisers as well as further potential refinery partner projects.

Corporate Governance

At all of its meetings, the Supervisory Board addressed Corporate Governance issues in depth. Following discussion of the changes to the Corporate Governance Code and on the basis of the discussions conducted in the course of the year, the annual Declaration of Conformity pursuant to article 161 of the German Stock Corporation Act (AktG) was approved by a resolution adopted using the telephone voting procedure and submitted in December 2008. The declaration can be seen on the Internet under www.hur-wasag.de and also appears on pages 37–38 of the annual report. Further details can be found on pages 32 et seq., 39 and 83 of the annual report.

Parent company and consolidated annual financial statements

The annual financial statements of H&R WASAG Aktiengesellschaft for the financial year 2008, drawn up in accordance with the rules of the German Commercial Code (HGB), together with the management report for H&R WASAG Aktiengesellschaft, have been audited by the Hamburg auditing firm of SUSAT & PARTNER OHG. The audit assignment was placed by the Supervisory Board, represented by its Chairman, in compliance with the resolution of the Annual Shareholders' Meeting

on 24 June 2008. The auditors have issued their unqualified audit certificate. The consolidated financial statements of H&R WASAG AG, drawn up on the basis of the International Financial Reporting Standards (IFRS) in accordance with article 315a of the German Commercial Code (HGB), and the Group management report, were also reviewed by the auditors and given an unqualified audit certificate.

The auditors have confirmed that the consolidated financial statements have been compiled in compliance with IFRS and present a true and fair view of the net worth and financial and earnings position of the Group.

At its meeting on 20 March 2009, which was also attended by the company's auditors, the key details of the company's annual financial statements, the consolidated financial statements, the respective management reports and the dependent companies report were comprehensively and exhaustively discussed. The auditors present at the meeting reported on the results of their audit and answered questions in detail.

Given the availability of the audit certificates for the financial statements of H&R WASAG Aktiengesellschaft and for the consolidated financial statements for the financial year 2008 and the management reports on 25 March 2009, the Supervisory Board passed the following resolution via the circulation procedure on 26 March 2009: "After carrying out its own review of the parent company financial statements, the consolidated financial statements and the respective management reports, the Supervisory Board approved the results of the audit by the external auditors and signed off on the parent company financial statements and the consolidated financial statements. The parent company financial statements are thereby approved. The Supervisory Board supported the proposal of the Executive Board for the appropriation of retained earnings."

The auditors have also audited the report on relationships with affiliated companies prepared by the Executive Board in accordance with article 312 AktG. The auditors have informed the Supervisory Board of the result of their audit and have issued the following audit certificate:

"On the strength of the audit and assessment we have conducted in accordance with our legal duties, we hereby confirm that: 1) the disclosures of fact contained in the report are correct; 2) in the case of the legal transactions listed in the report, payments made by the company were not unreasonably high; and 3) in the case of the measures listed in the report, no circumstances speak for a significantly different assessment than that given by the Executive Board."

This report of the auditors has also been reviewed by the Supervisory Board. The Supervisory Board endorses the final declaration of the Executive Board contained in the report and has no objections to raise.

Changes in the governing bodies

Ms Maria-Elisabeth Ostermann-Müller amicably relinquished her position on the Executive Board on 31 January 2008. The Supervisory Board wishes to thank Ms Ostermann-Müller for her many years of good service to the company. Apart from this, there were no other changes to the Executive Board and no changes to the Supervisory Board in the course of the year under review.

Challenges in the financial year 2008

The financial year 2008, with the unprecedented upheaval caused by the extreme volatility of the raw material prices and, especially in the second half of the year, the significant deterioration in the worldwide economic situation, posed major challenges for the Executive Board and the employees of the company. The stable development achieved in the operating business despite these uncertainties is a result of the strategically correct concentration on crude oil-based specialty products, an efficient production and a highly effective sales organisation. The main motor for the altogether good development in the face of the difficult operating conditions in the year under review was once again the great commitment of all the employees and the Executive Board. The Supervisory Board wishes to express its sincere thanks for this to all the staff of the company and to the Executive Board. But it also wishes to thank our shareholders – many of them long-standing – whose loyalty has provided the company with the firm foundation needed for its development.

Hamburg, 26 March 2009

Bernd Günther

Chairman

MANAGEMENT REPORT

Management Report

BUSINESS AND GENERAL SITUATION

Group structure and business activities

H&R WASAG AG TO FURTHER EXPAND POSITION

H&R WASAG AG is an internationally operating specialty chemicals group with two business divisions: the Chemical-Pharmaceutical Raw Materials Division, which primarily focuses on crude oil-based specialty products, and the Plastics Division. The Group's activities centre around the production of the chemical-pharmaceutical raw materials, which account for 95% of Group sales. Targeted investments are regularly undertaken with the aim of consistently improving the efficiency of production in the division, simultaneously facilitating to produce further specialty products for niche markets. Additional impetus also comes from the process of advancing internationalisation. The Plastics Division is also being specifically developed further. Together with the additional sales revenue resulting from increasing internationalisation, it is planned to achieve growth in the division through further diversification of the sectors it supplies. Through these strategies, the Group further strengthens its position as one of the world's leading, highly profitable suppliers of crude-oil based specialty products and precision plastics.

Legal Group structure

SYNERGY EFFECTS THROUGH CENTRAL PROVISION OF SERVICES

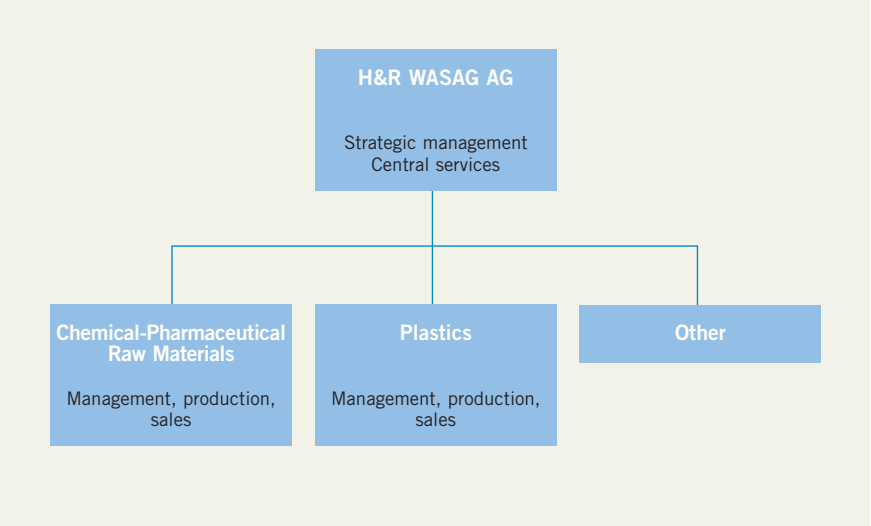
H&R WASAG AG is the management and parent company of the H&R WASAG Group. Besides the strategic management of the business activities, it is responsible in particular for taking care of the funding matters of the Group as well as handling communication with the public and with the capital market. It also supports the subsidiaries with management services and relieves them of administrative tasks that can be handled centrally. Provision of these services by the parent company generates synergy effects for the Group and enables the subsidiaries to concentrate on the operating business.

CHANGES IN PLASTICS DIVISION

The associated companies of H&R WASAG AG are set out in the list of shareholdings (page 204–205 of the report). Significant changes in the year under review only occurred in the Plastics Division. Thus, the shareholding in GAUDLITZ Precision s.r.o., Czech Republic, was raised in two steps from 52% to 83.64%. Additionally, in implementation of an agreement already concluded in 2007, the outstanding shares (49%) in GAUDLITZ Precision Technology (Wuxi) Co., Ltd., in Wuxi (China), were acquired on 3 April 2008, with the result that all the shares are now owned by H&R WASAG AG.

The merger of various inactive companies in the year under review made it possible to reduce the number of companies included in consolidation, alongside the parent company, from 37 to 31, thus further cutting the administrative effort and expense.

Functional depiction of the Group structure



The exact shareholdings of H&R WASAG AG in the individual companies can be taken from the list of shareholdings in this report (page 204–205)

Subscribed capital, shareholder structure and dependent company report

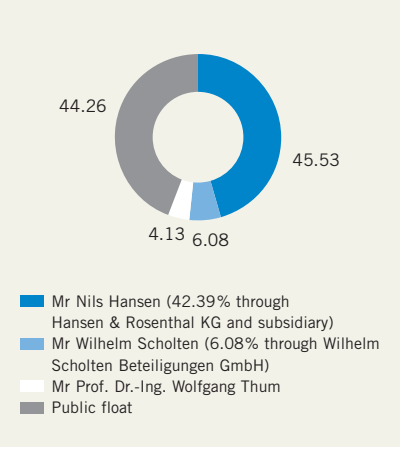
As of 31 December 2007, the issued share capital of H&R WASAG AG totalled €76,625,044.11 and was divided into 29,973,112 ordinary shares. This number was in turn broken down into 27,323,112 ordinary no-par bearer shares and 2,650,000 no-par bearer non-voting preference shares.

PREFERENCE SHARES CONVERTED TO ORDINARY SHARES

By resolution of the Annual Shareholders' Meeting of 24 June 2008 and the corresponding special resolution of the preference shareholders, the preference shares were, on the resolutions being recorded in the commercial register on 8 August 2008, converted into ordinary shares in a ratio of 1:1. At the end of the year under review, therefore, the issued share capital remained unchanged, but now consisted of 29,973,112 ordinary no-par bearer shares, with each share granting entitlement to one vote.

Through conversion of the preference shares, the company will in future be able to avoid the higher administrative effort and expense resulting from the existence of two different categories of shares. At the same time, with effect as from the financial year 2008, abolition of the higher dividend associated with the preference shares means less pressure on earnings per ordinary share.

Shareholder structure
(in %), Status as of: 28/02/2009



Through conversion of the preference shares into ordinary shares and as a result of share transactions, the shares of voting rights in H&R WASAG AG have also changed. The biggest shareholder continues to be Mr Nils Hansen. According to the most recent disclosures available to H&R WASAG AG pursuant to articles 21 and 22 of the Securities Trading Act [WpHG], Mr Nils Hansen owned 39.37% of the voting rights of H&R WASAG AG as of 1 April 2002. Of this, 34.95% were accounted for by Mr Hansen's stake in Hansen & Rosenthal KG, which in turn held an equivalent stake in its subsidiary H&R WAX Company Vertrieb GmbH and its 2nd-tier subsidiary H&R Beteiligung GmbH. Through conversion of the preference shares into ordinary shares and as a result of share transactions undertaken since the date of the Securities Trading Act disclosure, the shareholdings in the company have, on the basis of informal information from Mr Hansen of 12 February 2009, changed as follows: As of this date, Mr Nils Hansen held a 45.53% share of the voting rights; 42.39% were apportioned to him through the aforesaid companies and 3.14% were owned by him privately. On 1 April 2002, according to Securities Trading Act disclosures, Mr Wilhelm Scholten exercised 6.65% of the voting rights through his company Wilhelm Scholten Beteiligungen GmbH. Pursuant to an informal information dated 24 November 2008, the share on that day amounted to 6.08% – again a consequence of the conversion of the preference shares into ordinary shares.

According to a Securities Trading Act disclosure of 13 August 2008, the conversion of the preference shares of Prof. Dr.-Ing. Wolfgang Thum into ordinary shares,

which became effective on being recorded in the commercial register on 8 August 2008, meant that he held an 8.07% share of the voting rights.

According to a disclosure of voting rights on 3 February 2009, Mr Thum again fell below the 5% threshold, with 4.13% of the voting rights held by him on 2 February 2009. This fall in voting rights was not the result of a share sale but had to do with an advance settlement of rights of succession by the shareholder.

Despite the share of voting rights attributable to him being less than 50%, Mr Nils Hansen has a stable majority of the votes since the level of attendance at the Annual Shareholders' Meetings of H&R WASAG AG is consistently below 100%. For this reason, a dependent company report pursuant to article 312 of the Stock Corporation Act (AktG) was prepared for the reporting year 2008, as for the previous years.

In the dependent company report, the Executive Board of H&R WASAG AG makes the following statement: "H&R WASAG AG received an appropriate counter-performance for all legal transactions and measures listed in this report according to the circumstances that were known to us at the time when the legal transaction or measure was performed, or was not performed, and the company has not been disadvantaged by the fact that measures were performed or not performed. No disadvantage has arisen for H&R WASAG AG as the result of any relationship with the controlling or associated company."

Business divisions, organisation structure and operating locations

H&R WASAG AG ACTIVE IN TWO BUSINESS DIVISIONS

Following the sale of the Explosives Division in 2007, H&R WASAG AG, as the management company, now carries on its operating business in the two remaining business divisions, i.e. Chemical-Pharmaceutical Raw Materials and Plastics. These two divisions are therefore also indicated in the Group breakdown as subject to the reporting requirements of IFRS.

The strong sales growth of the Chemical-Pharmaceutical Raw Materials Division, which was also driven by the temporarily very high raw material prices in the course of the year, has driven the share of sales accounted for by the Group's most important business division to over 95%. The special feature of this division is the focus pursued by H&R WASAG for many years on crude oil-based specialty products which are required for further processing especially in the chemical and pharmaceuticals industry. Through the deliberate policy of flexibilisation of its production processes, H&R WASAG is able, in a reliable and cost-efficient fashion, to meet its customers' requirements, which depending on the intended subsequent use can differ substantially in terms of product characteristics. This special orientation to customer requirements and the resulting strong market

position even for niche products based on crude oil products is assured above all by the two speciality refineries in Salzbergen (Emsland) and Hamburg-Neuhof.

H&R WASAG WITH SOLID INTERNATIONAL MARKET POSITION

The production facilities abroad in England, the Netherlands, South Africa, Australia, Thailand and Malaysia are conversion and mixing plants. The primary products required for the production of the specialty products there are procured via the regional markets. However, also at these locations, the special H&R WASAG AG know-how in the efficient and flexible production of customised products ensures a good market position. The Group additionally has sales companies in the USA, New Zealand, the Czech Republic and Hong Kong.

In the refinement of crude oil, large quantities of base oils also occur. Some of these are marketed directly, but some are also used for H&R WASAG's lubricating oils business, with automotive, industrial and marine lubricants being blended, bottled and packed on behalf of the customers. Part of this business having grown in recent years is attributed to the lubricants for the shipping industry produced in the marine lubricant centre at the Hamburg-Neuhof refinery.

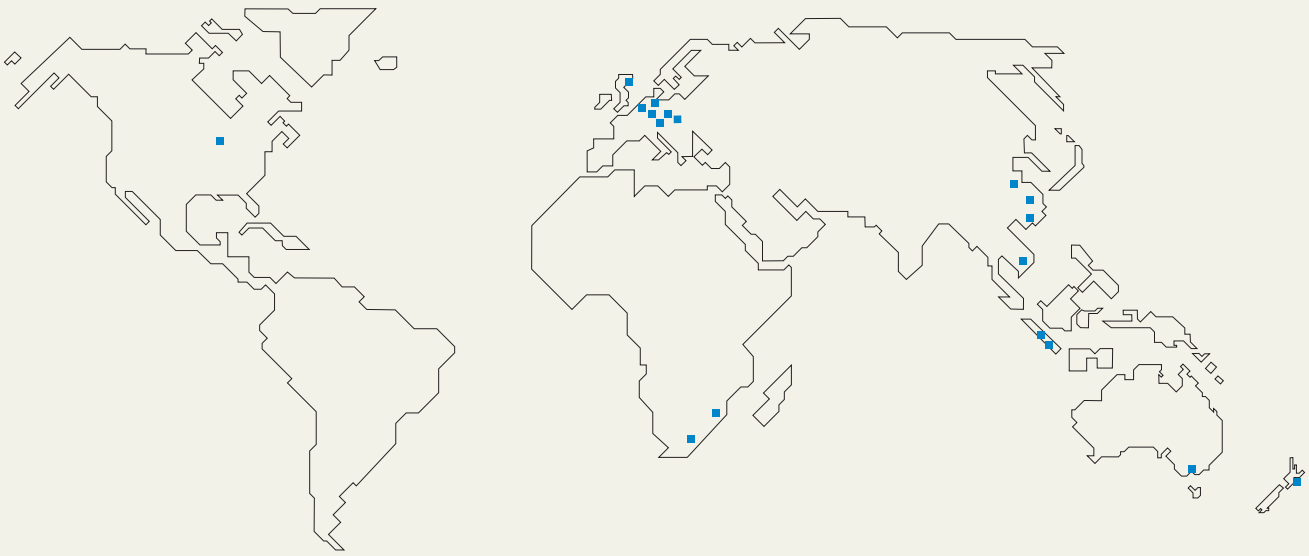
PLASTICS DIVISION A TECHNOLOGY LEADER

The Plastics Division is concerned with the development and production of high-precision plastic parts made using injection moulding techniques, as well as the appurtenant tools and moulds. Apart from the parent location in Coburg, which accounted for 91% of sales revenue in the year under review, H&R WASAG also has a presence in this sector in Wuxi (China) and Dačice (Czech Republic) (changes in the shareholding ratios are detailed in the section "Legal Group structure" on pages 30–31 of this report). H&R WASAG is one of the technological leaders in the production of high-precision plastic parts with filigree measurements, in some cases in combination with other materials.

Following the disposal of the Explosives Division in 2007, a small number of administrative companies from this division and also SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH (SYTHENGRUND) have remained in the possession of H&R WASAG AG. It is intended for the deposits of silica sand owned by SYTHENGRUND in Haltern am See (near Münster, Westphalia) to be utilised by extraction. This is dependent on issue of the necessary official permits. These are currently outstanding, but are expected to be issued in the near future. When that is the case, H&R WASAG AG will look at the possible utilisation options and will resume talks with potential cooperation partners. Like other subsidiaries which are only operating on an inter-company basis or performing non-operating administrative or management activities, SYTHENGRUND GmbH is allocated to the Other Activities business segment.

H&R WASAG locations

As of 31/12/08



America

USA
- Detroit (CP)

Europe

Germany
- Coburg (PL)
- Hamburg (CP)
- Salzbergen (CP)

UK
- Tipton (CP)

Czech Republic
- Prague (CP)
- Dačice (PL)

Netherlands
- Nuth (CP)

Africa

South Africa
- Johannesburg (CP)
- Durban (CP)

Asia

China
- Wuxi (PL)

Hong Kong
- Hongkong (CP)

Thailand
- Si Racha (CP)
- Bangkok (CP)

Malaysia
- Port Klang (CP)
- Batu Caves (CP)

Australia

Australia
- Melbourne (CP)

New Zealand
- Auckland (CP)

(CP) Chemical-Pharmaceutical Raw Materials Division
(PL) Plastics Division

Management and controlling and remuneration report

EXECUTIVE BOARD AND SUPERVISORY BOARD SUPPORT THE PRINCIPLES OF THE GERMAN CORPORATE GOVERNMENT CODE

Organisation of management and controlling (corporate governance). The Executive Board and the Supervisory Board of H&R WASAG AG support the principles of responsible corporate management as set out in the German Corporate Governance Code. The corporate management is also conducted in accordance with the provisions of the relevant laws and the Articles of Incorporation including, in particular, articles 84 and 85 of the Stock Corporation Act (AktG), which governs the appointment and dismissal of the members of the Executive Board. Modifications to the Articles of Incorporation are performed on the basis of articles 133, 179 of the Stock Corporation Act (AktG) and of article 20, para. 2 of the Articles of Incorporation. The Supervisory Board is entitled to adopt resolutions with regard to such modifications of the Articles of Incorporation that only refer to the wording, without requiring the approval of the Shareholders' Meeting.

In the management of the company, the Executive Board is strictly guided by the interests of the business, and in the performance of its tasks acts on its own responsibility within the scope of its internal rules of procedure. These rules, which have been approved by the Supervisory Board, regulate the allocation of duties and requirements relating to assent, as well as various other matters involved in the activities of the Executive Board. Executive Board members are appointed by the Supervisory Board. Following the leaving of Ms Ostermann-Müller on 31 January 2008, the Executive Board now consists of three persons (page 194 of this report).

The Supervisory Board monitors the management activities of the Executive Board and advises it. In addition, the Supervisory Board exercises the right to approve certain transactions, but it is not authorised to take business management action of its own. As set out in article 8, section 1 of the Articles of Incorporation, the Supervisory Board consists of six members, four of whom are elected by the Shareholders' Meeting as shareholders' representatives, and two of whom are elected by representatives of the employees. The members are listed on page 195 of this report. The Supervisory Board has set up two committees, the mediation committee, which also functions as the committee for Executive Board personnel matters, as well as the capital measures committee.

At joint meetings in the course of the year under review, the Executive Board and the Supervisory Board concerned themselves in detail with corporate governance issues, and in particular discussed the new version of the Corporate Governance Code. The Executive Board and the Supervisory Board welcome the principles set forth in the Code, but believe that certain exceptions are justified due to the size of the company and the special circumstances of H&R WASAG AG. The Executive Board and Supervisory Board issued the following declaration of conformity as per article 161 of the Stock Corporation Act (AktG) on 23 December 2008:

"The recommendations of the "Government Commission's German Corporate Governance Code" were (version dated 14 June 2007) and are (version dated 6 June 2008) complied with, with the following exceptions:

– Code figure 3.8, para. 2: The D&O insurance policies taken out by the company for the Executive Board and Supervisory Board do not contain a deductible.

– Code figure 4.2.3, para. 2: The monetary remuneration components for two Executive Board members do not include any variable components. While Mr Niels H. Hansen has declined to take up his entitlements to the variable remuneration component on account of his position within the Hansen & Rosenthal Group, Mr Wendroth is waiving any performance-related remuneration for two years in return for the pension commitments assumed by H&R WASAG AG.

– Code figure 5.1.2, para. 2, sentence 3 and 5.4.1, sentence 2: There are no age limits for members of the Executive Board and Supervisory Board. The choice of persons proposed for election to the Supervisory Board is made on the basis of the knowledge, skills and technical experience required for the task. The appointment of members of the Executive Board by the Supervisory Board also follows the same criteria. We do not intend to define an age limit as a criterion for exclusion.

– Code figure 5.3.2: The Supervisory Board has not appointed an audit committee. The subjects proposed in the Government Commission's Corporate Governance Code for such an audit committee are keenly debated within the entire Supervisory Board at H&R WASAG AG.

– Code figure 5.3.3: The Supervisory Board has not set up a nomination committee composed exclusively of shareholder representatives which proposes suitable candidates to the Supervisory Board for recommendation to the Shareholders' Meeting.

– Code figure 5.4.5, sentence 2: The Chairman of the Supervisory Board of H&R WASAG AG is a director of a listed joint-stock company and has a total of more than five Supervisory Board mandates in non-group listed companies.

– Code figure 5.4.6, para. 3, sentence 2: The remuneration of the members of the Supervisory Board and advantages extended for services provided individually, in particular advisory or agency services, were not listed separately in the corporate governance report.

– Code figure 6.6: The ownership of shares in the company by Executive Board and Supervisory Board members that exceeds 1% of the shares issued by the company was not reported. In addition, the entire holdings of all Executive Board and Supervisory Board members were not reported separately according to Executive Board and Supervisory Board, although they exceeded 1% of the shares issued by the company. The aforesaid disclosures were also not included in the corporate governance report. The disclosure of shareholdings held by members of the Supervisory Board and Executive Board is performed in accordance with legal regulations.

– Code figure 7.1.2, sentence 2: It was not possible to publish the consolidated financial statements for the 2007 financial year until the middle of April 2008 due to the high number of subsidiaries included in the annual financial statements. The consolidated financial statements for the 2008 financial year and for subsequent years will, however, be published within 90 days from the close of the financial year.

Executive Board and Supervisory Board of H&R WASAG AG
Salzbergen, 23 December 2008"

COMPENSATION OF ENTIRE EXECUTIVE BOARD BASED ON THE SIZE AND ECONOMIC POSITION

Remuneration report. The size and economic position of the company are taken into account in determining the amount and structure of Executive Board remuneration at H&R WASAG AG. The remuneration for the individual Executive Board members also depends on their respective duties.

The table shown below indicates the various components of which the remuneration of the Executive Board members consists, i.e. basic remuneration, payments in kind and the variable component. In the financial years 2007 and 2008, the payments in kind consisted entirely of benefits in money's worth resulting from the provision of company cars and the refund of material costs. While the fixed portion of the remuneration is paid out to the Executive Board members in monthly instalments, the performance-related variable remuneration component depends on the Group's earnings before taxes (EBT) after adjustment for special effects.

Executive Board remuneration

(in thousand €, previous year's figures in brackets)

	Basic remuneration		Benefits in kind		Variable remuneration		Total	
Gert Wendroth, Chairman	350	(175)	13	(5)	—	(—)	363	(180)
Niels H. Hansen	216	(216)	—	(—)	—	(—)	216	(216)
Andreas Keil	256	(64)	16	(2)	225	(31)	497	(97)
Former members:								
Maria-Elisabeth Ostermann-Müller (until 31 January 2008)	18	(216)	1	(15)	229	(1,236)	248	(1,467)
Dr. Horst Hollstein (until 10 August 2007)	—	(309)	—	(6)	—	(1,826)	—	(2,141)
Total	**840**	**(980)**	**30**	**(28)**	**454**	**(3,093)**	**1,324**	**(4,101)**

This variable performance-related remuneration is intended as an additional incentive to increase the success of the business and hence also the value of the company. Because of his position within the Hansen & Rosenthal Group, Executive Board member Niels H. Hansen has declined his entitlement to variable remuneration components. In return for the assumption of pension commitments by H&R WASAG AG, Mr Gert Wendroth is waiving his performance-related remuneration for two years.

No stock option programmes or similar securities-oriented incentive systems exist. With the exception of Mr Wendroth, the Executive Board members listed do not have pension entitlements. On reaching the age of 65, Mr Wendroth will receive a retirement pension of €5,050 per month. In the event of terminating his Executive Board function before the pension regulation applies, Mr Wendroth will receive an early retirement pension from reaching the age of 60 of €9,400 per month until the regular retirement pension described above comes into effect at the age of 65.

Remuneration of members of the Supervisory Board is determined by the Articles of Incorporation. The remuneration for the Supervisory Board is also made up of a fixed and a variable component.

According to the Articles of Incorporation, remuneration provides an annual fixed salary of €12,000 for each Supervisory Board member. For every €0.01 of dividend over and above €0.10 per ordinary share, the remuneration will increase by €300.00 per member. The Chairman of the Supervisory Board receives twice this amount and the Deputy Chairman one and half times this figure. For their committee work, members of the Supervisory Board receive an additional €3,000. This remuneration is doubled for those members of the Supervisory Board, who act as the chairman in a committee. In addition, the members of the Supervisory Board receive an attendance fee of €200.00 for each session of the Supervisory Board or any of its committees that they attend.

Supervisory Board remuneration

(in thousand €, previous year's figures in brackets)

	Basic remuneration		Remuneration for Supervisory Board activities		Variable remuneration		Total	
Bernd Günther[1], Chairman	24	(24)	—	(6)	18	(48)	42	(78)
Eckbert von Bohlen und Halbach[1], Deputy Chairman	18	(18)	—	(3)	13.5	(36.5)	31.5	(57.5)
Nils Hansen[1]	12	(12)	—	(3)	9	(24)	21	(39)
Günter Papenburg[1]	12	(12)	—	(—)	9	(24)	21	(36)
Reinhold Grothus[1]	12	(12)	—	(—)	9	(24)	21	(36)
Dieter Obert[1] (until 16 September 2007)	—	(9)	—	(—)	—	(19)	—	(28)
Rainer Metzner	12	(3)	—	(—)	9	(5)	21	(8)
Total	**90**	**(90)**	**—**	**(12)**	**67.5**	**(180.5)**	**157.5**	**(282.5)**

[1]Specified amounts do not include statutory value-added tax

Salient products, services and business

PRODUCTION VOLUME OF GERMAN REFINERIES RISES TO ABOUT 1.1 MILLION TONNES

The products of the Chemical-Pharmaceutical Raw Materials division can be divided into two categories, depending on the extent of processing undergone by the crude oil that goes into making them: 1) Sideline products: these are separated out after the first work step of vacuum distillation. 2) Main products: these require further processing via additional work steps. The sideline products, i.e. in particular the so-called vacuum residues and heavy fuel oil, in the reporting year accounted for approx. 40% of the total production volume of the two refinery sites at Salzbergen und Hamburg-Neuhof amounting to about 1.06 million tonnes (1.02 million tonnes in the prior year). As a rule, these sideline products are marketed for use in applications that are less technically demanding.

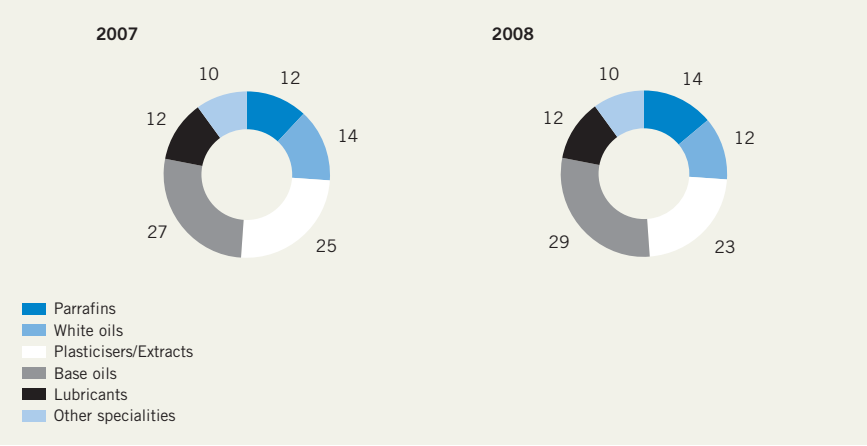
On the other hand, H&R WASAG AG's focus on petroleum-based specialty products is reflected in the remaining 60% of production volume, which consisted of primary products. Of this, 40% involved base oils and finished lubricants, while the rest comprised white oils, paraffins, plasticisers and various other specialty products.

STRONG MARKET POSITION IN SPECIALTY PRODUCTS

Particularly when it comes to "other specialty products", which account for roughly 60% of primary product volume, H&R WASAG AG has been able to achieve an outstanding brand position, thanks to the high level of quality on offer and a consistent orientation towards customer needs. As a supplier of over 800 such specialty products to more than 100 different industries, H&R WASAG AG focuses on niche and specialty markets as well as on efficient and flexible process management at all production plants. This approach has made outstanding standards of quality possible. By tailoring its products to customer requirements in a manner that dovetails with the exacting specifications of such industries as foodstuffs, cosmetics or pharmaceuticals, H&R WASAG AG has firmly established its brand in the market for paraffins and white oils.

H&R WASAG AG has also become a market leader when it comes to plasticisers, especially label-free plasticisers produced with novel, patented methods. These are used as additives in the manufacture of innovative, environmentally friendly tyres, for example. In 2008, such products were well received by consumers in Germany, throughout Europe and in markets further afield. Nonetheless, this segment's contribution to the bottom line suffered a slight decline during the reporting year, as the financial crisis dampened demand in the tyre industry. Despite current weakness in demand, however, H&R WASAG AG believes these products will prove to be excellent growth drivers for all markets in years to come.

Refinery production main product groups
(in %)



The construction in 2007 of a new marine-lubricant centre on the premises of the Hamburg-Neuhof refinery represents a further expansion of H&R WASAG AG's palette of services, and a further exploitation of the firm's specialised know-how regarding production and product features. The services offered include mixing, bottling and commissioning of lubricants for customers in a variety of industries.

PLASTICS DIVISION SPECIALISED IN HIGH-PRECISION PLASTIC COMPONENTS

The Plastics Division produces high-precision plastic components by means of injection moulding. The tools required for this manufacturing process (moulds) are made in-house. Additional products include composites made from a wide range of materials, also using new materials, for users in a wide range of industries.

Key sales markets and competitive position

As for the crude oil-based specialty products, in particular the three product groups of medical and technical white oils, paraffins and plasticisers, H&R WASAG achieved a very strong market position thanks to its specialisation approach.

The Group's individually configured, medical/technical white-oil products are in demand in a number of industries, such as pharmaceuticals, cosmetics, plastics and foodstuffs. H&R WASAG has the advantage of being able to deliver consistently configured materials with reliable functionality, even for the most sophisticated products and over extended periods of time. This reliability is a sine qua non for brand-name manufacturers of cosmetics for example, since their customers demand uniform product quality. Due to the customised nature of these products, no hard market data is currently available. However, H&R WASAG ranks among the leading suppliers in this product segment, both domestically and internationally.

H&R WASAG A SIGNIFICANT MARKET PARTICIPANT IN PARAFFIN SECTOR

Paraffins are generally sold to a wide variety of sectors besides the traditional candle-making industry. The main customers for specialised paraffin products include the construction, pharmaceutical, cosmetics, foodstuffs and packaging industries. Also when it comes to paraffins, H&R WASAG is a significant market player, both domestically and internationally.

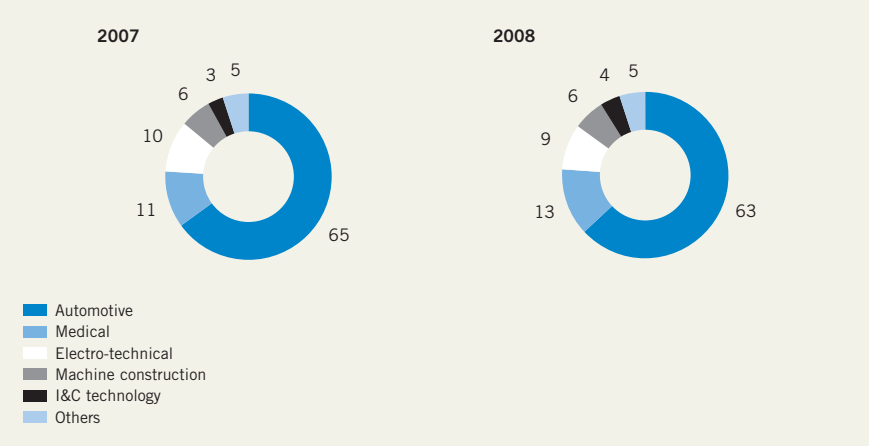
Plasticisers are sold to a number of clients, especially in the technical rubber industry. The plasticisers offered by H&R WASAG are used to make a number of different products, such as diving suits, tyres, conveyor belts, acoustic materials and window insulation. In this product segment as well, H&R WASAG is among the leading domestic and international suppliers. Thanks to its outstanding production technology, H&R WASAG AG is particularly strong in the area of innovative, label-free plasticisers, such as the ones used to make environmentally friendly tyres.

THE FOCUS REMAINS ON ASIA

As in recent years, 2008 saw a further internationalisation of sales. Especially with regard to petroleum-based specialty products, H&R WASAG has set itself the goal of expanding its presence in countries experiencing growth in technologically mature industries. Thus, the Asian markets are currently receiving the greatest emphasis. In the German and European market, on the other hand, the aim is to continue the targeted build-up of an already solid market position in collaboration with the Hansen & Rosenthal Group, on the basis of joint marketing agreements already in place.

The worldwide market for plastic components and composites, as well as tools for such components, continues to be highly fragmented. It is generally agreed that there are no competitors with significant market share to speak of, and certainly no dominant market players. Looking at the sales side, the H&R WASAG AG

Sales by customer segment in the Plastics Division
(in %)



subsidiaries active in this sector were able to reduce the portion of sales derived from the automobile industry during the reporting year (from 65% to 63%). On the other hand, there were increases in the share of sales involving medical technology (from 11% to 13%) and measurement and control technology (from 3% to 4%).

Legal and economic background conditions

RAW MATERIALS COSTS HAVE DRAMATIC SHORT-TERM EFFECTS

The business development of the Chemical-Pharmaceutical Division is influenced to a large extent by fluctuations in the cost of raw materials, specifically crude oil and petroleum-based products, as well as by changes in the €/US$ exchange rate. Particularly in periods of high price volatility, Group earnings can be subject to wide negative or positive swings, at least temporarily, depending on the direction of a given price trend. This phenomenon is mainly due to the fact that changes in raw material costs cannot always be factored into price adjustments for the processed products in a timely manner. In the individual case, the extent of such pricing effects cannot be directly derived from a particular change in price, since they ultimately depend on a wide variety of parameters. Since sales prices for end products are adjusted to raw material costs in a delayed rather than a parallel fashion, the result can be either "windfall profits" or "windfall losses", depending on the direction of the price trend. Based on H&R WASAG AG's experience, such windfall results tend to offset one another over the medium-to-long term, however.

The strategy employed by H&R WASAG AG seeks to make the Group more independent of these effects through specialisation and internationalisation. Moreover, earning power is to be fundamentally enhanced through a number of improvements in efficiency. Some of these have been completed while others are still pending. The fact that a profit was achieved in the current reporting year – despite a so far historically unprecedented volatility on the commodity markets – is proof positive that these efforts are bearing fruit.

COMPETITIVE ADVANTAGE FROM CONTINUAL TECHNICAL OPTIMISATION OF PRODUCTION

Environmental regulation is a major source of legal changes with significant economic impact. In the context of the continuous technological enhancement of its production plants, H&R WASAG AG is already striving to comply with the reduced emission thresholds that are scheduled to take effect in the future. Of course one cannot discount the risk that a one-sided tightening of environmental regulations could hurt the competitiveness vis-à-vis foreign rivals. Yet such adjustments can also lead to benefits for H&R WASAG AG: given the technologically advanced orientation of its production and products, the Group could find its competitive position enhanced in a climate of increased regulatory stringency. We can already see this trend in effect when it comes to label-free plasticisers and it is one which is highly likely to continue.

Corporate management, objectives and strategy

Internal management system

COMPANY MANAGEMENT ON THE BASIS OF KEY FIGURES

The controlling management of the company overall and the individual divisions is essentially based on the return-on-capital figures, and here in particular on the "Return on Capital Employed" (ROCE = EBIT/capital employed), on classical key earning figures (EBITDA, EBIT, EBT) and on key financial figures such as net gearing ratio (level of net debt/equity) and cash flow.

These key figures are printed on the inside front cover of the annual financial report. After adjustment for the anti-trust fine imposed by the EU Commission, ROCE for the fiscal year amounted to 17.8% (previous year: 30.2%).

When it comes to managing and controlling the business activities of the individual divisions, the key figures used are ones that measure operating capacity. For production, these include criteria such as raw material throughput, equipment availability, equipment utilisation and product yield. The management of sales, on the other hand, focuses on key figures such as gross/net sales and margins. Meanwhile, monitoring the drawdown of the Group syndicated loan is particularly important for financial management. The findings of the corresponding reports are continually discussed among the Executive Board, the Controlling department and the operative companies. Departmental and/or divisional meetings are held on a regular basis, in order to ensure a steady exchange of information.

EARLY INDICATORS PLAY A KEY ROLE

Company-specific early indicators also play an important role at H&R WASAG AG. The parameters regularly checked and reviewed include unscheduled downtime, rejection rates and fluctuation in quality.

Strategy

CUSTOMER NEEDS ARE FRONT AND CENTRE

The strategy which H&R WASAG AG pursues for the Group overall is one of targeted growth. Besides organic growth in already developed markets, this strategy includes further internationalisation, as well as entry into new markets by means of new specialty products. The flexible and precise implementation of customer requirements remains paramount throughout.

Strategic orientation of the divisions. The Chemical-Pharmaceutical Raw Materials Division of H&R WASAG AG focuses on petroleum-based specialty products, especially those in the following families: paraffins, white oils, plasticisers and other specialty products. Key features of the division's strategy are an emphasis on reliable quality and on the flexible manufacture of products configured to customer needs. However, the actual boosting of competitiveness is achieved primarily by consistently gearing all production processes towards specialty products. Major oil companies, by contrast, orient their manufacturing towards mass-produced products such as fuels. This creates attractive niche markets that are generally underserved by the oil companies, and which are therefore of interest to specialised suppliers such as H&R WASAG. Accordingly, H&R WASAG AG's strategy aims to better exploit such specialty products by improving production processes and increasing capacity. For this purpose, H&R WASAG AG makes continual investments in the equipment of the two refineries.

"PROJECT 40" COMPLETED ON SCHEDULE IN 1ST QUARTER OF 2009

Notable in this context is "Project 40", which lasted several years and was completed on schedule in the 1st quarter of 2009. This project enabled the targeted expansion of the processing facilities of those refineries whose relatively lower throughput was acting as a drag on overall capacity. This process, also known as "de-bottlenecking" was able to significantly improve sales revenue and especially earnings, for a fraction of what boosting output would cost. Since 2006, a total of €35 million have been invested in the project, the last €3 million having been allocated in spring 2009. The follow-up project known as "Golden Cut" is intended above all to ensure higher quality processing of the products produced at the Hamburg refinery. Due to the uncertain state of the global economy, however, and also to safeguard working capital, the Executive Board of H&R WASAG AG has decided to postpone major investment projects for the time being. On the other hand, this decision does not diminish the strategic importance of the "Golden Cut" project or of other plans for capacity expansion and/or process optimisation in the context of resource deployment and product output.

FURTHER INTERNATIONAL PRODUCTION COLLABORATIONS INTENDED

As before, it is in H&R WASAG AG's interest to continue expanding production and sales outside of Europe – particularly in Asia and South America. In consideration of the currently difficult general situation H&R WASAG AG intends in the near future to focus on production cooperations while continuing to pursue the further organic growth.

In the Plastics Division, we see a growing emphasis on the use of innovative manufacturing technologies in combination with novel materials and composites. Regional expansion has been driven mainly by 1) a joint venture in the Czech Republic, which gives the Group strategic access to the attractive East European growth markets and 2) the subsidiary in China, now fully owned by the Group. On the strategic level, efforts to reduce the previously high dependence on the automotive industry have been intensified. The new processes and products already mentioned are sure to contribute towards this objective.

NEW FUNCTIONAL MANAGEMENT STRUCTURE INTRODUCED

Strategic group structure. H&R WASAG AG acts as a holding company with operating subsidiaries in two business sectors. During the reporting year, preparations were made to launch a new, functional management structure for the Chemical-Pharmaceutical Division on 1 March 2009. After this date, each of the operative, technical and administrative tasks that had to some extent been performed independently by the two refineries will be handled in a centralised fashion by a corresponding supervisor answering directly to the Executive Board. The Executive Board is confident that this new hierarchy will result in an even more motivated, closer and more effective management, in a harmonisation of processes at both plants, and in the bundling of know-how within individual functional departments. As with all activities, the goal will be to meet customer needs even more quickly and efficiently, and to further boost the earning power of the Group. Strategic management will continue to be the responsibility of the Executive Board, whose oversight of the new management structure will enable it to tailor its decisions even more closely to market requirements. The Plastics Division will retain its tried and tested structure, given that its scope of operations is smaller than that of the Chemical-Pharmaceutical segment. The strategic management performed by the Executive Board will ensure that decisions can continue to be taken rapidly and flexibly in this division as well. The legal Group structure and the changes in the group of consolidated companies are explained on page 30–31 of this report.

EXTERNAL FINANCING RESTRUCTURED

Strategic financing measures. The reporting year was mainly characterised by the restructuring of external financing. This was intended to ensure two main objectives: 1) Ensuring that working capital requirements, which are especially high in times of fluctuating raw materials prices, are adequately covered. 2) Fulfilling the financial prerequisites for the future growth strategy of the Group, which will include additional investments.

On 7 April 2008, H&R WASAG AG was able to secure a new syndicated loan with a life of five years and a variable volume of up to €300 million, depending on the prevailing requirements of the Group. In contrast to the old syndicated loan, which was limited to €170 million, the new credit agreement allowed all previously granted sureties to be released as of 31 December 2007, thanks to the good credit history of the Group. In addition, significantly better terms and conditions were obtained, as well as a highly flexible drawdown scheme. The latter concession is particularly advantageous, given the present environment of economic uncertainty and volatile raw material prices. The granting of the loan and/or the drawdown level is subject to compliance with restrictions regarding the level of equity capitalisation as well as the ratio of net indebtedness to operating earnings (EBITDA). As of 31 December 2008, €77 million of the syndicated loan had been drawn down.

FINANCING PLACED ON A SOLID FOOTING

This new source of borrowed capital, coupled with an already solid equity base, will ensure that future business operations and pending investments can be adequately financed. Accordingly, no additional capitalisation and/or major financing measures are currently on the drawing board.

Research and development

Nature of R&D activities

R&D FOCUSED ON CREATING NEW PRODUCTS AND OPTIMISING PRODUCTION

Given the strategic orientation of H&R WASAG AG, Research and Development fulfils a key function within the Group. According to the strategy, the activities focus primarily on the enhancement and innovation of specialty products for niche markets, as well on the improvement of production efficiency through process optimisation.

The customer orientation can be seen as the true strategic strongpoint of H&R WASAG AG in both business divisions (Chemical-Pharmaceuticals and Plastics). With its ability to translate customer needs into products in an effective, precise and reliable manner, even over extended periods, the Group's R&D ultimately concentrates on the application-related development of customised products. This can of course include basic research, but always with a view toward eventually developing products tailored to specific markets and requirements. Thus, the Group can generally dispense with the purchase of external patents or production know-how.

QUALITY ASSURANCE A KEY TASK

Another key task of the R&D department is quality assurance, and this applies to both business divisions. Whether one is involved in the development of customised petroleum-based specialty products or in the manufacture of high-precision plastic components, one must always be able to ensure that the future production over time will continue to comply exactly with the required specifications for the produced quantities delivered in one or more batches.

Thus, both the Hamburg and Salzbergen laboratories devote much of their time to ongoing specification checks and general quality assurance. This in turn provides important feedback data for the actual development of new products and the continual optimisation of production processes.

Chemical-Pharmaceutical Raw Materials. The very fact that this division's portfolio already comprises 800 different products for more than 100 industries underscores the significance of research and development in the chemical-pharmaceutical raw materials field. At the same time, the sheer variety of the products on offer highlights the need for close cooperation between H&R WASAG AG

and its customers. By involving its R&D department in the early development phase of a customer's new product line, H&R WASAG is able to optimise development of the required raw materials and product innovations. Simultaneously, this early collaboration lays the groundwork for consistent quality levels during subsequent production phases.

GOOD COOPERATION WITH CUSTOMERS ALLOWS SPECIALLY CONFIGURED PRODUCTS

Conversely, close collaboration with H&R WASAG AG allows the customer to participate in the Group's independent R&D activities. Thus, new product ideas or basic research topics can be explored in consultation with the customer at an early stage, with a view to creating specific product configurations. This dialogue gives rise to fruitful approaches that can potentially lead to valuable discoveries and innovative products.

Accordingly, H&R WASAG AG began construction of a new R&D laboratory during the reporting year. Specially dedicated to the creation of new products, this facility will supplement the two existing laboratories in Hamburg and Salzbergen. The total required investment of €1.0 million will be completed in the 1st quarter of 2009, and is sure to further enhance the innovative capacity of H&R WASAG AG. The division's future R&D will place a primary emphasis on label-free process oils. In recent years, the Group has already achieved technological leadership with regard to label-free plasticisers, a key additive for products such as label-free tyres. This is yet another indication of the growing importance of R&D. As in the past, a special focus will also be placed on the development of wax specialities. The outstanding pace of innovation already achieved in this area, which has significantly boosted sales to customers in the building materials, packaging and foodstuffs industries, is to be ramped up even further.

PRODUCTION OPTIMISATION BOOSTS EFFICIENCY AND SHARE OF PRIMARY PRODUCTS

The second focus of the division's R&D activities will be on the continuous improvement of production processes. For one thing, this will ensure increased efficiency by lowering resource inputs and boosting yields. It will also further enhance the product mix in favour of strategically targeted primary products. Finally, the associated reconfiguration of processes will pave the way for new products.

To accomplish the above measures, H&R WASAG AG employs a small-scale speciality refinery, where innovative or modified production procedures can be simulated and tested on small batches without endangering ongoing operations. During the current reporting year, for example, this small-scale refinery was used to test optimisations of the catalyser system for the hydrogenation reactors, which were to further increase plant throughput and significantly reduce maintenance intervals.

CLOSE COOPERATION WITH UNIVERSITIES AND RESEARCH INSTITUTES

This division's R&D places particular weight on a close collaboration with higher institutes of learning and research institutions. Thus, intensive cooperations are currently underway with universities in Magdeburg (DE), Enschede (NL) and Bangkok (TH), while a key research partnership has been established with the German Institute for Rubber Technology. In addition, graduate students are given targeted support to help find practical applications for their research discoveries, thus also creating relationships with highly qualified individuals who might want to work for the Group in the future.

Plastics. The Plastics Division also bases its research and development on a close collaboration with its customers. On the other hand, these activities are integrated into daily operations, since each special component developed for a customer contains a significant R&D component.

HIGHER MEASUREMENT PRECISION FOR PLASTICS DIVISION

A continuous refinement of measuring procedures plays a key role in fostering the capacity to innovate, since it permits compliance with exacting customer specifications. To this end, the division has deployed the "Metrotom" magnetic resonance tomograph. Able to achieve precision within a range of five to ten nanometres, this instrument not only fulfils an important quality control function, but also contributes appreciably to the creation of innovative tools and to the optimisation of production processes.

A significant driver of innovation is the materials-related R&D, to which the division devotes significant time and expense. Here the focus is on enhancing produced plastics as well as on developing composites from a wide range of materials. During the reporting year, the know-how attained in this field was specifically put to use in the fulfilment of new job orders from the automotive industry. Materials-related R&D has also enabled the increased substitution of metal components with plastic ones, which has in turn led to the acquisition of new customers in a number of industries.

Research and development costs

(in thousand €)

	2008	2007	2006
Research and development costs	1,202	1,147	1,116
Of which, Chemical-Pharmaceutical Raw Materials	852	817	796
Of which, Plastics Division	350	330	320
As % of annual sales	0.12	0.14	0.14

R&D expenses, personnel and key data

NEW RESEARCH LAB COMPLETED AT HAMBURG-NEUHOF IN 1ST QUARTER OF 2009

In response to the growing importance of research and development activities, H&R WASAG AG has decided to significantly increase R&D expense for Chemical-Pharmaceutical specialty products. Thus, the 1st quarter of 2009 saw the completion of a new research laboratory in Hamburg-Neuhof at a cost of €1 million. This also led to an increase in R&D staff from seven to fourteen persons as of the end of 2008. Given the close links between R&D on the one hand and production and sales activities on the other, a large number of additional employees in these two areas also work on the continuous innovation of products and production processes. However, this expanded R&D personnel is not yet reflected in R&D expense for the current reporting year, which rose only slightly (€1.2 million compared to €1.1 million in the prior year). This is because most of the new employees were not hired until the end of the year. Due to the foregoing, as well as to an increase in sales revenues caused mainly by the spike in raw material prices, the R&D ratio fell to 0.12% of sales.

There are no expenses for third parties or licences.

R&D results

A specific portion of the new products as contained in total sales is not quantifiable, due to the individual configuration of most customised products and to the smooth transition between old and new products.

SALES GROWTH THANKS TO CONTINUAL INNOVATION

On the other hand, the sales figures achieved in the reporting year would be unthinkable without continuous innovations in products and production processes. This continuous enhancement of all its products is the very foundation of H&R WASAG AG's ability to realise customer requirements in an effective, precise and reliable manner.

Business development overview: serious setbacks successfully overcome

H&R WASAG ACHIEVES POSITIVE RESULT DESPITE TURBULENT GENERAL SITUATION

Despite an often turbulent environment, H&R WASAG AG was able to end fiscal year 2008 with a positive bottom line. Despite having to make a provision for a possible anti-trust fine amounting to €22 million, the Group achieved earnings before taxes (EBT) of €26.0 million in business year 2007, compared to the prior year's EBT of €73.0 million (including the Explosives Division sold off in 2007). The sharp drop in raw material prices at the end of 2008 led to price-induced inventory effects for the fourth quarter of €29.3 million, even though stocks of raw materials, finished goods and work in progress had been reduced in the course of December 2008. The EBT, as adjusted for the anti-trust fine, amounted to €48.0 million, while the prior year's EBT, after being adjusted for the sale of the Explosives Division, amounted to €59.8 million. This comparison serves to underscore the consistently strong earning power of the Group's operations.

The significant jump in sales revenues, from €797.9 million in the prior year (without Explosives Division: €776.6 million) to a new all-time high of €1,035.2 million, was essentially price-induced, specifically by record lows in the price of crude oil in the course of the year.

This ability to achieve a respectable profit in fiscal year 2008, despite extraordinary encumbrances and an increasingly uncertain environment, can be seen as proof positive that the Group's consistent orientation towards petroleum-based specialty products in the Chemical-Pharmaceutical Raw Materials Division has been a success. Thanks to strategic measures based on its hard-won technological leadership, the Plastics Division was also able to absorb considerable losses from the slumping automotive industry (especially in the last quarter of the reporting year) and still achieve a satisfactory profit.

Macroeconomic background conditions

FINANCIAL CRISIS CULMINATES IN RECESSION

During the reporting year, the financial crunch triggered by the US sub-prime mortgage crisis of the prior year developed into what the International Monetary Fund (IMF) has identified as the worst recession since the 1930s. Starting with

the 2nd quarter of 2008, the markets became even more turbulent. According to the IMF, the global economy was still able to grow by a total of 3.4 percent in 2008 (2007: 5.2 percent), but the real economy could not help being dragged down by the maelstrom of the financial crisis in the second half of the year.

SLOWER GROWTH IN INDUSTRIALISED COUNTRIES

In the US, the gross domestic product (GDP) fell 3.8% in the 4th quarter of 2008, the sharpest decline since 1982. Thus, US economic growth for the entire year declined to a mere 1.1 percent. Accordingly, the growth rate of the industrialised countries amounted to only 1.0% in the reporting year, a significant decline in relation to the prior year (+2.7%). Japan fared even worse, with GDP dropping to 0.3% (previous year: +2.4%). Growth in the Eurozone declined as well, amounting to 1.0% for the reporting year (previous year: +2.6%).

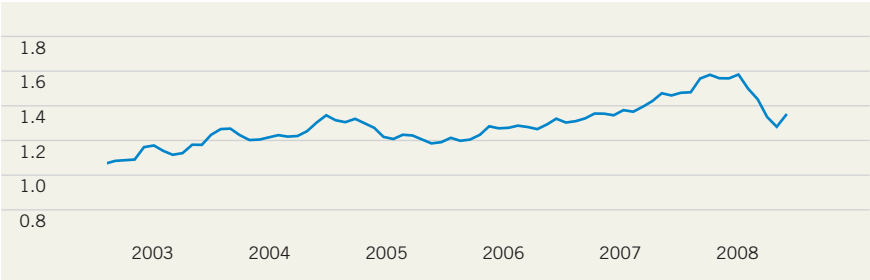
The emerging markets, which used to be the growth drivers of the world economy, also experienced a marked slowdown in their rate of expansion. In China, GDP growth fell below the 10% threshold for the first time in years (9.0% in 2008). The other East Asian and South Asian economies, as well as those in Central and Eastern Europe, saw a similar trend. In the latter region, annual growth fell from 5.4% in 2007 to 3.2% in 2008, in the wake of a particularly bad second half of the year. In 2009, Central and Eastern European GDP may well turn out to be negative.

GERMAN ECONOMY SHRINKS IN 4TH QUARTER OF 2008

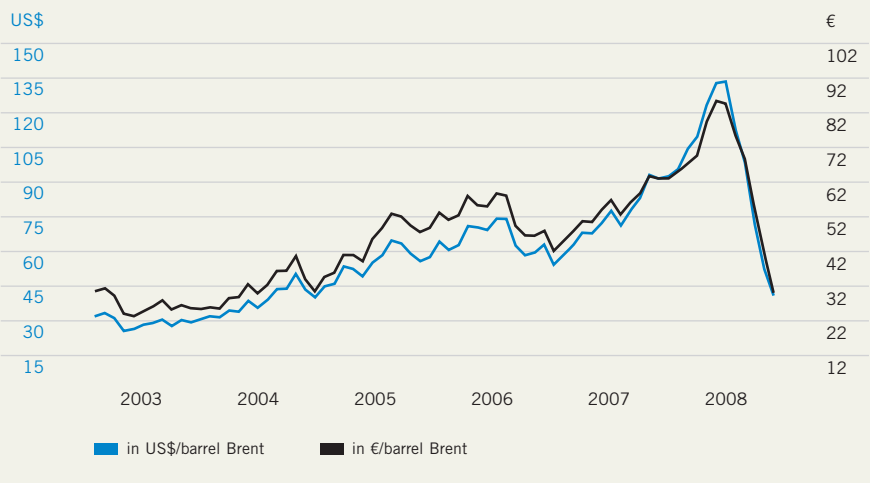
Germany also saw a contraction of GPD, especially during the second half of the year. According to the Federal Bureau of Statistics, it was only thanks to a positive 1st quarter of 2008 that annual growth could be sustained at 1.3% (2007: 2.5%). In the 4th quarter, the German economy is likely to have shrunk by up to 2%, however. The growth achieved in 2008 was due entirely to the domestic economy, whereby private consumption stagnated at the prior year's level. On the other hand, Germany's trade balance (difference between imports and exports of goods and services) proved to be a drag factor, contributing a minus of 0.3%.

The €/US$ exchange rate was characterised by marked volatility during the year. While the euro was still trading at US$ 1.4602 at the start of the year, it had risen to an annual high of US$ 1.6039 by 15 July 2008. After hitting an annual

Currency development 2003 – 2008
(in €/US$)



Oil price development
2003 – 2008



low of US$ 1.2328 only three months later (on 28 October 2008), it then began a gradual recovery. Trading at US$ 1.3917 on 31 December 2008, the euro had suffered a total annual decline of 4.7% versus the US$.

UNPRECEDENTED FLUCTUATIONS IN PRICE OF CRUDE OIL

Fluctuations in the listings of crude oil were even wilder and completely without precedent. During the course of trading on 11 July 2008, North Sea Brent Crude hit a record high of US$ 147.50/barrel, only to fall to US$ 36.20 barrels six months later (on 24 December 2008), a new four-year low. In the wake of the financial crisis, price swings became ever more abrupt, especially in the second half of September, as large financial positions were being unwound. As the crisis began to spread to the real economy and demand for crude oil slumped, the price continued to fall throughout the rest of the year. At the end of 2008, crude oil was trading at US$ 39.50/barrel, or 58% less than only 12 months earlier.

Industry-specific background conditions

OIL INDUSTRY SUFFERS SLUMPING DEMAND

The oil industry was also unable to remain immune to the overall economic trend. In the second half of 2008, demand began to decelerate due to the generally weak global economy as well as increasing uncertainty about where prices where heading at the end of the year.

The main challenge for the entire industry resulted from the dramatic price changes for crude oil-based raw materials which were described on the previous page. Given an eight-week processing time for source materials, as well as the fact that many prices had been locked in over long periods, the oil companies were forced to pass rising raw material costs directly on to their customers in order to remain profitable. Delays in passing on these increased costs led to shrinking profits, though these were at least partially offset during phases of falling raw material prices, when the effect worked in reverse.

In view of the sharp fall in raw material prices and the uncertain economic outlook at year's end, many customers became reluctant to place new orders. This in turn increased the risk that major devaluations would have to be made in year-end inventories, whose volume had risen dramatically.

DECREASING DEMAND FOR PLASTIC COMPONENTS INCREASES MARGIN PRESSURE

For its part, the Plastics Division experienced a sharp reduction in the demand for plastic components in the wake of the slumping automotive industry, especially in the second half of the year. With crude oil prices sometimes reaching record levels, the cost of plastic granulates and purchased parts also rose to extremely inflated levels. Although falling prices brought some relief in the second half of the year, this was more than offset by the margin pressure that accompanied the increasingly cloudy economic outlook.

Major factors influencing business development

NEW SYNDICATED LOAN WITH IMPROVED CONDITIONS

On 7 April 2008, H&R WASAG AG concluded a syndicated loan agreement for up to €300 million with a consortium of 11 banks. This new agreement replaces the old syndicated loan for €170 million and features significantly improved terms and conditions. For the first time, no sureties were required by the banks. (See the section covering "Strategic Financing Measures" on page 47).

On 1 October 2008, the European Commission informed H&R WASAG AG that a collective anti-trust fine had been imposed on the members of an alleged paraffin cartel that supposedly operated in restraint of trade during the period 1994 – 2005. The total fine amounted to €600 million, of which €36 million was to be paid by the Hansen & Rosenthal Group and H&R WASAG AG. Of this amount in turn, the subsidiary H&R ChemPharm GmbH is jointly liable for a sum of €22 million. Despite having entered an appeal against both the amount of the fine and its legal justification, H&R WASAG AG formed a provision covering the €22 million fine, and transferred said amount to the European Commission on 7 January 2009.

The sharp drop in raw material prices entailed a price-induced inventory devaluation for the fourth quarter by €29.3 million.

During the reporting year, the Plastics Division made a two-step increase (from 52% to 83.64%) in its shareholding in GAUDLITZ Precision s.r.o. (Czech Republic), which it had originally acquired in 2007. On 3 April 2008, the division also acquired the remaining interest (49%) in GAUDLITZ Precision Technology (Wuxi) Co., Ltd., in Wuxi (China), in fulfilment of an agreement concluded in 2007.

Share and share price performance

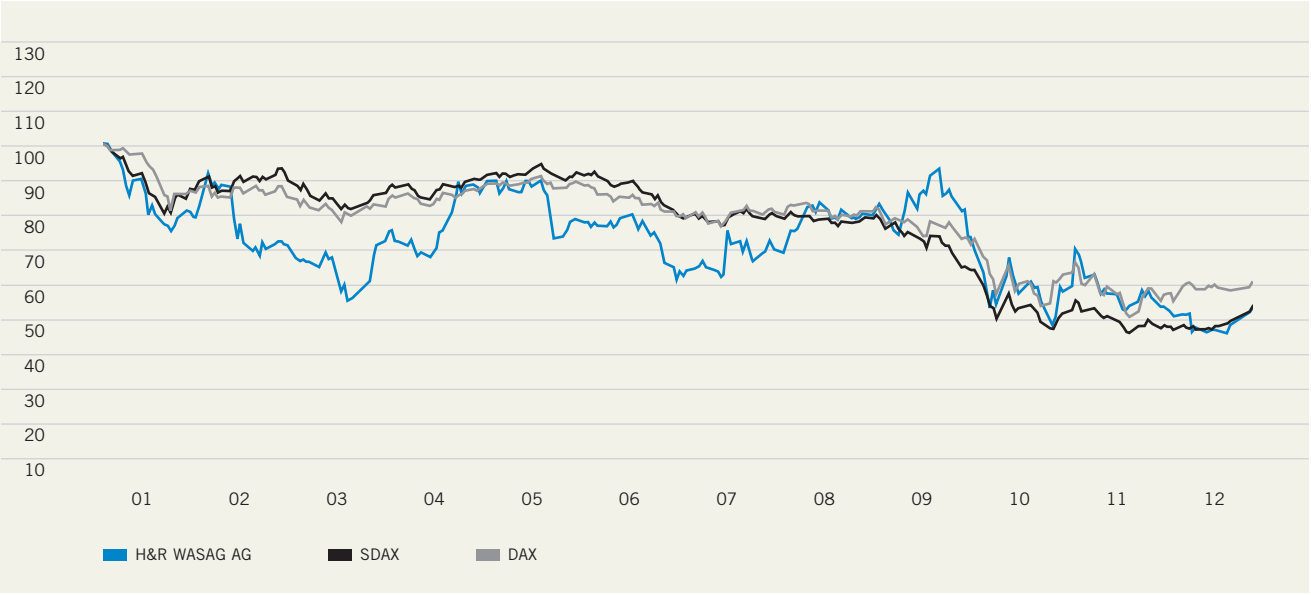
CAPITAL MARKET EXPERIENCES

DRAMATIC CRASH

Under the impact of the ever worsening financial and economic crisis, the capital markets and all the major share indices experienced a massive fall in prices in the year under review. The recessive development of the world economy and the major uncertainty concerning the future economic prospects, but also the sale of securities by institutional investors due to shortages of liquidity all combined to cause the DAX index to fall from 8,067.32 points to 4,810.20 points, i.e. a drop of 40.4%, in the course of the year. With an absolute low for the year of 4,127.41 points on 21 November 2008, the DAX had almost halved from its all-time high on 16 July 2007. The SDAX likewise fell by 46.1% within one year, from 5,191.56 points to 2,800.73 points. The financial and economic crisis also continued unabated at the start of 2009, again adversely affecting the capital markets in its wake. With its closing figure of 3,843.74 points on 27 February 2009, the DAX reached a level last experienced in 2004 and first seen in 1997. The H&R WASAG shares were unable to escape this development and ended the year with its shares on the same price level as in 2004.

Performance of the H&R WASAG ordinary share in comparison with DAX and SDAX

(Indexed, 01/01/2008 = 100)



INCREASED NUMBER OF LISTED H&R WASAG SHARES

Number of listed shares. With the official listing on 27 August 2008 of the ordinary shares converted, by resolution of the Annual Shareholders' Meeting on 24 June 2008, from the 2,650,000 preference shares, the number of ordinary shares listed for trading on the regulated market (ISIN: DE0007757007, WKN: 775700) increased from 27,323,112 to 29,973,112 ordinary shares. The shareholder structure is detailed in the section "Subscribed capital, shareholder structure and dependent company report" (page 32).

Share price performance. The performance of H&R WASAG's shares was no more satisfactory than that of the main indices or the shares of virtually all other companies. Starting from the closing price for the year 2007 of €20.24 (all prices are based on the XETRA electronic trading system), the share lost 46.1% of its value in the course of the year, to close on 30 December 2008 at €10.90. Following an ad hoc announcement on 12 February 2008 correcting the forecasts for 2008 as a result of the worsening in the business operating environment, the price began to fall and reached a figure of €11.30 on 19 March 2008. Borne by an upward trend triggered by the final results for 2007, the share price then rallied, reaching a level of €18.21 on 15 May 2008. Against the background of good half-yearly figures, the H&R WASAG share climbed, with sharp fluctuations, to a price of €19.02 on 22 September 2008, a level not seen since the year's peak. In the wake of the already rapidly deteriorating stock market environment, but also as a result of the anti-trust fine which was announced to the capital market, H&R WASAG's shares fell to their lowest price for the year of €9.25 on 23 December 2008. Following a partial recovery to the aforementioned year-end price of €10.90, our share price tracked the movements on the weak overall market, falling to €7.99 on 27 February 2009.

FUNDAMENTAL DATA FOR H&R WASAG AG REMAINS FAVOURABLE

The difficult environment on the capital market and the short-term negative economic forecast have decisively contributed to this development. Nevertheless, this does not affect the fundamental key data of H&R WASAG AG. The medium-term growth opportunities for our sales and earnings position remain as favourable as before.

Basic data on the H&R WASAG share

ISIN/WKN	DE0007757007 / 775700
Abbreviation	WAS
Type	Nil-par bearer shares
Listings	Official market Frankfurt (Prime Standard), Hamburg and Düsseldorf, freely traded Stuttgart and Munich
Indexes	SDAX, Prime Standard All Share, Classic All Share, Prime Chemicals and Prime IG Chemicals Speciality
Designated Sponsors	Concord Investmentbank AG (until February 2009) HSBC Trinkaus & Burkhardt KGaA (until December 2008) WestLB AG (until December 2008) Clothes Brothers Seydles Bank AG (since January 2009)

Market capitalisation and stock exchange turnover. With the fall in the share price, the market capitalisation has also experienced a sharp drop. While at the end of the year 2007, based on the 27,323,112 shares listed at the time, market capitalisation still stood at €553.0 million, even with the 29,973,112 shares following conversion of the preference shares into shares, it amounted on 31 December 2008 to only €326.7 million.

Because of the even poorer performance of other shares included in the SDAX index, H&R WASAG's shares climbed in terms of market capitalisation to 69th place (2007: 78th) in the joint MDAX and SDAX rankings issued by Deutsche Börse.

In the year 2008, a total of 14.6 million H&R WASAG shares were traded on the stock exchange at an average price of €14.94, equivalent to a total turnover of €218.1 million. In the index ranking issued by Deutsche Börse for stock exchange turnover, therefore, H&R WASAG's shares stood in 77th place (previous year: 66th).

SDAX LISTING OF H&R WASAG ON A SOLID FOUNDATION

Accordingly, by the two important criteria of market capitalisation and stock exchange turnover, H&R WASAG AG holds a mid-field position among other SDAX shares in the Deutsche Börse index rankings. The company thus continues to hold a firm place in this reference index.

The share in figures
(2005 – 2008)

	2008	2007	2006	2005
Number of shares on 31 December	29,973,112	29,973,112	27,323,112	18,916,000
of which ordinary shares	29,973,112	27,323,112	27,323,112	18,916,000
of which preference shares	—	2,650,000	—	—
Earnings per ordinary share	€1.13[4]	€1.72	€1.54	€0.37
Highest price in the year[2]	€21.11	€42.07	€40.68	€10.79
Lowest price in the year[2]	€9.25	€17.21	€10.68	€7.63
Closing price on 31 December[1]	€10.9	€20.24	€38.38	€15.20
Performance (without dividend)[2]	–46.1%	–47.3%	+152.5%	+26.7%
Market capitalization on 31 December[3]	€326.7m	€553.0m	€1,048.7m	€287.5m
Dividend	€0.40[5]	€0.80	€0.70[6]	€0.30
Dividend return	3.7%[5]	4.0%	1.8%	2.0%
Average daily trade volume[1]	€858,875.00	€2,138,659.00	€1,747,272.00	€162,740.00

[1] Ordinary shares
[2] Adjusted for capital increase 2006
[3] Refers to year-end price of ordinary shares
[4] An adjustment to reflect the provision for the cartel fine reduces the earnings per ordinary share by €0.74.
[5] Proposed dividend
[6] incl. €0.10 bonus

Comparison of actual business development with last year's forecast

SALES TARGET ACHIEVED – INCOME FORECAST MISSED DUE TO UNFORESEEN EVENTS

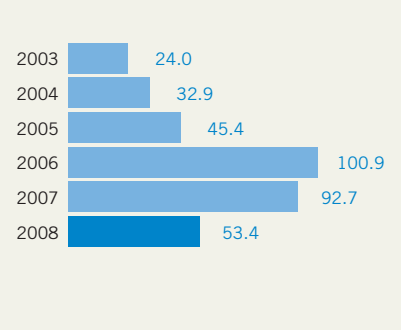
With an actual figure of €1.0 billion, H&R WASAG AG once again fully succeeded in matching its sales forecast in the year under review. In the case of earnings before tax (EBT), however, the final result failed to meet the figure of €50 million – €60 million forecast at the start of the year. One of the main reasons for this was the unanticipated anti-trust fine of €22 million imposed for matters lying far back in the past, to take care of which the Executive Board created a provision in an amount of €22 million. In its ad hoc announcement published on 5 November 2008 following the decision to create the provision for the anti-trust fine, the Executive Board believed that, while there was nothing to be done about the provision for the fine, the good results from the operating business would be able to make up for the probably required devaluation of the inventories in the fourth quarter. However, as the fall in crude oil prices experienced a further dramatic acceleration up to the end of the year, there was no alternative but to write the value of the inventories down still further, the actual figure fell short of the original assumption by €2 million.

ASSET, FINANCING AND EARNINGS POSITION

Earnings position

Development of earnings

Operating result
2003 – 2008
(EBITDA in € m)



The operating Group result (EBITDA: earnings before interest, taxes, depreciation and amortisation) of H&R WASAG AG in fiscal year 2008 amounted to €53.4 million (previous year: €92.7 million), which during the reporting year was encumbered by the provision for a possible anti-trust fine of €22 million. Since the fine was imposed for alleged cartel activities during the period 1994 – 2005 (i.e. a period of time unrelated to the current operating business), one should factor the anti-cartel fine out of EBITDA in order to gain a clear picture of the current operating situation. Thus, if one compares the adjusted EBITDA for 2008 of €75.4 million with the prior year's EBITDA of €78.9 million (adjusted for the sold-off Explosives Division), earnings only declined by €3.5 million (–4.4%). Following the positive inventory effects in the first three quarters, the fourth quarter saw a price-induced reduction of the refinery inventory values of €29.3 million due to the sharp drop in raw material prices at year's end.

The higher depreciation resulting from increased investment further reduced Group earnings before interest and taxes (EBIT), from €79.2 million to €37.1 million. After factoring in all adjustments, however, the decline was actually smaller: from €65.4 million to €59.1 million.

HIGHER WORKING CAPITAL DURING YEAR INCREASES INTEREST EXPENSE

During the course of the year, working capital often experienced dramatic increases, while interest rates tended to be slightly higher than in the prior year. Both these factors resulted in higher interest expense and a resulting decrease in the net interest result. This in turn caused a disproportionate decline in earnings before taxes (EBT) from €73.0 million to €26.0 million. After adjusting for the anti-trust fine and the 2007 sell-off of the Explosives Division, EBT sank from €59.8 million to €48.0 million. Based on these last figures, the pre-tax margin fell from 7.7%

to 4.6%. Based on the unadjusted numbers, however, the margin fell from 9.1% to 2.5%.

ADJUSTED INCOME BEFORE MINORITY INTERESTS DROPS TO €33.8 MILLION

Since prudence dictated that the provision for the anti-trust fine be treated as a non-tax-deductible item, the result was a particularly high tax burden for the Group. Thus, the income before minority interests fell from €51.6 million to €11.8 million. After adjusting for the anti-trust fine and the Explosives Division, the income before minority interests declined from €39.3 million to €33.8 million.

With the Plastics Division's acquisition of the outstanding shares of a Chinese subsidiary, the pro-rata losses previously assumed by the joint-venture partner were fully allocated to H&R WASAG AG in the reporting year. The Group result after minority interests (income to shareholders of H&R WASAG AG), sank from €52.0 million to €11.7 million. After adjusting for the anti-trust fine and Explosives Division, earnings after minority interests declined from €39.7 million to €33.7 million. Due to the lower Group result, earnings per share also declined: from €1.72 to €0.39 (unadjusted earnings per share) and from €1.31 to €1.13 (adjusted earnings per share), respectively.

After paying out a large dividend in the prior year (€0.80 per share), the Executive Board decided to propose a reduced dividend of €0.40 at the Annual Shareholders' Meeting. This was in response to the difficult environment and the extraordinary encumbrances against earnings during the reporting year. Upon adoption by the Annual Shareholders' Meeting, the total dividend payout would amount to €11,989,244.80, compared to €24,190,489.60 in the prior year. Based on the XETRA closing price of ordinary shares on 31 December 2008, this yields a dividend return of 3.7%.

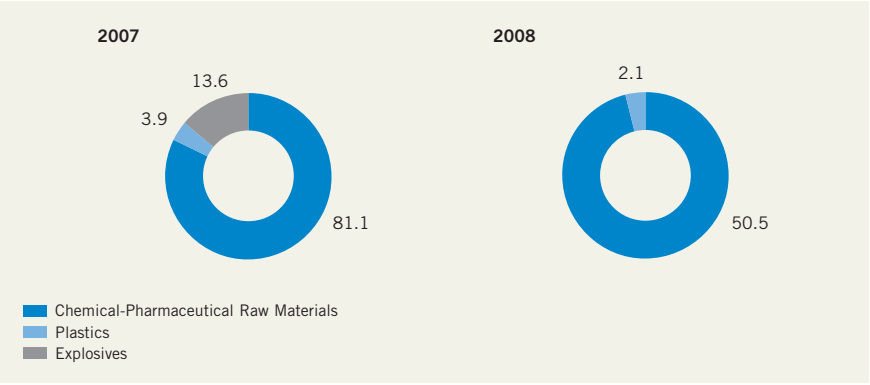
Result of the H&R WASAG Group

(in € m)

	2008[1]	2007	Changes in %
Operating result (EBITDA)	75.4	92.7	–18.7
EBIT	59.1	79.2	–25.3
Earning before taxes	48.0	73.0	–34.2
Income before minority interests	33.8	51.6	–34.6
Income to shareholders of H&R WASAG AG	33.7	52.0	–35.1
Earnings per ordinary share	1.13	1.72	–34.3
Return on equity in %	18.0	29.8	–11.8% points
Return on assets in %	13.7	19.9	–6.2% points
Return on Capital Employed (ROCE) in %	17.8	30.2	–12.4% points

[1] 2008 key figures are adjusted for the provision relating to the anti-trust fine

Operating result by divisions
(EBITDA in € m)



The Chemical-Pharmaceutical Raw Materials Division. With operating earnings (EBITDA) of €50.5 million (previous year: €81.1 million), the Chemical-Pharmaceutical Raw Materials Division increased its share of the Group operating result to 95% in the reporting year (previous year: 87%). Without the provision for an anti-trust fine of €22 million the operating income would have been €72.5 million, which would have meant a mere €8.6 million less than in the previous year. Earnings in the reporting year were also encumbered by production downtime owing to the capacity expansions undertaken at the Hamburg and Salzbergen refineries. The ability of the Chemical-Pharmaceutical Raw Materials Division to make a profit despite these encumbrances clearly confirms the effectiveness of the strategy selected: a focus on crude oil-based specialty products. Investments made in recent years to expand capacity and increase productivity have also served to boost the operating earning power of this core business sector.

INTERNATIONAL ACTIVITIES YIELD BETTER OPERATING RESULT (EBITDA)

The Group's operating earnings (EBITDA) from international business amounted to €14.7 million, once again surpassing the positive result of the prior year (€13.1 million). This positive trend was driven mainly by robust demand in the first three quarters of the fiscal year. By contrast, the 4th quarter of 2008 was dampened by the crash in the global economy and the resulting decline in demand, as well as by the inventory devaluation made necessary by falling oil prices. The Asian business once again produced highly satisfactory results in the reporting year, with innovative products such as label-free plasticisers playing a key role in doubling the operating income. Asia now accounts for more than 40% of the operating earnings derived from international business. Significant improvements and definite profitability were also achieved by the Group's foreign subsidiaries in the Czech Republic, the Netherlands, Great Britain and Australia. In South Africa,

however, the operating improvements achieved in the consolidated financial statements were not able to offset the weak performance of the South African rand. All the same, operating earnings of over €3 million were attained in South Africa.

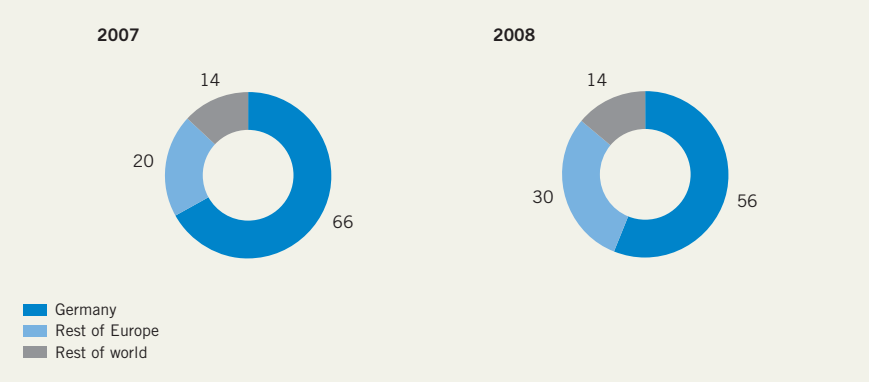
PLASTICS DIVISION'S RESULT AFFECTED BY WORSENING ECONOMY

Plastics Division. Especially at year's end, orders from the automotive industry began to dry up, causing the operating earnings (EBITDA) of the Plastics Division to decline from €3.9 million to €2.1 million. A tougher competitive situation in the wake of the worsening economy also served to heighten margin pressure. In China, the division again posted a slightly higher deficit, due to the flagging economy as well as the cost of restructuring undertaken after the acquisition of the remaining shares of the Wuxi subsidiary. In the Czech Republic, significant business growth led to an outstanding improvement in operating earnings, so that this foreign subsidiary, which is of key importance for the East European Market, posted only a small deficit, one within the target range.

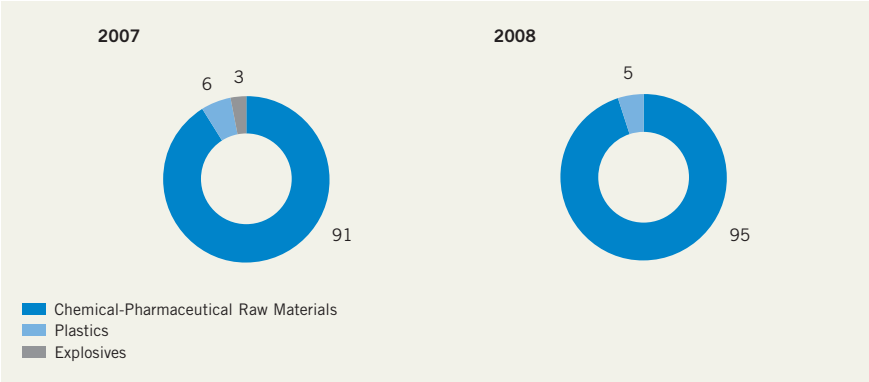
Sales trend

With Group sales of €1,035.2 million in the reporting year (2007: €797.9 million), H&R WASAG AG was able to surpass the 1-billion mark for the first time. Although this represents an increase of no less than 29.7% over the prior year, it was due in great part to often record-high prices of raw materials during the year, which were passed on in the form of higher sales prices.

Group sales by geographical area
(in %)



Sales by divisions
(in %)



In the reporting year, the Chemical-Pharmaceutical Raw Materials Division delivered elevated volumes of sideline products to European countries other than Germany, due to extraordinary transactions limited in duration to the current fiscal year. Thus, the domestic market's otherwise stable share of sales declined versus the prior year from 66% to 56%, while the corresponding share of the remaining European countries rose from 20% to 30%. Our strong market position in Germany is based on the excellent marketing capacity of our long-time cooperation partner, the Hansen & Rosenthal Group. One should note, however, that according to Hansen & Rosenthal roughly 45% of the sales processed via their company are achieved outside Germany but statistically booked as domestic sales.

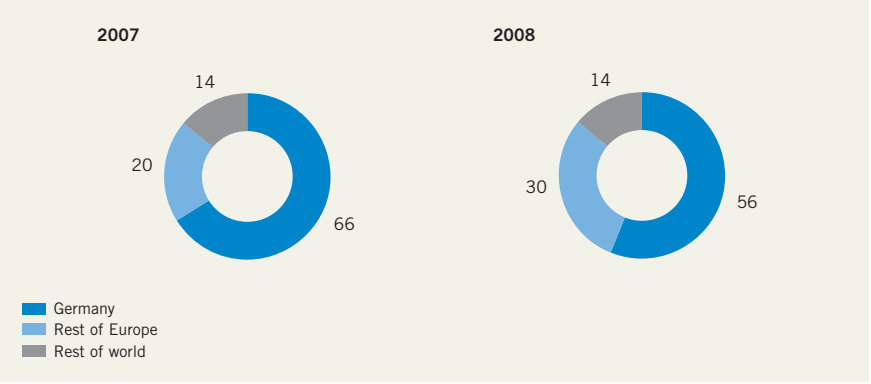
As in the prior year, Non-European markets accounted for 14% of Group sales. In this context, the Asian markets contributed particularly good results.

CHEMICAL-PHARMACEUTICAL RAW MATERIALS DIVISION SETS NEW SALES RECORD

The Chemical-Pharmaceutical Raw Materials Division. In 2008, average annual prices of raw materials reached record highs. Thanks to sustained and successful marketing efforts, these could be passed on in the form of higher sales prices during the year. Due to this trend, the core business sector of Chemical-Pharmaceutical Raw Materials was able to increase its sales by 35.4% from €729.3 million to €987.6 million. Thus, a full 95.4% of Group sales was derived from the Chemical-Pharmaceutical Raw Materials Division (previous year: 91.4%; after adjustment for the Explosives Division: 93.9%). Assuming that raw materials prices will be less volatile in the future, this level is unlikely to be sustainable for 2009.

A considerably smaller portion of the sales increase was attributable to raised sales volumes of raw materials and sideline products. The slight drop in the volume

Sales by region in the Chemicals-Pharmaceutical Raw Materials Division
(in %)



of chemical-pharmaceutical specialty products sold by the German refineries from about 611,000 tonnes to about 573,000 tonnes resulted from the scheduled refinery downtime at the two German locations within the context of "Project 40".

INTERNATIONAL SALES GROWTH ALSO DUE TO VOLUME GROWTH

The foreign sales growth achieved by the Chemical-Pharmaceutical Raw Materials Division was also driven by the higher sales prices associated with more expensive raw materials. Another driver was significant volume growth thanks to the internationalisation strategy, particularly with respect to technically sophisticated products such as label-free plasticisers.

In England, additional sales were generated from a licensing agreement with an American partner for the production of innovative and specialised construction materials. This production under license is to be extended to the Asia-Pacific region as of 2009. In addition, a toll manufacturing agreement for the production of cable filler was successfully concluded.

The problems encountered in the prior year when procuring raw materials from a third-party refinery in South Africa were resolved in the reporting year, so that sales volumes and revenues increased markedly. We were also able to boost our production capacity of vaseline for the pharmaceutical and medical technology industries in this territory by 50%. In addition, we were able to once again boost sales in Australia.

ASIAN LOCATIONS GROW BY 65%

Especially strong growth of 65% was achieved by the Asian locations during the reporting year. The main drivers of this growth were the rapidly expanding volume of plasticisers sold to the rubber and tyre industry, and above all the increasing share of sales attributable to environmentally friendly, label-free plasticisers. By contrast, the Malaysian "Batu Caves" location was unable to meet its sales targets in the reporting year. However, we are confident that the restructuring measures already taken, coupled with the introduction of new products in the specialised construction materials category, will help this location revitalise its sales.

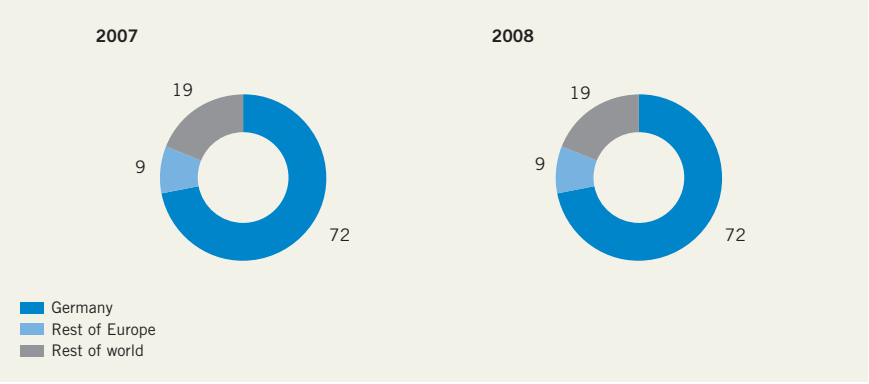
Our service business offering the mixing/bottling of lubricants also performed positively during the reporting year.

LOW SALES GROWTH FOR PLASTICS DIVISION

Plastics Division. Weakness in the automotive industry, the most important customer segment of the Plastics Division, led to a slump in demand. Thus, sales growth was minor and below expectations (0.7% from €47.3 million to €47.6 million). The Coburg location, which once again made the single greatest contribution to sales by far, even experienced a slight reduction (€44.4 million to €43.2 million), due to the unfavourable general situation.

By acquiring the remaining shares of the Wuxi/China subsidiary, the Plastics Division gained better control over the management of this particular operation. As a result, sales were increased from €2.8 million to €3.9 million. The joint venture in Dačice (Czech Republic), which was set up during the prior year, attained its first scheduled sales target of €0.5 million during its launch phase in the reporting year. This location, with its lower production costs, is to focus on supplying East European customers.

Sales by region in the Plastics Division
(in %)



Trend in order volume

The volume of orders received in fiscal year 2008 was once again decidedly positive. In the Chemical-Pharmaceutical Raw Materials Division, the healthy volume of orders was attributable to the domestic sales achieved via our marketing partner, the Hansen and Rosenthal Group, as well as by our own international sales efforts.

STABLE DEMAND FOR CHEMICAL-PHARMACEUTICAL RAW MATERIALS

The vigorous inflow of orders is reflected by the capacity utilisation of the refineries in 2008. Except for the month of December and a short time earlier this year, when "Project 40" caused some downtime, all the plants were fully utilised.

In the first two quarters of the fiscal year, raw materials costs rose steadily and could be passed on to customers only in a delayed fashion. Thus, the positive volume growth achieved was not fully reflected in key earnings figures. The price trend reversed itself in the 3rd and 4th quarter, so that the sales force was able to boost margins.

In order to pass rising raw materials costs on to the customer more rapidly in the future and to better respond to the increasingly volatile crude-oil markets, H&R WASAG AG is steadily shortening the duration of price agreements with customers. Thus, agreements with a term of more than one month will only be concluded in exceptional situations.

REDUCTION IN ORDERS FOR PLASTICS DIVISION

In the Plastics Division, the trend of order volume was negatively impacted by the turbulence in the global economy, especially in the key automotive industry. Nonetheless, all divisions were able to generate new orders for the Group's innovative production and processing technology, which can be used for applications such as gearing, lead frames, inlaying and assembly. A number of promising orders were also secured in the medical technology field. For example, the division was commissioned with the production of laboratory technology components as well as various dentistry materials.

At year's end, overall order volume had fallen from €29.0 million to €21.5 million.

The global recession is clearly increasing competitive and margin pressures. H&R WASAG AG intends to fight back with additional innovations in its processing and production technology, and by further diversifying its target industries.

Development of key income statement items

Other operating income declined from €32.5 million to €26.1 million. It should be noted, however, that the prior year's number includes a €16.4 million gain on deconsolidation from the sell-off of the Explosives Division. If we disregard this extraordinary gain, other operating income actually rose by €10.0 million in the reporting year. This was mainly due to two items: 1) Foreign currency gains increased by €6.1 million to €10.1 million; however these were offset on the "other operating expense" side by a €7.1 million increase in foreign currency losses to €13.8 million. 2) Other operating income rose from €6.0 million to €9.3 million. The main reason for this increase was the conversion of preference shares into ordinary shares in accordance with IFRS. This in turn caused the liquidation of an "other liabilities" item in the amount of €2.2 million (for future preferred dividends payable), which had been posted to the 2007 financial statements and applied against earnings.

FINISHED GOODS/WORK IN PROGRESS INVENTORIES RISE SLIGHTLY BY €5.4 MILLION

Owing to the reporting date of the prior year, inventories of finished goods and goods in progress had fallen to extremely low levels in the wake of scheduled production downtime due to the "Project 40" at the Hamburg refinery. By the end of 2008, the quantities of finished goods and work in progress had returned to normal. However, the monetary value of these inventories rose by only €5.4 million, since raw materials prices at the end of 2008 were lower than at the end of 2007.

The dramatic increase in the annual average cost of raw materials costs was reflected in the surge of materials expense from €550.3 million to €825.2 million. Personnel expense, on the other hand, fell from €78.0 million to €62.7 million. If we factor out the sell-off of the Explosives Division, we arrive at personnel

Development of key income statement items

(in € m)

	2008	2007	2006	2005	2004
Sales	1,035,186	797,853	816,817	650,073	497,069
Other operating income	26,059	32,488	22,690	26,557	19,243
Changes in inventories	5,363	–12,168	29,937	7,644	–221
Material costs	–825,214	–550,286	–572,787	–471,096	–333,509
Personnel expenses	–62,713	–78,032	–92,651	–78,409	–69,949
Depreciation and amortisation	–16,254	–13,558	–16,911	–17,353	–16,438
Other operating expenses	–125,383	–97,156	–102,154	–89,555	–79,723
Income from operations	**37,044**	**79,141**	**84,941**	**27,861**	**16,472**
Financial result	–11,000	–6,142	–9,940	–8,913	–6,628
Earnings before taxes	**26,044**	**72,999**	**75,001**	**18,948**	**9,844**
Taxes on earnings and income	–14,271	–21,358	–29,422	–8,063	–2,332
Income before minority interests	**11,773**	**51,641**	**45,579**	**10,885**	**7,512**

expense for the prior year of €70.9 million, i.e. a reduction during the reporting year of €8.2 million. This decline, despite an expansion of the workforce, was due to significantly lower Executive Board remuneration as well as a marked reduction in profit-sharing distributions to employees.

MAJOR INVESTMENTS IN RECENT YEARS INCREASE DEPRECIATION

The considerable investments of recent years were reflected in a €2.7 million rise in depreciation from €13.6 million to €16.3 million. Other operating expense also increased significantly, from €97.2 million (after adjustment for the Explosives Division: €89.4 million) to €125.4 million. This was partially attributable to the €7.1 million increase in foreign currency losses alluded to earlier, but above all to the formation of a €22 million provision to cover an anti-trust fine.

Due to the increases in working capital necessitated by rising raw materials costs during the reporting year, the net interest result fell from €–6.2 million to €–11.1 million. For the sake of prudence, the provision for the anti-trust fine was treated as a non-tax-deductible item, which in turn led to a higher tax rate for the Group. Thus, tax expense only fell from €21.4 million in the prior year (after adjustment for the Explosives Division: €20.5 million), to €14.3 million.

Financial position

Principles and objectives of financial management

CENTRALISED FINANCIAL MANAGEMENT

The financial management of the H&R WASAG Group is centrally organised for all the operating companies through the parent. All investment projects are reviewed regularly in the context of short, medium and long-term investment planning, and on the basis of detailed ROI calculations. In order to harmonise earnings, we strive towards a yield-promoting capital structure by deploying a corresponding amount of borrowed capital. At the same time, we attach equal importance to securing reliable, long-term financing.

Fluctuations in raw materials prices can quickly lead to significant increases in committed working capital. This higher liquidity requirement is financed by short-term bank borrowing, unless it is already covered by the increased operational cash flow. Since crude oil prices have reached historically unprecedented levels, specifically in the reporting year, we believe it will be increasingly important to maintain an adequate liquidity buffer to secure working capital requirements. This will also include obtaining sufficient external financing. The investments planned by H&R WASAG AG will require considerable liquidity. These projects, too, will be primarily financed from current cash flow and borrowed capital. The new syndicated loan (see the section on "Strategic Financing Measures", on page 47 of the annual report) agreed in the reporting year will specifically serve to achieve both of the above objectives.

POSSIBLE USE OF DERIVATIVES REVIEWED CONTINUALLY

Financial management during the year is primarily dealing with certain risks associated with fluctuations in raw materials prices, interest rates and currency exchange rates. To this end, systematic risk management is being implemented. In addition, hedging transactions are being used in certain sub-areas. For example, cash flow hedges were put in place for the old syndicated loan (replaced by a new loan in April 2008), so as to mitigate the effects of interest rate changes. We have not yet entered into any derivative transactions with regard to the new syndicated loan, given the current interest rate outlook. However, we will continue to monitor the situation and, if needed, lock in interest rates at favourable levels.

Derivative financial instruments are employed for currency hedging only to a minor extent and only over the short-to-medium term. All in all, the Group follows a deliberately conservative policy regarding the use of derivatives.

So far, no such derivative instruments have been used to hedge against fluctuations in crude oil prices, since there is as yet no way to hedge the price delta between raw materials and their corresponding end products.

The Executive Board reviews the costs, risks and opportunities associated with hedging instruments on a regular basis. Thus far, however, the Board has decided against employing derivatives to hedge crude oil prices. No change in this policy is expected at present.

Financing, investment and liquidity analysis

In fiscal year 2008, the cash flow statement (page 123 of the annual report) was once again heavily impacted by the investments associated with "Project 40".

OPERATING CASH FLOW FALLS TO €16.0 MILLION

The cash flow from ongoing operating activities declined to €16.0 million in the reporting year (previous year: €39.6 million). The lower period result of €37.1 million (previous year: €79.2 million; adjusted for the Explosives Division: €65.4 million) contained a provision for the anti-trust fine which did not affect the cash balance and was not reflected in the cash flow. Due to this provision and to the provisions for the employee profit-sharing being smaller owing to the annual result, the short-term provisions increased slightly by €8.3 million (previous year: +€6.3 million). Inventories, trade accounts receivable, and other assets not attributable to investing and financing activities increased by €3.6 million (previous year: €11.9 million). Here, the inventory devaluations were accompanied by a stockpiling which in terms of volume was back to normal, while in the previous year the stock quantity had been considerably reduced owing to the scheduled refinery downtime in Hamburg. Lower crude oil prices at year's end caused a reduction in trade liabilities and other liabilities of €14.7 million (previous year: increases of €0.9 million). The decline in tax payments from €25.6 million to €15.3 million also had a positive effect on the operating cash flow. On the other hand, increases in working capital above annual average caused interest payments to rise to €8.4 million (previous year: €4.0 million).

Cash flow statement – summary
(in € m)

	2008	2007	2006
Cash flow from operating activities	16.0	39.6	59.2
Cash flow from investing activities	–44.9	6.2	–25.9
Cash flow from financing activities	30.2	–44.3	–32.8
Financial resources as of 31/12	14.4	14.8	13.7

The extensive investment activities largely contributed to the cash outflow amounting to €44.9 million, whereas the previous year due to the disposal of the Explosives Division had resulted in a cash inflow of €6.2 million. In 2008, the currency conversions accounted for +€0.2 million and another cash inflow of €1.6 million was attributable to the last payments received in 2008 for the sold-off division.

€47.1 MILLION IN INVESTMENTS UNDERSCORES GROWTH STRATEGY

H&R WASAG AG's total investments for the reporting year (modernisation and especially improvements in efficiency and production capacity) amounted to €47.1 million (previous year: €60.2 million). Due to increased depreciation of €16.3 million (previous year: €13.6 million) and additional, minor disposals with a residual value of €385k (previous year: €22k), the net investment volume declined to €30.4 million (previous year: €46.6 million). The fact that investments for the year still significantly exceeded depreciation is characteristic for the consistent strategic pursuit of a course for growth based on crude oil-based specialty products.

Net investment volume
(in € m)

	2008	2007	2006
Investments	47.1	60.2	28.4
– Depreciation	16.3	13.6	16.9
– Disposal of assets	0.4	0.0	1.1
Net investment volume	**30.4**	**46.6**	**10.4**

At €45.5 million (previous year: €53.1 million), the largest share of investments was attributable to the Chemical-Pharmaceutical Raw Materials Division. Of this, a total of €9.3 million went towards the capacity expansions of "Project 40". These capacity expansions involved the solvent refining and deparaffinisation equipment at the Salzbergen site, and the vacuum distillation and tank storage equipment at the Hamburg-Neuhof site.

Additional investments at the Salzbergen refinery comprised the creation of extra tank capacity (€3.2 million), a number of smaller ancillary improvements, as well as measures to expand lubricant-related operations. The latter included a loading and unloading facility for tank wagons (€6.4 million) and a new storage unit for additive components (€2.9 million).

In Hamburg-Neuhof our staff constantly worked on the most diverse components in a targeted fashion. Besides Project 40, major investment sums were attributable to the construction of a flotation system for wastewater treatment (€1.4 million) as well a pontoon bridge for the efficient loading/unloading of tanker vessels (€1.3 million).

Investments in the Plastics Division amounted to €1.5 million (previous year: €2.0 million) in the reporting year. Of this, €0.7 million involved various investments for the Chinese subsidiary. At the Coburg location, investments included a clean room for the production of disposable products for the Medical Technology and Consumer Healthcare Divisions, plus optimisation software for the increasingly important measuring room.

CASH FLOW FROM FINANCING ACTIVITIES IS €30.2 MILLION

Financing activities generated a cash inflow of €30.2 million (previous year: €–44.3 million) in fiscal year 2008. Total dividends rose from €19.1 million to €24.2 million. Cash outflows from financial loan redemptions in the amount of €128.9 million primarily involved the replacement of the old syndicated loan. These payments were significantly overcompensated by cash inflows from taking out loans in the amount of €184.0 million, so that the balance showed an inflow of €55.1 million (previous year: €–43.0 million).

The total cash inflow from operations and from the financing activities associated with the new syndicated loan exceeded the cash outflow from investment activities. Following a currency translation-related change in the amount of €–1.8 million, financial resources at year's end fell slightly from €14.8 million to €14.4 million.

Together with the additional borrowed capital available, this will ensure that the required liquidity is available on a long-term basis.

In the context of Group financing, H&R WASAG AG also uses financial instruments (see Note (38) in the Appendix, page 184–192). Contingent liabilities are reported in the notes in Note (40).

H&R WASAG AG makes use of financing and operating leasing. The corresponding details are set forth under Item No. 6 (Fixed Assets) of the Leasing section of the Appendix (page 147–149), and in Note (41) "Other Financial Obligations" (page 194). No other off-balance-sheet financing instruments are used.

Authorisations for capital measures

The Executive Board has various options for implementing capital measures.

2007 APPROVED CAPITAL COMPRISES €34.0 MILLION

As per article 4, para. 4 of the Articles of Incorporation, the Executive Board is authorised, subject to Supervisory Board approval, to increase the issued share capital of the Group by up to €34,000,000 via one or more issues of no-par-value bearer shares against payment in cash or in kind, at any time until 18 July 2012. Also subject to approval of the Supervisory Board, the Executive Board is authorised to determine the terms and conditions of the issue (Approved Capital 2007). The

shareholders are to be granted stock options. However, the Executive Board has the right, again with the approval of the Supervisory Board, to exempt odd-lot amounts from the subscription rights of shareholders. The Executive Board is also authorised, with the approval of the Supervisory Board, to exclude shareholders from stock options in the event of capital increase against contributions in cash if the par value of the new shares does not exceed 10% of the existing capital stock at the time the authorisation comes into force, or 10% of the existing issued share capital at the time the new shares are issued, and the issue price of the new shares is not significantly below the market price as defined by article 186, para. 3, sentence 4 of the German Stock Corporation Act (German Stock Corporation Act (AktG)).

The Executive Board is also authorised, with the approval of the Supervisory Board, to exclude shareholders from stock options if the capital increase against contributions in kind is carried out for the purpose of acquiring companies or participating in companies, or to the extent that the exclusion of stock options is required in order to give the owners of the company options for the quantity of convertible bonds or loans or warrants still to be issued, to which they would be entitled after exercising their option or conversion rights.

2006 APPROVED CAPITAL OF OVER €1.0 MILLION AUTHORISED FOR ISSUANCE OF EMPLOYEE SHARES

In addition, the Executive Board has the right, subject to the approval of the Supervisory Board, to increase the issued share capital by up to €1,000,000 via one or more issues of no-par-value bearer shares, against payment in cash, for purposes of issuing employee shares to personnel of the Group and/or its affiliates at any time until 27 June 2011. Also subject to Supervisory Board approval, the Executive Board is authorised to determine the terms and conditions of the issue (Approved Capital 2006). Here, the shareholders are excluded from stock options.

Issued share capital is conditionally increased by up to €7,500,000 via issuance of up to 2,933,745 of no-par-value bearer shares (Conditional Capital 2006). The conditional capital increase will only be carried out where the bearers of convertible and/or option bonds which have been issued against cash until 27 June 2011 by the company or its direct or indirect domestic subsidiaries on the basis of the authorising resolution passed by the Annual Shareholders' Meeting on 28 June 2006, make use of their conversion or option rights, or the bearers of convertible bonds obliged to convert fulfil their obligation to convert, and to this extent no treasury shares are used to service the operation. The new shares participate in profits from the beginning of the financial year in which they are created through conversion or option rights being exercised or conversion obligations being fulfilled. The Executive Board is authorised, with the approval of the Supervisory Board, to determine further details concerning the conditional capital increase and its execution.

2008 SHAREHOLDERS' MEETING RENEWS AUTHORISATION FOR SHARE REPURCHASING

By resolution of the Annual Shareholders' Meeting on 24 June 2008, the Group is authorised, as per article 71, para. 1, no. 8 of the German Stock Corporation Act (AktG), to repurchase its own bearer shares at any time until 23 December 2009. The foregoing authorisation is subject to the proviso that any shares thus repurchased by the Group, along with any other shares already purchased and still owned by the Group (or attributable to the Group as per articles 71d and 71e AktG), may at no time exceed a calculated portion of 10% of the issued share capital. The Group is not entitled to perform such repurchases for the purpose of trading in its own shares. The foregoing right may be exercised once or repeatedly, wholly or in part, by the Group and/or its affiliates, and/or by third parties acting for the account of the Group and/or its affiliates.

At the discretion of the Executive Board, shares may be repurchased via a stock exchange, via a public offer to purchase and/or a public solicitation to sell directed at all shareholders.

Insofar as shares are repurchased via a stock exchange, the amount per share (not including acquisition costs) paid by the Group must not be more than 15% above or below the average closing price of comparably configured Group shares, as quoted by XETRA (or a successor system) during the last five trading days of the Frankfurt Stock Exchange before the purchase obligation is entered into. Insofar as the comparably configured shares are only traded on an unofficial, regional stock exchange, the amount per share (not including acquisition costs) paid by the group must not be more than 15% above or below the average closing price of comparably configured Group shares, as quoted during the last five trading days of said unofficial regional market before the purchase obligation is entered into.

Insofar as shares are repurchased via an offer to purchase and/or a public solicitation to sell, the Group shall set the purchase price or the purchase price range. Insofar as a purchase price range is set, the final price per share will be derived using the offer acceptances and/or sales offers submitted. The offer and/or solicitation may provide for an acceptance deadline, for various conditions, and/or the option to adjust the purchase price range before the acceptance deadline, if significant price fluctuations occur during the period after a formal offer is made but before the acceptance deadline. The purchase price or the ceiling/floor of the purchase price range per share must not be more than 20% above or below the average closing price of comparably configured Group shares, as quoted by XETRA (or a successor system) during the last five trading days of the Frankfurt Stock Exchange before the corresponding offer to purchase (or solicitation to sell) is made. Insofar as the comparably configured shares are only traded on an unofficial, regional stock exchange, the amount per share (not including acquisition costs) paid by the Group must not be more than 20% above or below the average closing price of comparably configured Group shares, as quoted during the last five

trading days of said unofficial, regional market before the corresponding offer to purchase (or solicitation to sell) is made. If the comparably configured shares are not traded on either a regulated market or on an unofficial, regional market, the amount per share (not including acquisition costs) paid by the Group must not be more than 20% above or below the per-share value determined on the basis of a company valuation in accordance with Standard 1 of the German Auditors' Association (IDW S1). In the case of purchase price adjustment, the target value shall be determined based on the corresponding share price on the last trading day before the final adjustment decision is made.

The volume of repurchased shares may be limited. Insofar as the volume of shares offered in response to a public offer to purchase and/or a public solicitation to sell exceeds the expected volume to be repurchased, the shareholders' right to tender may be waived insofar as acceptance occurs in proportion to the correspondingly offered shares. In addition, a pre-emptive acceptance of smaller quantities of up to 100 tendered shares per shareholder may be made.

The Group will determine the category of shares to be repurchased based on the best interests of shareholders and the Group, while allowing for the objectives agreed.

The Executive Board is authorised, subject to Supervisory Board approval, to call in the shares in whole or in part, or to utilise the shares for various other purposes. The foregoing shall not require an additional resolution by the Annual Shareholders' Meeting. Information on this matter and further details concerning equity capital and the existing capital resolutions can be found in the notes in Note (22), "Subscribed capital".

There is currently no share repurchase plan.

Additional disclosure in accordance with article 289, para. 4, no. 8, and article 315 para. 4, no. 8, of the German Commercial Code (HGB)

The syndicated loan agreement is the only significant arrangement entered into by H&R WASAG AG that is subject to extraordinary termination in case of a change in shareholder structure. The participating banks are specifically entitled to terminate the loan agreement insofar as a change in shareholder structure leads to a worsening of creditworthiness, as determined under customary bank standards.

Assets position

Asset structure analysis

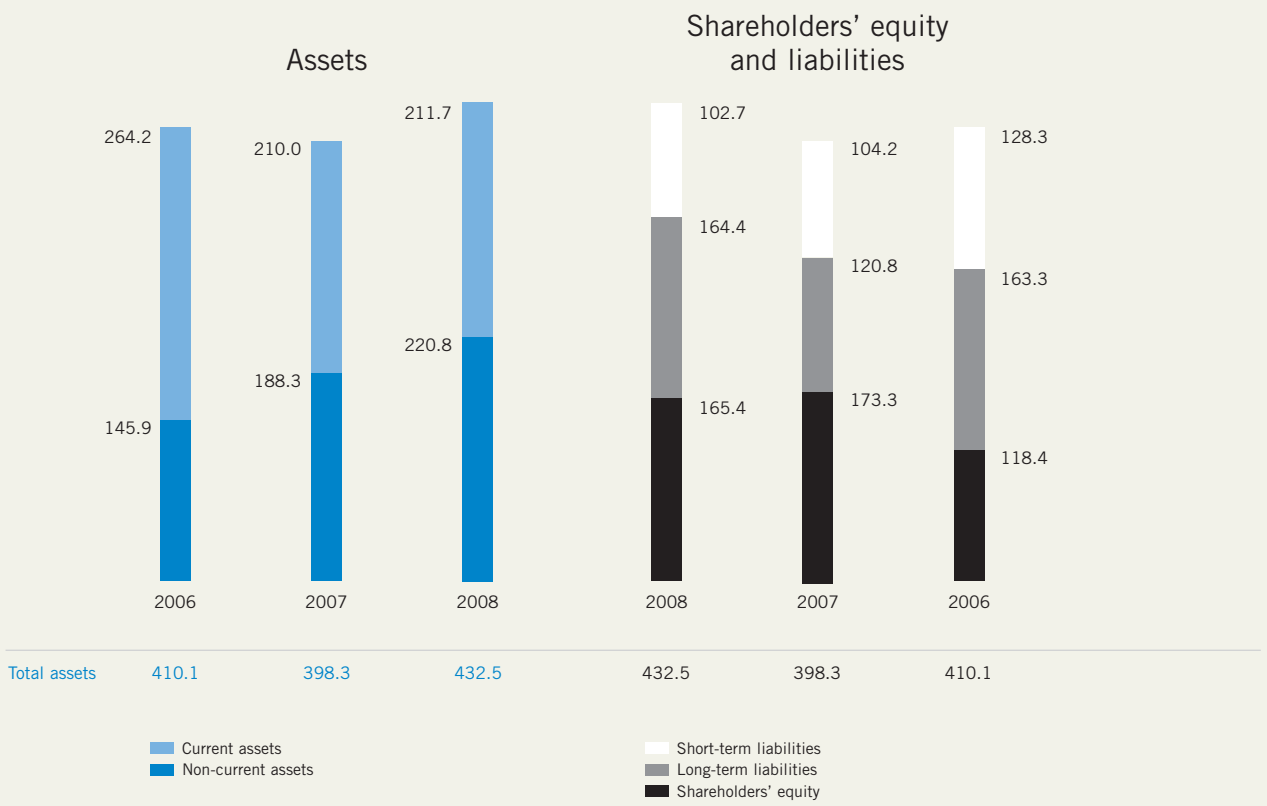
RISE IN LONG-TERM ASSETS INCREASES BALANCE SHEET TOTAL TO €432.5 MILLION

After an increase of 8.6%, the balance sheet total of H&R WASAG AG amounted to €432.5 million at the end of 2008 (31 December 2007: €398.3 million). This expansion was mainly due to a rise in long-term assets from €188.3 million to €220.8 million. As a result, the share of the balance sheet total attributable to fixed assets rose from 47.3% to 51.1%.

This development reflects the continued high level of investment, which caused fixed assets to increase by €31.1 million from €133.0 million to €164.0 million. Meanwhile, long-term prepaid expenses and deferred income and other long-term

Balance sheet of H&R WASAG Group

(as of 31/12, in € m)



assets increased by €2.0 million from €4.4 million to €6.5 million. This was due to a customer's contribution to an investment in fixed assets in connection with a long-term delivery contract.

SHORT-TERM COVERAGE RATIO OF 206% HIGHLIGHTS SOLID FINANCING

Short-term assets rose slightly to €211.7 million (previous year: €210.0 million). Given the higher balance sheet total, short-term assets' share of the total declined from 52.7% to 48.9%. That financing is on a solid footing is confirmed by the short-term coverage ratio: short-term debt was 206% covered by short-term assets (previous year: 202%) covered by short-term assets.

Within the short-term assets category, inventories declined from €118.1 million to €106.5 million. The volume of finished goods and work in progress was higher at year's end than at the end of the prior year. On the other hand, raw materials inventories ended the year significantly below the level of 31 December 2007. The reason for this reduction in inventory is that the stockpiling at the end of 2007 deviated from the normal stockpiling level because of the scheduled downtime at the Hamburg-Neuhof refinery. The main cause for the reduction in inventory, however, was that crude oil prices ended the year substantially lower than at the end of 2007. A significant increase was registered in trade accounts receivable: from €61.0 million to €76.8 million. However, this involved an effect limited to the reporting period, based on a large receivable from a commercial transaction that has since been settled.

MODERATE YEAR-ON-YEAR INCREASE IN WORKING CAPITAL

This extraordinary increase during the reporting period also caused working capital (sum of inventories and trade accounts receivable) to expand from €179.1 million to €183.4 million. In the course of the year, working capital remained quite high in the wake of higher raw material prices. Due to lower raw material prices at the end of 2008, short-term trade accounts payable fell from €45.7 million to €33.5 million. As a result, net working capital (working capital minus trade accounts payable) rose to €149.9 million (previous year: €133.4 million). Again, this increase was due mainly to an increase in trade accounts receivable relating solely to the balance sheet date.

The financing of major investments caused increases on the liabilities side, especially in long-term bank borrowing, which rose from €46.9 million to €97.2 million. This in turn caused long-term liabilities to rise from €120.8 million to €164.4 million, increasing their share of total liabilities from 30.3% to 38.0%. While the additional items falling under long-term liabilities remained more or less unchanged, other long-term liabilities fell from €14.8 million at the end of 2007 to €7.4 million as of 31 December 2008. This was due to a €1.6 million decline in leasing obligations as well as to the conversion of preference shares into ordinary shares. Thus, the provision required pursuant to IFRS to cover long-term liabilities in the amount of €2.2 million for future minimum dividends payable was discontinued which had an effect on the net income. And the option

granted to preferred shareholders to sell up to €2.475m in preference shares to H&R WASAG became inapplicable. Accordingly, this long-term liability in the amount of €6.6 million, which was reported as of 31 December 2007, was booked into other reserves without affecting income. On the other hand, long-term liabilities were increased by the formation of a new provision in the amount of €2.8 million, to cover a customer's contribution to a fixed-asset investment.

ANTI-TRUST FINE INCREASES SHORT-TERM PROVISIONS

Short-term liabilities declined slightly from €104.2 million at the end of 2007 to €102.7 million on 31 December 2008, which corresponds to a 23.7% share of the expanded balance sheet total (previous year: 26.2%). Short-term bank borrowing rose from its low prior year level of €9.9 million to €14.4 million, while income tax payable as of the reporting date increased from €3.0 million to €6.0 million. Short-term provisions also rose: from €35.4 million to €43.7 million (+€8.3 million). The provision for the anti-trust fine of €22.0 million was offset mainly by smaller provisions for employee profit-sharing. The fall in raw material prices at the end of 2008 also caused a decline in short-term trade payables, which amounted to €33.5 million on 31 December 2008 (previous year: €45.7 million). Other short-term liabilities decreased as well, amounting to €3.7 million at the end of the reporting year (previous year: €6.4 million). This reflected not only lower tax liabilities, but also the lapse of short-term liabilities for preferred dividends, as well as the lapse of the option entitling former preferred shareholders to sell preference shares to H&R WASAG AG.

In the reporting year, H&R WASAG AG once again sold off receivables for financing purposes (factoring). On 31 December 2008, total assigned receivables amounted to €9.4 million (previous year: €17.6 million).

NET FINANCIAL DEBT INCREASES TO €96.4 MILLION

In the wake of additional, large-scale investments in fiscal year 2008, the total of short and long-term bank borrowing increased from €56.9 million to €111.6 million. As a result, the net financial debt also rose, from €40.4 million to €96.4 million.

OTHER RESERVES REDUCED

Given a dividend distribution of €24.2 million (previous year: €19.1 million) and a Group result of €11.7 million, retained earnings on 31 December 2008 amounted to €71.8 million (previous year: €71.6 million). Other reserves decreased from €8.7 million to €4.9 million. This was caused by the withdrawal from the retained earnings that was made in order to facilitate paying a dividend. There was an opposing trend due to the effects of the conversion of preferred shares into ordinary shares, which triggered a lapse of the option entitling former preferred shareholders to sell preference shares to H&R WASAG AG. The resulting liabilities, which had previously been booked as long and short-term liabilities, were thus transferred to other reserves without affecting income. "Other reserves" also contain additional reserves for securities with a market value of €73k (previous year: €18k) and for cash flow hedges in the amount of €–30k (previous year: €141k), while also factoring in taxes with neutral effect on equity.

On the other hand, the negative balance from currency translation adjustments continued to rise, from €1.0 million to €4.9 million on 31 December 2008.

SOLID EQUITY RATIO OF 38%

As a result, equity declined from €173.3 million at the end of the prior year to €165.4 million as of 31 December 2008. Given the increase in the balance sheet total, the equity ratio fell to a still solid 38.2% (previous year: 43.5%).

The increase in debt led to a corresponding rise in the net debt ratio (net gearing: ratio of net financial debt to equity) of 58.3% (previous year: 23.3%), a healthy and solid foundation for the future growth of H&R WASAG.

Financial Capital

Investor and capital market relationships. Another key goal for H&R WASAG AG is to carry on professional investor relations on the basis of transparent and ongoing information of the overall capital market. These efforts were continued in 2008, and were once again directed in equal measure towards both private and institutional investors. The goal is to provide all stakeholders with required data about the Group in a prompt, precise and comprehensive manner.

In fiscal year 2008, the Executive Board and the Investor Relations department once again actively presented the Group vis-à-vis the capital market. Besides the annual analyst conference in Hamburg, H&R WASAG AG participated in twenty days of road shows and investor conferences throughout Europe, e.g. in Hamburg, Frankfurt, Munich, London, Paris, Vienna, Zurich, Helsinki, Stockholm and

Copenhagen. In addition, the Group hosted frequent meetings with analysts and investors at the refinery sites in Hamburg and Salzbergen. Meanwhile, communication with private investors was fostered through one-on-one discussions, tours of our facilities, and participation in trading days.

BETTER ANALYST COVERAGE OF H&R WASAG SHARES

Research coverage of H&R WASAG shares was expanded in a highly satisfactory manner in 2008. In all, 11 banks (previous year: 9) now regularly track H&R WASAG shares. These banks are listed on the Group's homepage under the Investor Relations department.

In 2008, H&R WASAG AG's was also able to significantly improve its public communications, specifically with regard to its annual financial statements (annual report) and quarterly reports. These regular publications were thoroughly overhauled in terms of content as well as layout. In fact, our annual report was awarded 6th place in the SDAX category in this year's prestigious "Best Business Report 2007" contest, which is sponsored by the manager magazine. This is a notable improvement over the prior year, when we placed 32nd.

All annual financial statements and quarterly reports can be accessed and downloaded online under www.hur-wasag.de.

This website also contains updated information on the H&R WASAG shares, the financial calendar, as well as key company data and statements. In addition, the site gives interested parties the option to register for an online newsletter with the most current events and information relating to the Group.

The Investor Relations department is of course always available to answer any questions:

H&R WASAG AG
Investor Relations
Am Sandtorkai 64
20457 Hamburg
Germany
Phone: +49 (0) 40-4 32 18-321
Fax: +49 (0) 40-4 32 18-390
E-mail: investor.relations@hur-wasag.de
Internet: www.hur-wasag.de

Directors' dealings and shareholdings. In fiscal year 2008, a total of 35 Directors' Dealings Disclosures were submitted. The most active purchaser in the fiscal year was H&R Beteiligung GmbH (attributable to Mr. Nils Hansen), which bought a total of 150,421 shares in the amount of €2.125m. On 2 October 2008, Mr. Nils Hansen bought an additional 30,000 shares for €465k. While total disclosable purchases amounted to €2.620m in fiscal year 2008, there was only one disclosable sale amounting to €29k.

All Directors' Dealings Disclosures for fiscal year 2008 can be accessed on the H&R WASAG homepage under "Investor Relations/Annual Documents".

The shareholders structure of H&R WASAG AG is shown on page 32 of this report.

A HIGH-PROFILE ANNUAL SHAREHOLDERS' MEETING

Annual Shareholders' Meeting. H&R WASAG's regular Annual Shareholders' Meeting was held on 24 June 2008 in Hamburg. It was well attended, with ordinary shareholders representing 70.3% of the issued share capital taking part (preference shareholders: 91.3%, total: 72.2%).

After listening to a comprehensive presentation of the consolidated Group financial statements for 2008 and a report on current trends, the shareholders passed all resolutions with a substantial majority. These included a motion by a shareholder, which was supported by the Executive and Supervisory Boards, to convert the 2.65 million preference shares into ordinary shares on a 1:1 basis. This motion was also approved by the preference shareholders in a special resolution. In the opinion of the Executive Board, this conversion will have a number of benefits: lower administrative costs, higher liquidity for stock exchange trading of the shares, index-weighting advantages, as well as improved appeal for international investors. At the same time, the Group was relieved of the obligation to pay out a higher preferred dividend, which benefitted ordinary shareholders. The conversion took effect upon being recorded in the trade register on 8 August 2008.

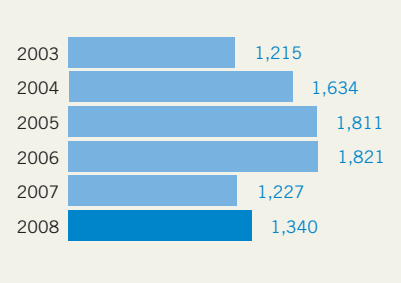
The Annual Shareholders' Meeting also approved the Executive Board's proposal to pay out a dividend of €0.80 per share (2007: €0.60 plus a special dividend of €0.10). Based on the last XETRA-quoted share price of €20.24 for 2007 (the year applicable to the distribution), the dividend yield amounted to 3.95%.

Further reports

Human resources

The success of H&R WASAG AG depends in large measure on the commitment and ability of its employees. Thus, H&R WASAG AG attaches great importance to properly training, supporting and promoting its employees.

Employees 2003 – 2008



At the end of 2008, the H&R WASAG Group's total workforce amounted to 1,340, an increase of 113 employees (+9.2%) over the prior year (1,227 employees). Of these, 304 were employed abroad (31 December 2007: 253). This growth was partially due to an increase in the staff number at the Salzbergen location, but above all to the Plastics Division's acquisition of the remaining shares of the Chinese subsidiary of GAUDLITZ GmbH, which led to incorporation of 100% of the workforce there. The average employee age remained almost unchanged at 39 (previous year: 38), which indicates a favourable age structure.

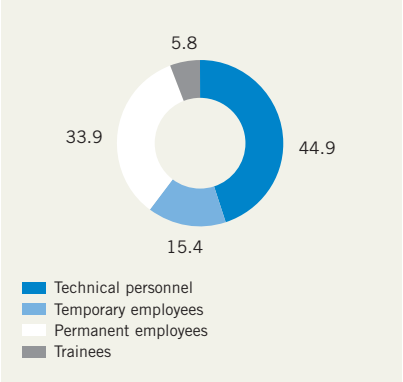
The majority of employees, i.e. 797 persons (previous year: 733), work in the Chemical-Pharmaceutical Raw Materials Division. With over 50 new employees, the Salzbergen location did most of the hiring during the year. This expansion of the workforce is mainly required by the changeover to three-shift blending operations and to the assumption of engineering/technical tasks that had previously been fulfilled by a contractor. At the Hamburg location, more than 10 new staff members were hired especially in the context of expanding R&D and production capacity. The number of employees working abroad rose by 4 to 181 persons.

STAFF INCREASE THANKS TO SALES RISE IN CHINA

Despite the difficult economic environment, the Plastics Division's workforce increased by 50 to 512 persons. This is primarily due to a temporary rise in the number of employees in China for the handling of the increased business volume. Thus, the number of employees working abroad rose to 123 (previous year: 76) persons.

In order to absorb declining demand, the division had to let go all of the 130 temporary workers during the reporting period. These workers are not included in human resource statistics.

Employees
by employment type
(in %)



On the Group level, industrial workers, including temporary ones, made up the largest share of the workforce with 60.3% (previous year: 59.7%). Accordingly, the share of all other employees was only 33.9% (previous year: 34.7%), which can be attributed to a great extent to the efficient administrative structure of H&R WASAG AG.

H&R WASAG AG attaches great importance to the training of young people, not only to ensure a sufficient pool of qualified talent, but also to make a contribution to society. During the reporting year, the total number of trainees rose in both divisions and across all occupational categories, from 69 to 78 persons. Thus, trainees now account for 5.8% (previous year: 5.6%) of the workforce.

Seriously handicapped people are fully integrated in the operational procedures at H&R WASAG AG and make a significant contribution to the company success like any other employee. Owing to new hiring the number of employees in this category rose by 3 to 41 persons, their share of the workforce increased slightly to 3.1%.

In both the national and international competitive arena, qualified employees are a key success factor. For H&R WASAG, fostering employees' professional qualifications, creativity and motivation is a pillar of its human resource policy. This is supplemented by flat hierarchy structures and performance-related compensation models. In addition, the Group carries on R&D projects and partnerships with a variety of universities in order to establish relationships with highly qualified talent that may one day come to work for us.

WASAG FOUNDATION AWARDS GRANTS TO GRADUATE STUDENTS

During the reporting period, the WASAG scholarship programme supported 16 awardees, who had distinguished themselves by outstanding academic achievement.

Safety

FOCUS ON SAFETY PERFORMANCE INCREASED

An absolute priority for H&R WASAG AG is the health and well-being of all its employees. Regrettably, an increased number of accidents was reported in recent years which we ascribe to the extensive additional work in the plants within the scope of "Project 40". Fortunately though, the accidents did not entail any serious consequences. In the reporting year H&R WASAG AG has therefore decided to increasingly focus on striving to improve the safety performance in both refineries. Accordingly, already in fiscal year 2008 further far-reaching measures were implemented in this field. Besides instituting tougher safety audits and better employee training, the Executive Board performed ad-hoc inspections of the facilities and required that all accidents be analysed in detail in the context of management meetings. All of these measures are applicable not only to Group staff, but also to any third-party employees working on the premises of H&R WASAG AG.

EXPANSION OF GENERAL HEALTH-IMPROVEMENT MEASURES

In addition, H&R WASAG AG supports its entire staff also regarding their general health promotion. These activities are performed in a centralised fashion in the project "Life Plus" at the Group headquarters in Salzbergen, in cooperation with health insurer Techniker Krankenkasse. At the heart of the project are the "Health and Wellness Days" launched in 2008, where employees can learn about good nutrition, have their heart function and blood pressure checked, etc. In addition, employees are encouraged to stay fit, for example, by participating in specially sponsored jogging clubs or by taking advantage of discounted fitness studio memberships. Similar services are also offered at the Plastics Division's headquarters in Coburg.

Environmental report

HAMBURG REFINERY ACCEPTED INTO "HAMBURG ENVIRONMENTAL PARTNERSHIP"

For H&R WASAG AG, protecting the environment is one of today's key social challenges and thus a major company goal. Thus, the Group has been striving for many years to reduce its emissions of CO_2 gases and to manage natural resources in a conscientious manner. Accordingly, we are pleased to report that our largest production facility in Hamburg-Neuhof has been accepted into the "Hamburg Environmental Partnership", a cooperation between various companies and the Senate of Hamburg to promote voluntary environmental protection.

Environmentally friendly products. H&R WASAG AG's many innovative, energy-saving products can help make an important contribution to protecting the environment.

In the Chemical-Pharmaceutical Raw Materials Division, an innovative line of plasticisers stands out in this regard. These label-free plasticisers are used to make such products as environmentally friendly automobile tyres. Compared to traditional tyres made of products subject to labelling, these "green" tyres exhibit far less rolling resistance. H&R WASAG AG plasticisers are also used to make various insulating/heat-proofing materials, thus helping keep down heating costs for buildings.

H&R WASAG products, especially its modern plasticisers, also protect the environment after use, in that they leave behind none or at least significantly fewer harmful substances than traditional materials.

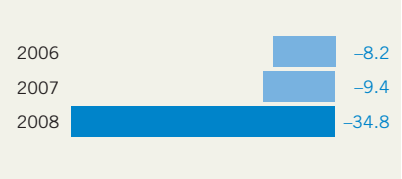
In the Plastics Division, high-precision components made of plastic are increasingly being used to replace metal automobile parts. This helps to reduce overall chassis weight and improves fuel efficiency.

NEW THERMAL RECYCLING FACILITY IN SALZBERGEN SAVES 30,000 TONNES OF HEAVY FUEL OIL

Energy consumption and climate protection. H&R WASAG AG makes strenuous efforts to reduce its energy consumption and CO_2 emissions. Back in 2004, a thermal recycling facility for household garbage was launched in Salzbergen. In 2008 alone, this facility, in which H&R WASAG AG holds a 10% stake, was able to save about 30,000 tonnes of heavy fuel oil in the combined heat and power generation.

Reduction in specific CO_2 emissions by refineries

(Per ton produced, baseline year 2005)



At the end of 2007, the Hamburg refinery installed a new, natural-gas-fired furnace to replace an older oil-fired furnace used to generate process heat. This increased heating efficiency from 72% to 90%, while reducing CO_2 emissions for 2008 by 39,500 tonnes. In addition, H&R WASAG AG was able to exploit numerous smaller measures to realise a continual reduction in energy consumption and output of harmful emissions.

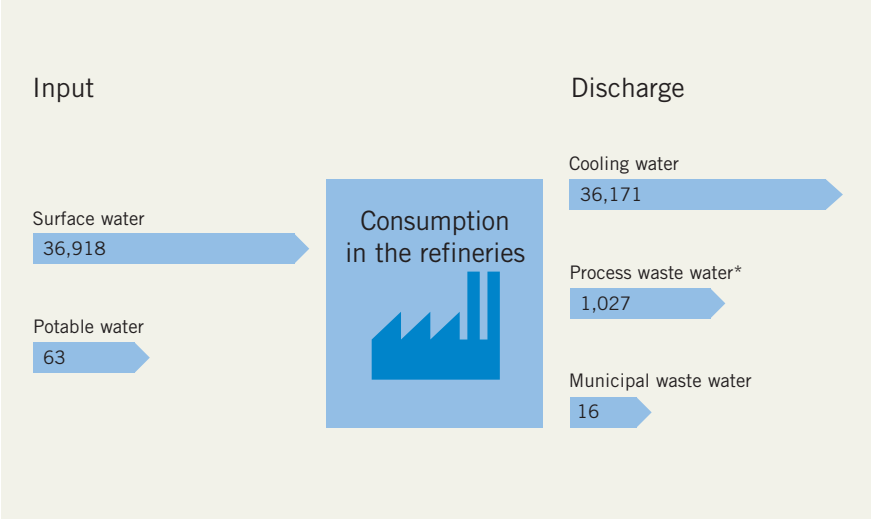
As a result, H&R WASAG AG was able to cut back both refineries' CO_2 emissions (per ton of production) by 34.8% compared to baseline year 2005.

Water consumption. Careful water management is another key component of H&R WASAG AG environmental protection policy. Specifically, the Group strives to minimise its water consumption by relying on modern production methods and by reusing water recycled via recirculation systems. Most of the water is used in the refineries for cooling purposes, whereas only a small volume comes into direct contact with production materials or residues. While cooling water merely needs to be cooled before being released back into the environment, wastewater from the production or sanitary areas has to be subjected to various purification procedures. The Hamburg location was able to make considerable progress in this regard by installing a new flotation system, which physically separates out fine-grained solids during the water-treatment process. As a result, the quality of the processed water was further improved.

At both refineries, the organic content of water (COD = chemical oxygen demand) was reduced to 36.4 tonnes (previous year: 38.0 tonnes), while the nitrogen content of the wastewater fell from 13.4 to 8.5 tonnes.

Water balance of the H&R WASAG refineries

(in thousand m³ per year)



* Total of flushing, rain and condensation water

Refuse. During the reporting year, H&R WASAG AG's refineries generated 32,014 tonnes of refuse (previous year: 16,488 tonnes). This increase was exclusively attributable to the work on the capacity expansion "Project 40". If we factor out project-specific refuse volumes, however, we arrive at an actual reduction in refuse output from 6,436 tonnes in 2007 to 4,385 in the reporting year. Of the total refuse generated by both refineries, 77% (previous year: 63%) was able to be recycled, while the remaining volume was properly disposed of in the prescribed manner.

At the Plastics Division headquarters in Coburg, refuse output was reduced by 19.6%, from 553 tonnes in 2007 to 444 tonnes in 2008. The recycling ratio rose from 39% to an excellent 48%.

The Group intends to improve these results at both divisions in the future.

Product responsibility

H&R WASAG AG DEALS WITH WIDE-RANGING PRODUCT RESPONSIBILITY

H&R WASAG AG produces a large number of products in its divisions. This gives rise to extensive product responsibility.

Thus, the Group strives to ensure that the proper use of its products in no way endangers people or the environment.

In order to ensure that consumers are thoroughly informed, a new safety datasheet system was implemented in fiscal year 2008. This gives our staff continuous, worldwide access to a comprehensive materials databank detailing the features and possible hazards of our products.

This will also ensure that key product know-how remains consistently available throughout the Group's companies on a transnational basis, regardless of employee turnover. Since the H&R WASAG AG product portfolio is constantly changing, the databank is updated on an ongoing basis.

Particularly with regard to its Chemical-Pharmaceutical Raw Materials Division, H&R WASAG AG is subject to the European Chemicals Directive known as "REACH". This directive governs the registration, evaluation and approval of chemicals in the European Union. In order to comply with the directive's extensive reporting requirements as efficiently as possible, H&R WASAG AG has become a member of CONCAWE (CONservation of Clean Air and Water in Europe), an association of

leading European petroleum refiners that focuses on product safety. By 30 November 2008, all products had been pre-registered as required by REACH. Final registration of these products is to be completed by 2010. Despite our cooperation with other refiners in the association, the registration process is time-consuming and cost-intensive. For the period 2006 – 2010, we expect to spend about €3.0 million on this registration process. In 2008, these costs amounted to ca. €250,000.

Supplier and customer relations

BROAD DIVERSIFICATION OF SUPPLIERS

In selecting its suppliers, H&R WASAG AG strives to achieve broad diversification so as to avoid undue dependence. In the context of its focus on crude oil-based specialty products, H&R WASAG AG also tries to achieve a flexible use of raw materials in all of its production optimisations. There are no long-term commitments to suppliers due to the large number of providers.

Due to the broad scope of the market, the Group's recourse to raw materials needed for production anyway is not so much dependent on individual suppliers, but rather on the general price trend of the raw materials markets. The more flexible use of raw materials being strived for by the company should make alternative sources possible as well.

A paramount goal of H&R WASAG AG is a high level of customer satisfaction. Therefore, we strive for a consistent adjustment to the production and application requirements of the user in the processing industry.

LARGE NUMBER OF PRODUCTS REDUCES DEPENDENCY

Our customer relationships carefully maintained over long periods of time also by our distribution partner Hansen & Rosenthal are a key success factor for H&R WASAG AG. Among other things, our close contact with our clientele results in exceptional customer loyalty. On the other hand, our flexible production of over 800 products keeps us from becoming too dependent on specific customers or industries.

Customer satisfaction is a key success factor for the Plastics Division as well. Thus, a close relationship is established with the customer even during the initial development phase of components intended for subsequent serial production. In order to diversify risk, H&R WASAG AG makes strenuous efforts to reduce its dependency on specific industries, while at the same time striving to open up new sales markets.

General economic outlook

Assessment of the economic situation by the Group management

STABLE PROFITS DESPITE DIFFICULT ENVIRONMENT PROVE SUSTAINABILITY OF BUSINESS MODEL

At the time the Group management report was being prepared, the asset, financing and earnings positions of H&R WASAG AG were positive. Even taking the comprehensive risk provision for the possible fine by the cartel authorities and the sharp writedown in the value of inventories induced by the price of crude oil, a positive annual result was achieved. Adjusted for these special effects, H&R WASAG AG in fact further improved its earning power. Also the extremely short-term and unprecedentedly large swings in raw material prices were absorbed without difficulty in the operating business. The ability of H&R WASAG AG to earn stable profits even in this difficult environment underscores the sustainability of the business model and the company's earnings potential.

The financing and asset situation in the year under review was characterised by a temporary substantial rise in the working capital as a consequence of the sometimes extreme raw material price increases. Thanks to the financial strength of the Group and the good availability of external funding resources resulting from the newly agreed syndicated loan with its improved terms, the company was well able to cope with this burden. With this sound financing base and its stable earning power, H&R WASAG AG will, as far as can be seen today, also continue to develop positively in the coming years, with targeted investments and continuous improvements in efficiency.

Presentation of the influence of balance-sheet policy on the economic situation

Optional methods and discretionary judgement were again used conservatively in the reporting year. The provision created in the full amount of the liability for the possible anti-trust fine, the valuation of the inventories at the year end and the general balance-sheet policy can be described as prudent and conservative. Given this situation, the balance-sheet policy supports the positive assessment of the company's economic situation.

MAJOR EVENTS AFTER THE DATE OF THE BALANCE SHEET

There were no events of particular significance occurring after the end of the financial year.

RISK REPORT

RISK/OPPORTUNITY MANAGEMENT A KEY COMPONENT OF COMPANY MANAGEMENT

A responsible management of risks and opportunities is essential for a corporate development that is positive on a long-term basis. H&R WASAG AG is therefore committed to careful analysis and assessment of the risks and opportunities in order to have a reliable basis on which to take decisions concerning the future direction of the company. The risk and opportunity management system in place at H&R WASAG AG is hence viewed as an important element in the management and control of the business.

Risk and opportunity management system

Risk management system regarding financial instruments

In the fields of business in which it operates, the H&R WASAG Group is exposed in the course of its ordinary business activities to commodity and raw material price risks as well as currency fluctuations and interest rate changes. One possible way of hedging against these potential risks is through the use of derivatives.

H&R WASAG AG LIMITS ITSELF TO SELECTIVE USE OF DERIVATIVES

H&R WASAG AG has, in the past, made only very selective use of derivatives. In the field of interest rates, the company had hedged against the risk of changes in interest rates for a maximum amount of €50.6 million out of the total amount of €170 million under the old syndicated loan which was discharged in April 2008. Following discharge of the loan, these interest limitation deals, which will run up to early 2010, will only operate as free-standing derivatives. Due to the market interest rate being low on the accounting cut-off date and the subsequently lowered market values of the interest limitation deals, there was a net loss in the amount of €595k. The theoretical residual risk up to the end of the term in 2010 is a book value of €97k; with rising interest rates, however, it is also possible that profits can be made here. Additionally, two loans of subsidiary companies together totalling €2.9 million were secured by SWAPS. For these, because of the low interest rate on the accounting cut-off date, a sum of €–218k was booked, at the

end of the year, under shareholders' equity, i.e. with no effect on results. For the new syndicated loan newly agreed in April 2008, no derivatives have so far been used, which in view of the interest rate developments since then has proved positive. The Executive Board is currently investigating the possibilities of taking advantage of the current historically low level of interest rates to secure permanent cover and thus avoid a greater interest rate change risk for the future.

FLUCTUATIONS IN RAW MATERIALS PRICES GENERATE INVENTORY AND PRICE RISKS

In order to make the products offered by H&R WASAG AG, the company is dependent on purchasing large quantities of crude oil-based raw materials. Price fluctuations, which occurred in the year under review on an unprecedented scale, are therefore a substantial risk for H&R WASAG. First, there is an inventory risk, since given the high level of product diversification and the associated production depth, the company always has to maintain a certain stock of raw materials and semifinished and finished goods in order to ensure uninterrupted supply capability. And second, there is a price risk, since changes in the price of raw materials cannot always be passed on immediately to the market. Some of the specialty products produced from these raw materials are produced and sold under supply contracts at prices fixed for a period of up to three months. However, in the company's experience, short-term windfall profits and windfall losses resulting from temporary price effects of this kind tend to balance each other out in the medium term and are additionally tempered by the counter-trend inventory valuation effect.

Moreover, no derivatives are offered for the specialty products made by H&R WASAG AG. However, use of derivatives on the procurement side only while there were none available simultaneously on the selling side, would fail to fulfil the actual purpose of hedging, i.e. of offsetting unforeseeable price fluctuations. Nevertheless, the management will continue to monitor developments on the relevant markets and regularly review the possible use of derivatives.

Further explanations regarding financial instruments can be found in Note (38) (page 184–192); further remarks on risk management and hedging policy are contained in Note (48) (page 200–202). The development of the risks arising from the derivatives already in use is monitored through continuous observation of the relevant parameters, or in the case of interest derivatives on the basis of market figures supplied by the banks.

Other risk management systems

RISK MANAGEMENT SYSTEM OFFERS OPTIONS FOR MITIGATION, AVOIDANCE, SHIFT AND DELIBERATE ACCEPTANCE OF RISKS

The corporate strategy of H&R WASAG AG is based on consistent utilisation of earnings and growth potential. The precondition for this is the detailed identification and presentation, and the subsequent responsible weighing, of the opportunities and risks in all areas of the enterprise. A comprehensive and far-reaching risk management has been implemented in order to minimise, avoid or shift any risks. For this reason, H&R WASAG AG deploys a risk management system that provides an early identification and subsequent qualitative and quantitative assessment of all risks. The information and data thus gathered can also serve as a basis for deliberately taking risks in a controlled way.

Careful weighing of the growth and earnings opportunities against the risks to the asset, financing and earnings situation is governed by the centrally issued risk manual. This instrument must be complied with by all relevant persons as it forms the basis for responding to the surveys which, since 2008, have been conducted by the risk controlling function at quarterly intervals in order to gather information on all the risks identified and quantified within the Group. In the catalogue of risks produced on the basis of the information provided, the potential amount of loss or damage and the likelihood of occurrence are attributed to each substantial risk. If necessary, amounts of loss or damage are stated as a band-width; differentiated scenarios are depicted, together with the conditions on which their occurrence will depend. Risks of the same kind are aggregated, and the interactive effects of different risks detailed.

RISK CATALOGUE CONTINUALLY UPDATED

If new risks arise or if any change is made to an assessment or to the conditions on which occurrence of the risk depends, the risk catalogue will immediately be amended accordingly and is thus always kept up-to-date. All relevant persons are also instructed to directly communicate risk-relevant changes of any kind that occur between the regular surveys to the risk controlling function. The Executive Board and management use the risk management system in its constantly updated configuration for managing the overall risk. In the case of any change in the risk situation occurring outside the scheduled times for dealing with the risk catalogue, they also take action on the strength of corresponding institutionalised indications from the risk controlling function.

Important indications of changes in the risk situation are also provided by continuous comparison of the planning figures with the actual business figures. The monthly reporting of results for the Group and all the individual companies

is also systematically scrutinised by the risk controlling function for signs of any possible risks. This purpose, among others, is also served by the regular divisional meetings at which the top management of the key subsidiaries, the Executive Board and Controlling discuss current events and the opportunities and risks of the future development in detail.

Opportunity management system

OPPORTUNITY MANAGEMENT INTEGRATED INTO RISK MANAGEMENT SYSTEM

Just as important as continuous risk management is systematic opportunity management. First, through its risk management system, H&R WASAG not only covers all the risks arising from certain situations, but also the opportunities presented by them. And second, and in particular, general operating and market conditions are systematically analysed with a view to any opportunities they may give rise to.

This is done, on the one hand, through continuous comparison of the planning figures with the actual figures based on the monthly result reports and at the regular divisional meetings between the management of the key subsidiaries and the Executive Board. On the other, the Executive Board and the managements of the subsidiaries maintain close contact with market participants and sales partners, and also utilise market studies and other available material. The regular discussions on current strategy, market developments and technological trends are also used for assessing the potential for further developments in production, sales and other areas. The identification of opportunities is also fostered by the shallow hierarchy and uncomplicated, open style of communication at H&R WASAG which facilitates flexible production and the ability to respond rapidly to potential new market currents.

Specific risks

Business environment and sector risks

As is the case at other companies, too, the business development of H&R WASAG AG depends on numerous external factors which are largely or completely beyond its control.

REGIONAL DISTRIBUTION OF SALES LESSENS DEPENDENCY ON PERFORMANCE OF INDIVIDUAL ECONOMIES

Both on the procurement side and the sales side, cyclical or other changes in the economic operating environment can have a sometimes dramatic impact. The prices of the raw materials needed for production, for instance, are influenced to a very great extent by the development of the world economy. Changes in these background conditions on the various national sales markets can have a considerable impact on the asset, financing or earnings position of the Group. In this context, the degree of dependence on the development of individual economies depends to a large extent on the regional distribution of a company's customers. In the case of H&R WASAG AG, a large proportion of sales revenue is nominally earned in Germany. It should be noted, however, that these revenues also include sales generated through the cooperation with companies of the Hansen & Rosenthal Group. And these sales are widely spread throughout Europe by Hansen & Rosenthal, with the result that the regional structure of the end-customers in Europe is very widely diversified. This fact and the broadening of H&R WASAG AG's activities to take in international markets lessen the dependence on individual economies. As the internationalisation of sales progresses, the risk structure also increasingly improves.

TARGETED DIVERSIFICATION OF CUSTOMER STRUCTURE LIMITS RISKS FROM INDUSTRY CRISES

Nonetheless, recessive trends in the world economy will also make themselves negatively felt at H&R WASAG AG within the scope of the cyclical development of the individual product fields, whereby particular product fields can be severely affected by problems in individual customer segments. Thus, for instance, the marked downturn in the automotive sector is having a negative impact on the sale of both high-precision plastic components and non-labelled plasticisers for tyre production. H&R WASAG AG is countering this risk through targeted diversification in the customer structure, for example in the Plastics Division by directly addressing other industries, e.g. medical technology, or in the Chemical-Pharmaceutical Raw Materials Division through further product innovations for other potential purchasers. In the case of certain products, e.g. base oils, general downward economic trends

HIGHER PROPORTION OF SPECIALTY PRODUCTS LESSENS COMPETITIVE PRESSURE

have a more powerful effect because of the greater competition intensity. H&R WASAG AG is therefore striving to further increase the share of specialty products in the company's production.

The exchange rate risks to which H&R WASAG AG may be exposed in connection with raw materials, are detailed in the sections Operational/performance risks and Financial risks (page 100 and page 102).

Changes on the capital markets and in interest rates have an impact on H&R WASAG AG's financing costs. As in the past, H&R WASAG AG may again take hedging action to protect itself against interest rate risks. This is described in detail in the section "Risk management system regarding financial instruments" (page 93 et seq.). Changes on the currency markets and interest markets are continuously monitored and assessed.

Changes in the legal and tax conditions can also affect the development of H&R WASAG AG at its various operating locations and on its various markets, e.g. through increased production or operating costs, intensified investment requirements or higher tax burdens. This applies, for instance, to the tightening of rules and regulations concerning production processes or products. The debate on such issues and developments in general are therefore carefully observed in order, if necessary, to be able to take appropriate measures at short notice so as to minimise the effects of such changes. At the present time, no indications for such changes are discernible.

FLEXIBLE PRODUCTION ENABLES QUICKER REACTION TO CHANGES IN COMPETITIVE ENVIRONMENT

Specific market developments such as new production technologies, the development of alternative or substitute products, or technological leaps in the customers' products can influence the business development in the industries supplied by H&R WASAG AG in terms of sales potential and margins. Therefore, either directly or through its sales partners, H&R WASAG stays in constant dialogue with the customers and also concerns itself regularly with specific market developments in the various industries in order to identify changes in good time. The lean, communication-friendly decision-making structures in place at H&R WASAG AG and the company's flexible production capabilities geared to the wishes of the end-consumers foster our ability to respond to changes with product modifications or new products more quickly than our competitors. The deliberate specialisation in crude oil-based specialty products gives H&R WASAG a clear advantage in this regard. At the same time, the diversification of the company's product portfolio achieved in recent years and the large number of different buyer industries also contribute to growing independence from the performance of specific industries or products.

SPECIFIC TECHNOLOGIES AND HIGH INVESTMENT IN RECENT YEARS REDUCE COMPETITIVE RISKS

New, globally operating suppliers, product launches in new industries by existing suppliers or attempts by suppliers to push out existing suppliers and gain market share through cut-throat competition are some possible sources of competitive risk. With our concentration on niche and specialty markets that we have pursued for many years, combined with a correspondingly focused sales organisation and production capabilities which, in the view of the Executive Board, are uniquely geared for making such products, entry barriers already exist in many cases to potential and present competitors. The ability to manufacture products according to the customers' specific requirements calls for a high level of know-how and many years of experience. With the corresponding specialist technologies and investments carefully planned and implemented over many years, H&R WASAG is strongly placed to withstand such competitive risks.

Any price risks occurring due to fluctuating raw material prices have been looked at in detail in the section Risk management system regarding financial instruments (page 93 et seq.).

Corporate strategy risks

The strategic goal of H&R WASAG AG to become a world-leading, highly profitable supplier of crude oil-based specialty products increases the weight of the risks in this area, including the price risks presented in the section Risk management system regarding financial instruments (page 93 et seq.).

STRATEGIC ORIENTATION TOWARDS CRUDE OIL-BASED SPECIALTY PRODUCTS AND FLEXIBLE PRODUCTION

Therefore, in view of the strong growth of the Chemical-Pharmaceutical Division and following the divestment of the Explosives Division in April 2007, it is necessary to develop counter-strategies within the remaining business sectors. A key element of this is the consistent focus on crude oil-based specialty products. Thus, for example, in view of the competition with the major market participants in the oil industry, the pricing pressure on mass products from the refinery business is heavy, especially in times of volatile raw material prices. In the case of niche markets and specialty products, the competitive pressure tends to be lower as these products are generally only made by a small number of specialist suppliers. Additionally, the broadening of the product range to over 800 products for over 100 different industries, which has been made possible through the flexible production process, makes it easier to move into higher-margin industries. The continuing move towards greater internationalisation also makes it possible to offset negative developments in one region by intensified efforts in another.

The H&R WASAG AG strategy also includes expansion through the targeted take-over of companies or production facilities. All acquisition projects are carried out by project managers or project teams who obtain all the specialist expertise they

need – either internally or externally – to enable them to make an informed decision. Investment calculations and decisions follow clearly defined and binding rules and criteria. The integration of successful acquisitions in the existing Group structures, as was most recently the case with the takeover of a production and sales company in Malaysia in 2007, is closely monitored and supported by the Group management.

ACQUISITION OF REMAINING SHARES IN CHINESE PLASTICS SUBSIDIARY FACILITATES MAKES OPERATING IMPROVEMENTS EASIER

The takeover of the remaining shares in the loss-making joint venture in China (Plastics Division) in April 2008 has caused the losses attributable to the Group to increase. However, H&R WASAG AG believes that now that it has full control, it will be easier to make the business activities more efficient and therefore more profitable. At the other foreign subsidiaries of both business divisions, the closer involvement of the Group management has also produced positive results. Special risks arising at these companies have been and are being recognised in good time by the risk management system, so that any countermeasures that may be necessary can be adopted quickly and effectively.

Operational/performance risks

Price risks arising from the production and sales process are described in detail in the section "Risk management system regarding financial instruments" (page 93 et seq.).

Risks in the field of research and development may result in particular from faulty product configurations or from developments that do not meet market needs. Each product configuration is therefore individually scrutinised on the basis of a mandatory and intensive quality assurance programme. As far as new developments are concerned, efforts are made through close contact with all market participants to identify new needs of the market at an early stage and so be in the position to offer products that meet the respective demand. In view of the fact that, thanks to our flexible production capabilities, only little or even no investment at all is normally needed to make the new product, the risk arising from the development of non-selling products is very small.

DETAILED INVESTMENT AND PROJECT PLANNING REDUCES RISKS

Risks relating to investment are limited through exact controlling and detailed project planning. Additionally, individual investments are only implemented after an elaboration of precise and binding cost estimates. The production at all locations is likewise monitored in close detail. In addition to this monitoring system, the success of which is evidenced by the trouble-free production enjoyed by the

company in recent years, the risk is further diminished by comprehensive insurance cover against all potential risks in this area. Environmental risks associated with production are therefore also largely avoided.

Sales risks are minimised through our strategy of customer diversification, which we have succeeded in implementing to a very great extent in the last few years (see also "Business environment and sector risks", page 97–99).

PLASTICS DIVISION FACES INCREASED COMPETITION AND PRICE PRESSURE

In the Plastics Division, the risk of the company not being able to pass higher expenses for plastics granules and purchased parts on to customers due to the prevailing competitive and pricing pressure increased in the year under review. Especially in the automotive industry, which has been particularly badly hit by the financial crisis, the pressure on prices has intensified still further due to the sharp fall in production volumes. H&R WASAG has therefore substantially increased its efforts in marketing new, innovative products and production technologies and expanding sales to other sectors of industry.

Personnel risks

In many areas, the success of H&R WASAG AG depends above all on the competence and commitment of its employees and managers. H&R WASAG therefore strives to win the long-term loyalty of all its employees.

The demanding requirements that have to be met by the people employed at H&R WASAG AG mean that difficulties may occur in the recruitment of appropriately skilled employees. H&R WASAG therefore attaches great importance to providing training for new personnel in-house. Thus, for example, the company regularly attends job fairs as a means of recruiting young people to undergo training at H&R WASAG AG, and also undertakes other activities to attract appropriate personnel (see page 84 et seq. of this report).

SHORT-TERM EMPLOYMENT CONTRACTS ALLOW ADJUSTMENT TO WEAK ECONOMY

In the last few years, as a means of cushioning any demand-based production drops, the company has concluded a number of limited-term employment contracts and hired temporary staff. Due to the weak economy, at the end of 2008 there was no hired staff working in the Plastics Division, while still in March of that year a total of 130 hired staff was working there. Moreover, to ensure greatest flexibility in times of an uncertain general situation, the number of employees working with a limited-term employment contract was raised from 167 persons at the end of 2007 to 207 persons as of 31 December 2008. Despite the thus

rendered ability to respond to a decline in sales it is to be noted here that particularly in the Chemical-Pharmaceutical Raw Materials Division a diminishing production of a larger extent can only conditionally be offset by the release of personnel because the continued operation of the plants, even when working at reduced capacity, still requires a minimum level of staff.

STRIVING FOR A SUCCESS-ORIENTED COMPENSATION STRUCTURE

Because of the historical development of H&R WASAG AG, different remuneration models exist at the various operating locations. In some cases, remuneration includes wages and salaries that are below the level of the collective wage agreement, but which are coupled with highly flexible profit shares; in other cases, remuneration includes a salary structure that is above the level of the collective wage agreements. H&R WASAG is seeking to gradually harmonise the models with the goal of establishing a pay structure that includes a reasonable increase in performance-related components. In the year under review, it was also possible to agree a variable remuneration component at Hamburg-Neuhof.

Information technology risks

The information technology used within the Group is constantly reviewed and updated; running systems are subject to continuous further development and optimisation. Two main focuses in this area are ensuring reliable availability of all systems as well as data protection.

NEW EXTERNAL BACKUP EDP CENTRE INCREASES DATA SECURITY

The risks of data loss are managed by the regular storage of all data on special servers. In the year under review, the Group-owned IT company H&R Infotech GmbH created the capability, through an external fall-back computing centre, to ensure that even in the event of a failure of the main systems, the network connection of the main ERP system, including storage and the mail gateway, continue to operate without interruption.

Financial risks

Besides the negative effects on profitability, rising raw materials expenses also lead to an increase in Group capital tied up in inventories and trade account receivables (working capital), which can only be partially financed through supplier credit facilities. The resulting higher liquidity requirements therefore have to be covered out of cash flow or through additional bank borrowing. The sometimes extremely high prices for raw materials caused the net working capital to increase

INCREASED FOCUS ON RELIABLE AND SUFFICIENT FINANCING OF WORKING CAPITAL

in the year under review to over €220 million. Alongside funding from cash flow, therefore, use was especially made this year of the new syndicated loan concluded in April 2008. The period of heaviest burden was in August/September 2008 when a total of €133 million was borrowed under the syndicated loan agreement. However, even at this time of highest borrowing, a sufficient reserve was still available for funding any further price increases. Nevertheless, in view of the extreme volatility of prices, H&R WASAG AG has decided to reserve a bigger share of the available external funding potential in future to ensure reliable and adequate supply of working capital funding.

Other risks, such as default risk, currency and interest-rate risks, and the measures taken to limit these risks, are described in the Notes under Note (48) (page 200 et seqq. of this report). No risks existed in the year under review from cash flow fluctuations; additionally, as matters currently stand, our strict receivables management makes this risk appear unlikely.

Other risks

RISK FROM ANTI-TRUST CASE FULLY COVERED BY PROVISION

The cartel office of the European Union initiated an investigation of suppliers in the market for paraffin in 2005. On 1 October 2008, the European Commission informed H&R WASAG AG that it was imposing a blanket fine amounting to over €600 million on all the participants in an alleged paraffin cartel. Of this, €36 million would be payable by affiliates of the Hansen & Rosenthal Group and the H&R WASAG AG Group for anti-competitive behaviour in the paraffin sector in the years 1994 – 2005. Of this amount in turn, the subsidiary H&R ChemPharm GmbH is jointly liable for a sum of €22 million. H&R WASAG AG therefore resolved to create a provision for the amount stated in the penalty notice of €22 million. This sum was paid on 7 January 2009. As a result of analysis of the penalty notice, legal action was filed in December 2008 contesting both the justification for the fine and the amount in which the fine was imposed. In the Executive Board's view, however, it remains uncertain whether this appeal will be successful. In creating the provision, no allowance was made for possible claims in the context of an internal settlement among joint debtors since there was no reliable basis for assessment. The Executive Board is satisfied, however, that the risk is adequately covered by the provision created.

The legal actions brought in past years by former employees of the Explosives Division have now all been settled. No further risks can therefore be seen in this area. To H&R WASAG AG's knowledge, no other legal risks exist. Nor are there any indications of tax risks as a result of external audits or other circumstances over and above the outcome of the external audit for which allowance has been made in the annual financial statements.

ENVIRONMENTAL RISKS FROM THE EXPLOSIVES DIVISION COVERED BY PROVISION

On a site belonging to a Group subsidiary that is now being used by a tenant for the production of explosives, the subsoil was contaminated during the First or Second World War with harmful, explosive-type substances. Although the soil concerned was disposed of some years ago, the groundwater suffered contamination. Following talks between the subsidiary and the competent authorities, various measures for restoration and protection of the site have been investigated. There is the risk that these investigations or future restoration measures could have a negative effect on earnings. A provision of €667k was made already in the 2007 annual financial statements to cover this risk. There are currently no indications for any risk exceeding the amount of this provision.

Risks through changes in regulatory requirements specifically imposed on the company or general regulations and legal provisions are described in the section "Business environment and sector risks" (page 97–99).

The problem of lacking adherence to supply schedules that occurred in the Plastics Division in the fiscal year 2007 was significantly reduced as far as the delivery of parts is concerned through a series of individual measures. In the area of tool production, however, changes still need to be made to the structural and process organisation if risks resulting from non-compliance with delivery dates are to be avoided in future. The management concerned is, however, confident of being able to achieve substantial improvements also in this regard.

General risk statement

Assessment of the risk situation by the corporate management

OVERALL RISK SITUATION OF THE GROUP ESSENTIALLY UNCHANGED

No significant changes of the overall risk position had to be noted during the financial year 2008. With a provision in the amount of €22 million, the Executive Board is satisfied that it has made adequate allowance in the consolidated financial statements to cover the risk of the anti-trust fine, which is now finally quantifiable. Currently, there are no indications discernible of any developments that might jeopardise the company's continued existence or that might have a sustained negative effect on the company's financial, operating, and earnings position. Nevertheless, it is not possible to entirely rule out the existence of such risks.

OPPORTUNITIES OUTWEIGH RISKS

As in previous years, the business environment and sector risks play the biggest role in any general review of Group risks. The most significant of these risks are those arising from changes in the raw materials costs, which have an impact on several risk groups. With its specialisation on crude oil-based specialty products – a process that was continued in the year under review – H&R WASAG AG has succeeded in reducing the risk. The stable earnings situation recorded by the company in the year under review in the face of sharp fluctuations and record prices underlines the success that has already been achieved in implementation of this strategy. At the same time, this strategy also offers considerable opportunities (see page 115 et seq.). In the view of the Executive Board, the overall risk arising from the specific risks is at a healthy level and is far outweighed by the opportunities. The company's future as a going concern is secure.

Company credit rating

H&R WASAG AG is not rated by a rating agency.

Forecast

Direction of the Group in the next two financial years

Planned changes in business policy and non-financial goals

FOCUS ON CRUDE OIL-BASED SPECIALTY PRODUCTS TO BE CONTINUED

The Chemical-Pharmaceutical Raw Materials Division today accounts for over 95% of Group sales. Consequently, the key figures are primarily determined by the development of this division. The already successful focus on crude oil-based specialty products will continue in the coming years. As far as internationalisation is concerned, however, given the uncertain situation of the world economy, organic growth may not prove sufficient and therefore cooperation projects or, where the conditions are particularly favourable, even acquisitions will play an increasingly important role.

FOCUS FOR 2009 AND 2010: IMPROVEMENT OF PRODUCT QUALITY AND CUSTOMER SATISFACTION

"Project 40", which has been in progress for several years, was brought to a conclusion as scheduled in the first quarter of 2009. With the "Golden Cut" project, which continues to play a strategically important role, and other potential measures for expanding capacity and optimising the production processes, additional substantial improvements in the corporate development are planned for the medium term. In view of the uncertain situation of the world economy, however, the Executive Board of H&R WASAG AG has decided, for the time being, not to implement any major investment projects in 2009. However, this decision does not change the strategic importance of these projects for the long-term performance of the Group. In the financial year 2009, though, the primary focus will be on improving customer satisfaction and the quality of the products. Also at the centre of our efforts will be the development of further products designed to provide customer benefit. These endeavours will be continued in 2010. Assuming the economic environment has improved by that time, the focus will then move more towards an increase in investment within the framework of the aforementioned projects. The continuous optimisation of the production processes, which takes place anyway, will also be aimed at further reducing the environmental burden resulting from operation of the plants. It is intended, in particular, to optimise the consumption of energy and water and, through better use of the raw materials, to lessen the volume of waste. Additionally, as part of the continuous improvement process, efforts will also be made to improve the other non-financial key figures.

Future sales markets

H&R WASAG AG PURSUING GROWTH IN ALL MARKETS

It is intended for the future growth of H&R WASAG AG to take place in parallel in all the markets the company has so far served. In the medium term, the additional growth potential available in Asia in particular presents interesting perspectives. These will be utilised partly through additional product configurations but also through cooperations geared to enabling modern, attractive products to be manufactured and offered locally on the various markets. Nevertheless, in view of the significantly larger European market volume, the higher growth rates achievable in Asia and on other foreign markets will not substantially reduce the share of sales accounted for by Germany and Europe in the years 2009 and 2010. Consequently, our efforts will continue to focus on structured and sustainable working of these traditional sales markets, with additional sales being generated in particular through product innovations. It is planned for the share of sales contributed by non-European markets to the total sales of the Chemical-Pharmaceutical Raw Materials Division to rise in the medium term over a period of five years from 13.7% in the year under review to 20%.

Not least because of the particularly difficult situation currently prevailing in the automotive industry, the Plastics Division plans to acquire new customer groups outside of the automobile industry. With the anticipated operating improvement in the business development at the Chinese subsidiary, it is intended to increasingly use the Asian sales markets in particular for the acquisition of new business in 2009 and 2010.

Future use of new technologies and processes

ADDITIONAL LARGE-SCALE PROJECTS PLANNED

In the last few years, one of the main focuses of technological development at H&R WASAG AG has been on the targeted optimisation of all production processes. This has allowed more efficient use to be made of raw materials and energy and at the same time enabled production to be made increasingly flexible and the strategy of focusing on crude oil-based specialty products to be implemented. Following the completion of "Project 40", a capacity expansion project, in the first quarter of 2009, work on preparing the possible future projects and measures described in the section "Planned changes to business policy and non-financial goals" (page 106) is continuing, but as far as can be seen at present, these projects will not, given the current uncertainties of the general economic situation, be implemented before 2010. The aim of these projects is further product diversification, greater flexibility in the use of raw materials, and increasing concentration on crude oil-based specialty products. Individual measures for optimising plant components will also be regularly carried out as part of a continuous improvement process.

Future products and services

The continuous optimisation of the production processes will further enhance the company's ability to manufacture products that meet the customers' individual requirements. At the same time, through the specialised production, the number of possible product configurations is being constantly increased. Additionally, in specific areas – e.g. the non-labelled plasticisers – the company is working on the basis of the technological leadership it has already achieved to improve the products still further. The basis for all its products is the high level of reliability in terms of the specified product characteristics that H&R WASAG is able to provide.

UNCERTAIN GLOBAL ECONOMIC OUTLOOK REDUCES SALES FORECAST FOR 2009

After still having achieved a total sales volume of 1,476,000 tonnes in 2008, the uncertain prospects for the world economy cause the expectations for the sales volume of the Chemical-Pharmaceutical Raw Materials Division to be reduced at least for the financial year 2009. For 2010, H&R WASAG AG anticipates that total sales in all product groups will moderately rise again. As far as can be seen today, the services in the area of blending, bottling and packing of lubricants will decline slightly in 2009. This decrease is also expected to be followed in 2010 by a return to an at least moderate sales growth.

PLASTICS DIVISION FOCUSES ON NEW PROCESSING TECHNOLOGIES PLUS INNOVATIVE MATERIALS AND COMPOSITES

In the Plastics Division, the goal in the years 2009 and 2010 will be to offset the downturns arising from the particularly poor situation in the automotive industry. Part of this growth will come from purpose-designed products in the modern production techniques of gearing, insert, punching lattice and subassembly technology. In view of the technological capabilities of H&R WASAG AG, new materials and composites will thereby continue to play an important role. Therefore, particularly in sectors such as medical technology, powerful impulses are expected to come from products developed in collaboration with the customers. In view of the fact that, strictly speaking, every new supply contract means a new product, new products will be the key component in the anticipated growth.

With regard to the deposits of silica sand on the land owned by SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH, the outstanding permits are expected to be issued in the near future. No contribution to earnings is planned for 2009.

Economic conditions in the next two financial years

Future economic situation

WORSENING FINANCIAL CRISIS REDUCES GROWTH FORECASTS

The dramatic worsening of the worldwide financial crisis on this wholly unforeseen scale has caused the growth expectations for 2009 and 2010 to be cut back sharply. According to an assessment by the International Monetary Fund (IMF) of 28 January 2009, global growth in 2009 is now only expected to amount to 0.5%, compared to the previous expectations of 3.0%. This means that in the industrialised countries, a drop in economic performance of 2.0% has to be reckoned with. The European countries likely to be most severely affected are the UK (–2.8%), Germany (–2.5%) and Italy (–2.1%). Considerable declines are also expected in the USA (–1.6%) and Japan (–2.6%). For the emerging countries, on the other hand, growth of 3.3% is still anticipated, though in comparison to the growth rates for 2007 (+8.3%) and 2008 (+6.3%), this already represents a sharp slow-down. Even China, which with an increase of 13% in 2007 (2008: +9.0%) was still one of the motors of worldwide growth, is expected to grow in 2009 at what for this country is the comparatively modest rate of only 6.7%.

The IMF anticipates the first clear signs of recovery for the end of the year 2009; this recovery, headed by Asia, is expected to lead to world economic growth in 2010 of 3.0%. In detail, growth in 2010 is expected to amount to 1.6% in the USA, 8.0% in China and 0.6% in Japan. According to this forecast, the Euro-zone can only reckon with a slight stabilisation, with growth of +0.2% in 2010.

H&R WASAG AG PLANNING BASED ON €1.35/US$ 1 AND US$ 65/BARREL FOR BRENT CRUDE

Because of the better economic development to be expected for the USA than for other industrialised countries, a slight rise can be anticipated in the value of the US$. For 2009, H&R WASAG reckons with an average exchange rate of €1.35 to the US$, and expects the prices of crude oil to stabilise again. H&R WASAG is calculating for 2009 with an average price for North Sea Brent of US$65/barrel. For 2010, because of the unpredictable development of the world economy, it is barely possible to make any concrete assessment, but the likelihood is that prices will rise again.

Sector forecast

CRUDE OIL-BASED SPECIALTY PRODUCTS FACE LITTLE COMPETITION

In the Chemical-Pharmaceutical Raw Materials Division, the industry continues to be characterised by counter-trends. The big oil companies will continue to gear their activities to producing mass products as efficiently as possible. Therefore, thanks to more efficient methods for making mass products, with decreasing volumes of sideline products, and as a result of the abandonment of sideline activities by the oil companies, the specialty products on which H&R WASAG AG focuses will presumably tend to be exposed to lower price and competitive pressure. With regard to the Eastern European market participants, who in recent years have increasingly forced their way onto Western European markets, it remains to be seen, given the current business environment, whether and to what extent they are able to shoulder the investments needed for many specialty products. Consequently, in view of the high quality standard achieved by H&R WASAG AG thanks to its major investments, H&R WASAG AG expects to meet with only limited competition from this direction.

As a result of the economic downturn, the demand for the crude oil-based products made by H&R WASAG AG will tend to weaken, especially in 2009. Nevertheless, the markets for specialty products will continue to see growth in 2009, albeit at a lower rate. In the case of the non-labelled plasticisers, the future development will depend above all on the demand for tyres. Nevertheless, also in 2009 and 2010, the demand for technologically leading non-labelled plasticisers will continue to rise.

ROUGH GOING FOR PLASTICS DIVISION

The business environment for the Plastics Division presents a more problematic picture. The severe problems in the automotive industry will lead to a sharp rise in competition and pricing pressure for high-precision plastic parts. Other areas, such as medical technology, will only provide a fallback for those manufacturers who, thanks to their technological competence in the use of modern production methods and new materials, are able to set special accents. As far as can be seen today, only those companies will emerge as winners from the race who are either cost leaders or can offer the customers special benefits through technological advantages. H&R WASAG is striving to further improve its already strong position in both fields for these areas. More rational manufacturing methods, combined with production in countries with lower manufacturing costs such as China and the Czech Republic on the one side, and the use of advanced composite solutions and new materials, combined with the assurance of particularly high quality on the other will contribute to achieving better positioning on the market.

Earnings outlook

Anticipated development in results

PRECISE PROFIT FORECASTS IMPOSSIBLE DUE TO GLOBAL ECONOMIC UNCERTAINTY

Because of the uncertainties of the world economic situation, the development in the results of H&R WASAG AG in the years 2009 and 2010 is difficult to predict. H&R WASAG's planning for 2009 is based on an average price for crude oil of US$ 65 per barrel (Brent), an exchange rate of €1.35 to the US dollar and a correspondingly stable price delta between the crude oil price and the indices of relevance for numerous end products. Consequently, as far as can be seen today and in view of the anticipated lower sales, the company expects earnings before interest, taxes, depreciation and amortisation (EBITDA) to be below that achieved in 2008 after adjustment for the anti-trust fine. As at the time of writing this report the predictions for the future development of the economy are corrected almost weekly, H&R WASAG AG will not be able to publish a more concrete forecast based on actual figures until a later date. A genuinely realistic and reliable assessment is currently simply not possible. For 2010, it is planned to once again achieve an EBITDA on the same level as that for 2008 after adjustment for the anti-trust fine and the writedown in the value of the inventories.

Sales outlook

LOWER CRUDE OIL PRICES REDUCE EXPECTED SALES VOLUME

Through the sharp drop in the costs of crude oil and the expected lower volume of sales of crude oil-based products, sales revenue is also expected to be down in the financial year 2009. Consequently, the sales figure for the Chemical-Pharmaceutical Raw Materials Division should be between €750 million and €850 million. In the Plastics Division, sales are also expected to decrease slightly in 2009, to around €40 million – €45 million. In the subsequent financial years, further sales growth is expected, though the level of increase will depend on the general economic situation and above all also on the future development in the crude oil prices.

Prospective development of major items in the income statement

The lower crude oil price will mean a marked decrease in the raw materials costs. The net interest result is therefore also likely to improve slightly because of the consequent drop in working capital and also the lower level of interest rates. In other respects, the structure of the income statement is not expected to change significantly.

Dividend outlook

H&R WASAG AG PROPOSES DIVIDEND OF €0.40 PER SHARE

Despite the special burden derived from the anti-trust fine, for the year under review the Executive Board and the Supervisory Board recommend to the Annual Shareholders' Meeting that a dividend of €0.40 per ordinary share will be paid. Also for the subsequent years the H&R WASAG AG plans to continue the shareholder-friendly distribution policy.

Expected financial position

Planned financing measures

SYNDICATED LOAN AND CASH FLOW SECURE PLANNED INVESTMENTS

Despite being authorised to increase the capital (page 74 et seq. of this report), the Executive Board is not currently planning any capital measures in the next two years. The funding for the planned investments and the working capital will continue to come from cash flow and also the new syndicated loan agreed in 2008.

Planned investment

Of the major investments in the capacity expansion project known as "Project 40" (see also page 45) with a total investment volume of €35 million since 2006, the last €3 million were invested in spring 2009. Altogether, the Executive Board expects the project to provide additional capacities for principal products of around 170,000 tonnes, as well as highly positive earnings contributions. As well as increasing the production capacity, the project also means a further step in the move towards concentration on crude oil-based specialty products.

FEWER INVESTMENTS PLANNED FOR 2009

It is still intended for the "Golden Cut" project, designed to enable the production of additional raw materials for making non-labelled plasticisers and to achieve higher-value product processing at the Hamburg-Neuhof refinery, to be implemented. However, in view of the uncertainty of the worldwide economic situation, the Executive Board has decided to defer this and other projects until a time at which it is possible to make a sounder assessment of how the world economy will develop. The exact cost calculation for the projects will then be reviewed on the basis of the cost situation at the time and a configuration optimised for further growth. The total volume of investment will therefore fall from €47.1 million in the year under review to approx. €27 million in 2009. A similar amount will also be invested in 2010, unless one or other of the aforementioned projects is under-

taken at that time. Along with the normal replacement purchases and maintenance investments, the firmly budgeted investments will primarily serve to improve the efficiency of various plant components and the construction of new processing plants.

Prospective developments in liquidity

LIQUIDITY ENSURED

With the substantial increases in some raw material prices and the resulting sharp rise in working capital, considerable strains were placed on liquidity in the year under review. Through the new syndicated loan agreed in April 2008, these pressures were handled without difficulty. Thanks to the external funding resources available and the anticipated operating cash flow, a consistently good liquidity situation can also be expected in 2009 and 2010.

Opportunities

Opportunities from developments in the general operating environment

ORIENTATION TOWARDS CRUDE OIL-BASED SPECIALTY PRODUCTS OPENS UP NEW PERSPECTIVES

With the big oil companies concentrating on high-volume mass products, H&R WASAG continues to see good prospects for itself thanks to its gearing to crude oil-based specialty products. The concentration on these specialty products, which do not form the focus of activities for any other suppliers, opens up to H&R WASAG AG the outstanding opportunity to distinguish itself from its competitors through efficient production processes and very high quality.

Not only the technologically leading non-labelled plasticisers but also other specialty products made by H&R WASAG AG provide the company with the opportunity to benefit from the changes in the law which are foreseeable in many countries and will impose stricter environmental requirements on crude oil-based products. Our high level of technological competence, flexible production processes and the concentration of our research and development activities on specialty products enable us to respond particularly quickly to such changes, and this in turn can entail additional opportunities to gain market share and earn good margins.

The ongoing financial crisis, with its negative impact on the funding situation of many competitors, opens up opportunities for a good and soundly financed enterprise like H&R WASAG AG to take advantage of these circumstances and gain additional market shares.

Corporate strategy opportunities

KNOW-HOW GAINED IN GERMANY IMPROVES OPPORTUNITIES OF INTERNATIONALISATION

With the strategy of targeted internationalisation of its activities which it has pursued for many years, H&R WASAG AG is also able to apply the know-how it has acquired in Germany in the production of crude oil-based specialty products in other suitable countries in order to develop additional earnings potential there. Thanks to the production particularly designed for those products, the concentration on crude oil-based specialty products also results in cost and quality advantages over competitors who only make these products as a sideline product of a manufacturing process.

HIGH PRODUCTION FLEXIBILITY ALLOWS RAPID ADJUSTMENT TO CUSTOMER NEEDS

This optimised and flexible production enables H&R WASAG AG to turn customer requirements into products especially quickly and to manufacture those products in high quality and at favourable cost. With this production and investment strategy, H&R WASAG is able to make and sell high-margin products even in supposedly difficult market circumstances and independently of the fluctuations in standard products.

Production opportunities

The crude oil processed in the Group's refineries is carried in the current budget at a price of US$65/barrel (Brent). Possible falls in crude oil prices could result in a fall in the raw materials costs and hence to additional windfall profits. Such additional unscheduled profits could also arise from a positive development in base oil margins, which precisely in times of volatile developments in the crude oil prices is a conceivable possibility.

In the Plastics Division, H&R WASAG is seeking to counter the growing price pressure from the difficult economic situation in which the automotive industry currently finds itself through the targeted marketing of new, innovative product and production technologies. The acquisition of new customers in other industries, e.g. medical technology, could open up opportunities for sales and earnings growth.

Other opportunities

ADDITIONAL PRODUCTION OPTIMISATION PROJECTS CAN INCREASE SHARE OF SPECIALTY PRODUCTS

Through the specialisation in crude oil-based specialty products and the resulting optimisation of the production processes, only small volumes of hard-to-sell residual materials occur. The "Golden Cut" project, which it may be possible to implement in 2010, together with other measures will offer the option of making even further substantial reductions in the share of these residual materials in favour of a larger quantity of specialty products. The cost advantages resulting from such progress would further strengthen the market position and cost leadership of the company in the production of specialty products and increase the yield of marketable products obtained from the raw materials employed.

Overall Group outlook

Despite the difficulties of the economic operating environment, the Executive Board reckons with an altogether positive development for the Group in the years 2009 and 2010. H&R WASAG AG's proven ability to sustainably earn profits even in times of economic crisis highlights the strong and stable position held by the Group.

DIFFICULT ECONOMIC ENVIRONMENT OFFERS OPPORTUNITIES TO GAIN MARKET SHARE

The concentration on crude oil-based specialty products which has been pursued consistently for many years, accompanied by continuous improvements in efficiency in production and use of materials, has provided the Group with continuing good prospects. Because of the company's sustained profitability and sound funding basis, the current difficult economic times offer H&R WASAG AG substantial opportunities to gain new market shares with its highly marketable products, with these market shares forming the basis for potential future growth in earnings.

H&R WASAG AG EXPECTS RENEWED SALES AND PROFIT GROWTH AS OF 2010

Although the burden of the anti-trust fine and the very sharp cut in the value of the inventories at the end of 2008 resulted in a fall in net income, H&R WASAG AG nevertheless achieved a good result for the year. Therefore, despite the dramatic worsening of the financial crisis, the company is approaching the years 2009 and 2010 with optimism. Although it is not possible, because of the extreme uncertainty currently prevailing on the world markets, to make reliable forecasts based on ascertained figures at the present time, H&R WASAG AG will succeed in making reasonable profits also in the next two years. For 2010, we reckon with a return to rising sales and earnings.

CONSOLIDATED STATEMENTS

of H&R WASAG AG, Salzbergen, for the financial year 2008

FINANCIAL

Consolidated financial statements

Other information

Consolidated balance sheet as of 31 December 2008

Assets thousand €	Item	31/12/2008	31/12/2007
Short-term assets			
Cash and cash equivalents	(1)	14,757	15,952
Marketable securities		431	516
Trade accounts receivable	(2)	76,831	61,032
Receivables from companies with which a participation relationship exists	(3)	2,680	1,207
Income tax claims		5,011	1,013
Inventories	(4)	106,549	118,050
Short-term prepaid expenses and other short-term assets	(5)	5,432	12,232
Short-term assets		**211,691**	**210,002**
Long-term assets			
Fixed assets	(6)	164,006	132,951
Goodwill	(7)	35,005	35,121
Other intangible assets	(7)	3,926	4,977
Shares in at-equity reported shareholdings	(8)	162	30
Other financial assets	(8)	5,316	6,088
Long-term prepaid expenses and other long-term assets	(9)	6,487	4,445
Deferred taxes	(10)	5,913	4,690
Long-term assets		**220,815**	**188,302**
Total Assets		**432,506**	**398,304**

Liabilities thousand €	Item	31/12/2008	31/12/2007
Short-term liabilities			
Short-term borrowing and current portion of long-term borrowing	(11)	14,449	9,939
Trade accounts payable	(12)	33,453	45,696
Liabilities due to companies in which a participating interest is held	(13)	1,324	3,087
Advance payments received		102	486
Tax provisions		5,950	3,074
Short-term provisions	(14)	43,686	35,416
Other short-term liabilities	(15)	3,670	6,440
Short-term accrued expenses and deferred income	(16)	42	64
Short-term liabilities		**102,676**	**104,202**
Long-term liablities			
Trade accounts payable		—	—
Financial debt	(17)	97,155	46,917
Pension provisions	(18)	48,217	48,278
Other long-term provisions	(19)	7,535	7,967
Other long-term liabilities	(20)	7,369	14,832
Long-term accrued expenses and deferred income	(21)	242	262
Deferred taxes	(10)	3,926	2,591
Long-term liablities		**164,444**	**120,847**
Shareholders' equity			
Subscribed capital	(22)	76,625	76,625
Capital reserve	(23)	16,399	16,399
Other reserves	(24)	4,887	8,676
Consolidated retained earnings	(25)	71,820	71,573
Foreign currency translation adjustments		–4,912	–1,019
Minority interests	(26)	567	1,001
Shareholders' equity		**165,386**	**173,255**
Total shareholders' equity and liabilities		**432,506**	**398,304**

Consolidated statement of income for the period from 1 January to 31 December 2008

thousand €	Item	01/01 to 31/12/2008 H&R WASAG Group	01/01 to 31/12/2007 Continuing operations	Discontinued operations	H&R WASAG Group
Sales	(28)	1,035,186	776,587	21,266	797,853
Other operating income	(29)	26,059	15,207	17,281	32,488
Changes in inventories of finished goods and work in progress		5,363	–12,038	–130	–12,168
Material costs	(30)	–825,214	–540,510	–9,776	–550,286
a) Expenditure on raw materials and supplies and for all merchandise		–793,128	–515,178	–9,157	–524,335
b) Purchased services		–32,086	–25,332	–619	–25,951
Personnel expenses	(31)	–62,713	–70,948	–7,084	–78,032
a) Wages and salaries		–53,196	–60,417	–5,751	–66,168
b) Social security payments and expenses for pensions and for support		–9,517	–10,531	–1,333	–11,864
Depreciation and amortisation		–16,254	–13,558	—	–13,558
Other operating expenses	(32)	–125,383	–89,408	–7,748	–97,156
Income from operations		**37,044**	**65,332**	**13,809**	**79,141**
Net interest result	(33)	–11,076	–5,592	–580	–6,172
Result of at-equity reported shareholdings		132	1	—	1
Other financial result		–56	29	—	29
Earnings before taxes (EBT)		**26,044**	**59,770**	**13,229**	**72,999**
Taxes on earnings and income	(34)	–14,271	–20,498	–860	–21,358
Income before minority interests		**11,773**	**39,272**	**12,369**	**51,641**
Minority interests		–29	402	–37	365
Net profit/loss to shareholders of H&R WASAG AG		**11,744**	**39,674**	**12,332**	**52,006**
Profit carried forward		47,383			37,499
Addition to the other reserves		—			–17,932
Withdrawal from other reserves		12,693			—
Accumulated earnings		**71,820**			**71,573**
Basic earnings per share, €	(35)	0.39	1.31	0.41	1.72

Consolidated cash flow statement for the period from 1 January to 31 December 2008 (IFRS)

thousand €			01/01 to 31/12/2008 H&R WASAG Group	01/01 to 31/12/2007 Continuing operations	Discontinued operations	H&R WASAG Group
1		Income before income taxes, minority interests and interest result	37,120	65,361	13,809	79,170
2	+/–	Depreciation/write-ups of fixed assets	15,777	13,558	—	13,558
3	+/–	Changes in long-term provisions	–3,196	–4,847	–4	–4,851
4	+/–	Interest received/paid	–8,391	–3,786	–191	–3,977
5	+/–	Income tax received/paid	–15,281	–25,571	6	–25,565
6	+/–	Other non-cash expenses and income	85	–2,576	3,481	905
7	+/–	Net profit/loss from disposal of Explosives Division	—	—	–13,821	–13,821
8	+/–	Changes in short-term provisions	8,270	5,852	448	6,300
9	–/+	Result from disposal of fixed assets	–69	–1,084	—	–1,084
10	–/+	Changes in inventories and trade receivables as well as other assets not attributable to investing or financing activities	–3,624	–11,015	–923	–11,938
11	+/–	Changes in trade payables and other liabilities not attributable to investing or financing activities	–14,712	700	218	918
12	**=**	**Cash flow from operating activities (sum of 1 to 11)**	**15,979**	**36,592**	**3,023**	**39,615**
13	+	Proceeds from disposal of companies	1,551	41,964	—	41,964
14	–	Payments for acquisitions of companies	—	–544	—	–544
15	+	Payment from relinquished business unit for redemption of receivables	—	22,340	—	22,340
16	+	Proceeds from disposal of property, plant and equipment	427	1,112	—	1,112
17	–	Capital expenditures for property, plant and equipment	–46,723	–54,421	–1,587	–56,008
18	+	Proceeds from disposal of intangible assets	—	—	—	—
19	–	Capital expenditures for intangible assets	–404	–2,048	—	–2,048
20	+	Proceeds from disposal of financial assets	189	—	—	—
21	+	Proceeds from financial assets	–93	—	—	—
22	+/–	Currency fluctuations	151	–461	–178	–639
23	**=**	**Cash flow from investment activities (sum of 13 to 22)**	**–44,902**	**7,942**	**–1,765**	**6,177**
24	–	Dividend	–24,190	–19,126	—	–19,126
25	+	Capital increase	—	19,825	—	19,825
26	+/–	Income/expenditure relating to minority shareholders	–712	–2,002	—	–2,002
27	–	Repayment of financial liabilities	–128,855	–82,419	–1,215	–83,634
28	+	Proceeds from financial liabilities	183,987	39,898	695	40,593
29	**=**	**Cash flow from financing activities (sum of 24 to 28)**	**30,230**	**–43,824**	**–520**	**–44,344**
30	+/–	Net change in financial resources (sum of rows 12, 23, 29)	1,307	710	738	1,448
31	+	Financial resources at the beginning of year	14,835	12,600	1,103	13,703
32	+/–	Changes due to currency conversion	–1,759	–316	—	–316
33	+	Change to cash and equivalents due to scope of consolidation	—	1,841	–1,841	—
34	**=**	**Financial resources at the end of year**	**14,383**	**14,835**	**—**	**14,835**
		Short-term financial resources	14,757	15,952	—	15,952
		Overdraft	–374	–1,117	—	–1,117
		Financial resources	**14,383**	**14,835**	**—**	**14,835**

Consolidated statement of changes in shareholders' equity

for the period from 1 January to 31 December 2008

2008 thousand €	Sub-scribed capital	Capital reserve	Other reserves Valuation of financial assets	Cash flow-hedges	Other reserves	Consolidated retained earnings	Foreign currency translation adjustments	Minority interests	H&R WASAG Group
Status as of 01/01/2008	76,625	16,399	18	141	8,517	71,573	–1,019	1,001	173,255
Retirement of put option	—	—	—	—	9,359	—	—	—	9,359
Dividends	—	—	—	—	—	–24,190	—	—	–24,190
Valuation of financial assets	—	—	55	–171	—	—	—	—	–116
Currency conversions	—	—	—	—	—	—	–3,893	–90	–3,983
Net income	—	—	—	—	–12,693	24,437	—	29	11,773
Acquisition of shares of minority interests	—	—	—	—	–339	—	—	–373	–712
Status as of 31/12/2008	**76,625**	**16,399**	**73**	**–30**	**4,844**	**71,820**	**–4,912**	**567**	**165,386**

2007 thousand €	Sub-scribed capital	Capital reserve	Other reserves Valuation of financial assets	Cash flow-hedges	Other reserves	Consolidated retained earnings	Foreign currency translation adjustments	Minority interests	H&R WASAG Group
Status as of 01/01/2007	53,739	2,580	41	282	362	56,625	72	4,746	118,447
Capital increase, Dec. 2006	16,111	3,714	—	—	—	—	—	—	19,825
Capital increase from issue of preference shares	6,775	10,105	—	—	—	—	—	—	16,880
Dividends	—	—	—	—	—	–19,126	—	–2,002	–21,128
Valuation of financial assets	—	—	–23	–141	—	—	—	—	–164
Currency conversions	—	—	—	—	—	—	–1,091	–86	–1,177
Net income	—	—	—	—	17,932	34,074	—	–365	51,641
First-time consolidation and disposals	—	—	—	—	–9,777	—	—	–1,292	–11,069
Status as of 31/12/2007	**76,625**	**16,399**	**18**	**141**	**8,517**	**71,573**	**–1,019**	**1,001**	**173,255**

Notes to the consolidated financial statements as of 31 December 2008 (IFRS)

Basic information

The listed company, H&R WASAG AG with its head office at 48499 Salzbergen, Neuenkirchener Straße 8 (Germany), operates through its subsidiaries in various speciality chemicals markets and the plastics industry. Its activities cover the production of chemical-pharmaceutical raw materials and the manufacture of injection-moulded precision plastic components.

As an exchange-listed company, H&R WASAG AG is obliged under Article 315 a of the German Commercial Code (HGB) to publish consolidated financial statements in accordance with international accounting standards and rules.

As mandated by EU Directive No. 1606/2002, the consolidated financial statements of H&R WASAG AG as of the accounting cut-off date were prepared in accordance with the stipulations of the International Accounting Standards Board (IASB), as well as the stipulations of Article 315a, Para. 1 of the German Commercial Code (HGB). All of the currently mandated accounting standards (IFRS/IAS) and interpretations (IFRIC/SIC) have been fully complied with.

To the extent that revised or new standards issued by the International Accounting Standards Board (IASB) are compulsory from 1 January 2008, they have not been voluntarily used in advance.

Besides the income statement, the balance sheet and the statement of cash flows, a statement of changes in equity is also included. In addition, information provided in the appendix contains segmental reporting.

The consolidated financial statements for 2008 were prepared in Euros (€). All the values shown are in thousands of Euros (€k) unless otherwise specified.

The financial year for H&R WASAG AG and its subsidiaries included in the consolidated financial statements is the same as the calendar year.

The consolidated financial statements are published in the electronic version of the German Federal Gazette (Bundesanzeiger).

Basics of consolidation

The consolidated financial statements include the financial statements of the parent company and the companies controlled by it (subsidiaries). Control is attained where the company is a position to determine the financial and commercial policy of another company in order to benefit from its activities.

The results for the subsidiaries acquired or disposed of in the course of the year are recorded in the consolidated income statement from the actual acquisition date or up to the actual date of disposal.

The financial statements included in the consolidated financial statements have been drawn up using uniform accounting principles. The conclusive reporting date is the reporting date of the parent company.

All internal transactions, balances and interim results are completely eliminated in the process of consolidation.

Group of consolidated companies

The consolidated financial statements of H&R WASAG AG cover all significant German and foreign companies controlled by H&R WASAG AG. A controlling interest is present where H&R WASAG AG is in a position to influence the financial and commercial policy of a company in order to benefit from the activities of the company concerned. H&R WASAG AG directly or indirectly holds the majority of the voting rights in its subsidiaries.

H&R WASAG holds shares in some companies via trusts. These direct shareholdings are also consolidated fully, to the extent that a controlling relationship exists. The shareholding relationships are set out in the list of shareholdings in the Appendix to the Notes on the Accounts.

As well as the financial statements for the parent company, the consolidated financial statements cover the financial statements of 15 (2007: 20) German and 16 (2007: 17) foreign subsidiaries drawn up as of the same reporting date.

The reduction in the number of subsidiaries included in consolidation was due to corporate amalgamation activity and did not result in any new debts or expenditure of assets.

Consolidation methods

Companies being consolidated for the first time are included in the consolidated financial statements from the date on which H&R WASAG AG acquired control. When this control ceases, the relevant entities are removed from the Group of consolidated companies.

Capital consolidation

Corporate mergers are reported in accordance with IFRS 3.14, depending on the method of acquisition. The acquirer is considered to be the party that has obtained control over the acquired company in such a way that it can benefit from that company.

The procurement costs are added to the share of the actual cash value of the net equity capital to be enclosed. The net equity capital results from the identified assets, debts and contingent liabilities of the acquired company which meet the inclusion criteria set out in IFRS 3 business combinations and should be reported at actual cash value, unless they are classified as available for sale. Such items are reported and valued according to IFRS 5 as non-current assets held for sale and discontinued operations at fair value minus the sales costs.

An asset-side differential amount remaining after offset is reported as an intangible asset in the goodwill item in the balance sheet. Capitalised goodwill is not amortised systematically but is subject to an impairment test not only every year but also whenever there is reason to believe that an impairment of value has taken place.

The minority interests in the fully consolidated company are measured at the fair value of the net asset valuations.

Any resulting liability-side differential amount is posted directly to the income statement after revaluation of the net assets acquired in accordance with IFRS 3.

Associated companies are reported according to the equity method. As of 31 December 2008, two companies were reported according to this method. Other holdings are reported in accordance with IAS 39 at market value or at historical costs if a market value cannot be determined.

The net profit/loss for a sold subsidiary should be included in the consolidated financial statements up to the date of disposal. This is the date on which control of the subsidiary by the parent company ceases. The difference between the proceeds from the sale of the subsidiary and the book value of the assets minus any debts at the date of disposal, is reported in the income statement.

Other consolidations

Internal revenues, expenditure and accounts receivable and payable between the consolidated companies are eliminated.

Intercompany profits from internal movements of goods and services are posted to the income statement after adjustment for deferred taxes. Internal exchanges of goods and services are handled on normal terms for the market.

Currency conversion

The financial statements for the foreign subsidiaries are converted to Euros according to the concept of the functional currency. As all companies are regarded by H&R WASAG AG as working independently from a financial, economic and organisational point of view, the functional currency is the national currency of these companies in each case. The assets and liabilities are converted at the mean rate of exchange on the reporting date; items in the income statement, and hence the net profits shown in the income statement, are converted at the average rate for the year. Any resulting differences are booked against equity until the subsidiary is sold.

The key currencies taken as a basis for the currency conversion developed as follows:

Foreign currency per € 1	Rate on reporting date 31/12/2008	Rate on reporting date 31/12/2007	Average rate FY 2008	Average rate FY 2007
US dollar	1.3917	1.4716	1.4706	1.3706
British pound	0.9525	0.7346	0.7965	0.6846
Australian dollar	2.0274	1.6775	1.7416	1.6356
South African rand	13.0667	10.0300	12.0659	9.6613
Thai baht	48.2850	43.8250	48.4560	44.2134
Chinese yuan	9.4956	10.7400	10.2247	10.4186
Czech koruna	26.8750	26.5750	24.9590	27.7582
Malaysian ringgit	4.8048	4.8652	4.8879	4.7076

General Reporting and Valuation Methods

Presentation of the balance sheet

The balance sheet is presented according to maturity and corresponding to IAS 1. Assets are reported as current assets if they are held for trading purposes, are intended for sale within the normal course of the business cycle, or it is expected that they will be realised within a period of 12 months following the reporting date. Liabilities are classified as current in the same way.

Cash and cash equivalents

Cash and cash equivalents (bank balances and cash in hand) are shown at their face value in the balance sheet.

Foreign exchange is valued at the rate of exchange on the date of the balance sheet.

Receivables and other assets

All marketable financial assets are reported on the trade date, i.e. the date on which the receivable came into being or the commercial title was transferred, initially at the cost of acquisition. Under IAS 39, financial assets are subsequently broken down into receivables, assets held for trading purposes, assets held to maturity and assets available for sale. Receivables and assets held to maturity are valued at each reporting date at historical costs. Assets held for trading purposes and assets available for sale, on the other hand, are reported on the reporting date at fair value, with the change in value of assets available for sale posted to equity. Identifiable risks are taken into account using appropriate value impairment adjustments. Foreign exchange is valued at the mean rate of exchange on the reporting date.

Sales of receivables are treated in the Group according to the guidelines of IAS 39 "Financial Instruments: Recognition and Measurement". This accounting standard stipulates that financial assets should be booked out if the contractual rights to the cash flows from these assets expire or the financial asset has been transferred. The H&R WASAG Group sells trade receivables with short-term maturities to banks on a revolving basis as part of factoring agreements. The receivables are booked out as soon as the companies have transferred their contractual rights from the financial assets (equitable assignment) and essentially all opportunities and risks connected with the property have been transferred.

Derivatives

Derivative financial instruments are used within the Group in accordance with the internal policy for hedging interest and exchange rate risks based on a hedging policy defined and monitored by the Executive Board. In accordance with IAS 39, all financial derivatives are recorded in the balance sheet at their acquisition costs, and then valued on the reporting date at fair value.

Market value changes to derivative financial instruments that are balanced as part of a hedging transaction are booked against income or equity, depending on whether the hedge concerned is a fair value hedge or a cash flow hedge.

The market value changes to the secured underlying transaction and to the derivative financial instrument are shown in the context of a fair value hedge in the income statement. Market value changes to derivative financial instruments used for cash flow hedges are shown in the equity until the underlying transaction affects income. The ineffective share of a cash flow hedge or hedging transactions that do not meet the requirements for Hedge Accounting are immediately posted to the income statement.

Derivative financial instruments are reported in the balance sheet under "Other assets" or "Other liabilities" (please also refer to further remarks contained in Note (38)).

Inventories

In accordance with IAS 2, those assets are reported among inventories which are held for sale during the normal course of business (finished goods and merchandise), which are in the process of production for sale (unfinished goods) or which are consumed as part of the production or rendering of services (raw materials, consumables and supplies).

The valuation of inventories is carried at the lower of historical costs, calculated on the basis of the sliding average method, and realisable net disposal value, in other words, the disposal value achievable in the normal course of business minus estimated production and sales costs.

In financial year 2008, we modified one of the assumptions used to value our consumption of raw materials when calculating manufacturing costs for finished goods and work in progress. While we used to calculate such materials expenditures using an accumulated average for the financial year, we switched to using a weighted monthly average. This allows us to reflect fluctuations in material prices in a more timely fashion. In compliance with IAS 8, the effects of changing this valuation method were stated prospectively.

Production costs include the individual material and production costs directly attributable to the manufacturing process as well as an appropriate share of materials and production overheads and production-related administration overheads. Financing costs are not taken into account.

With the launch of emissions trading throughout the European Union, our refineries have received free-of-charge CO_2 emission rights, which have thus been assigned an acquisition cost of zero.

Assets held for sale

“Assets held for sale” comprise assets that can be sold in their current condition and whose disposal is highly probable. These may be individual non-current assets, groups of assets (disposal groups), or parts of companies.

Liabilities that are intended for disposal along with the assets in a sale transaction form a component of the disposal group or discontinued activity, and are also reported separately as “Liabilities connected with assets held for sale”.

Non-current assets held for disposal are no longer amortised, provided the appropriate qualification applies, but recognised instead at fair value minus disposal costs, where this is less than the book value.

Results from the valuation of individual assets or asset groups held for sale are reported until the final disposal date among the earnings from continuing activities.

In accordance with IFRS 5.32c, a subsidiary acquired solely for the purpose of disposal is classified as a discontinued division, and its assets and liabilities are reported separately on the asset and liability sides of the balance sheet respectively.

To the extent that an acquired subsidiary originally purchased without the intention of selling it is later intended for disposal, the general criteria of IFRS 5 must be applied to assess whether it has the characteristics of a business area.

Fixed assets

Fixed assets are valued at acquisition or production costs minus cumulative depreciation and impairment costs.

Acquisition costs include the purchase price plus any expenses needed for the planned commissioning.

Expenses for regular maintenance and repair of fixed assets are posted to the income statement. Replacement and conservation costs are only capitalised as deferred production costs if they lead to a significant extension of useful life, a substantial improvement or a major change in the use of the asset.

Any investment subsidies received are reflected in reduced depreciation over the useful life of the assets, or treated as deferred liabilities and written down over the average useful life of the subsidised items.

Scheduled depreciation of property, plant and equipment is performed using the linear method on the basis of useful economic lives standardised throughout the Group.

The useful economic lives are reviewed after each accounting cut-off date and were adjusted for the investments commissioned in financial year 2008. This resulted in an extension of the useful life of certain asset categories, when compared to the previously summarised useful lives, as shown below:

	Useful economic life (from 01/01/2008)	Useful economic life (until 31/12/2007)
Buildings	10 to 36 years	10 to 36 years
Tank installations	25 years	25 years
Technical equipment and machinery	10 to 20 years	10 to 15 years
Other equipment	3 to 6 years	3 to 6 years
Office and operating equipment	3 to 13 years	3 to 13 years

The effect on depreciation for the current financial year and subsequent financial years was as follows:

thousand €	2008	2009	2010	2011	2012
Effect on depreciation	2,097	2,113	2,113	2,113	2,113

Every time we prepare financial statements, we check for any indications that an impairment of value has occurred. If this is the case, we estimate the maximum recoverable value for the asset in question. If the book value of an asset exceeds its estimated recoverable amount, it is depreciated to this amount.

If the recoverable amount for the individual asset cannot be estimated, an estimate is made of the recoverable amount for the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of the fair value less disposal costs and the value in use. In determining the value in use, the estimated future payment streams have interest deducted from their present value at an input tax interest rate. This input tax interest rate takes account of the current market assessment of the present value of the money, and of the risks inherent in the asset where these have not already been incorporated into the estimate of the payment streams. If the estimated recoverable amount for an asset (or a cash-generating unit) falls below the book value, the book value of the asset (or cash-generating unit) is reduced to the recoverable amount. The impairment costs are taken directly to the income statement.

If the reasons for an unscheduled depreciation performed in a prior year no longer apply, or if the amount has declined, we perform corresponding write-ups. However, the higher book value resulting from such a write-up must not exceed the recoverable value nor the carryover acquisition and manufacturing costs.

If property, plants and equipment are sold, the profit or loss resulting from the disposal of assets is reported with other operating income or other operating expenditure.

Borrowing costs

Borrowing costs are booked through expenses in the period in which the borrowing expenditure arises. Borrowing costs are not capitalised.

Leasing

A lease is an agreement in which the lessor transfers to the lessee the right to use an asset for a specific period of time in return for payment or a series of payments.

The Group leases certain assets and intangible assets (leasing objects). Leases are classified as finance leases where the Group bears significant risks and benefits arising from the ownership of the leasing object. Finance lease assets are capitalised at the start of the lease at the lower of fair value of the leasing object and the present value of the minimum lease payments.

A lease liability of the same amount is recognised among non-current liabilities. Each instalment is split into an interest component and a redemption component, so that the lease liability is subject to a constant rate of interest. The interest component of the lease instalment is recognised as an expense in the income statement. The asset held as part of the finance lease is depreciated over the shorter of the useful economic life of the asset and the duration of the lease.

Leases where a significant portion of the risks and opportunities connected with the ownership of the lease object remain with the lessor are classified as operating leases. Payments rendered as part of an operating lease are reported on a straight-line basis over the duration of the lease in the income statement.

Goodwill and other intangible assets

Intangible assets are entered at cost in the balance sheet. Goodwill arising before 31 March 2004 is recognised according to IFRS 3.79 (in other words, the residual book values applying as of 31 December 2004 are utilised as costs).

All intangible assets except goodwill have definable useful lives and are therefore amortised on a scheduled basis over their useful lives.

The following useful lives were used as a basis for calculating the write-downs:

Assets	Useful life
Software	3 to 5 years
Licences	3 to 5 years
Concessions and industrial property rights	3 to 6 years

Long-lasting value impairments are reflected through extraordinary write-offs. If the reasons for unscheduled write-offs no longer apply, corresponding write-ups are applied that may not exceed amortised costs.

In accordance with IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), goodwill is subject to an annual test for value impairment and not treated as unscheduled write-offs. Where events occur or circumstances change that may indicate a potential value impairment, the value impairment test is also performed more regularly (please see also the remarks contained in Note (7)). Value impairments to goodwill arising from impairment tests are reported immediately through the income statement under "Depreciation"; according to IAS 36, such write-downs may not be reversed at a later point.

Shares in associated companies

Shares in associated companies are reported by the equity method, which means that they are initially reported at historical costs; in subsequent periods they are reported using updated proportional net asset valuations. As part of this process, the book values are adjusted every year to take account of proportional shares in results, dividends paid out and other adjustments in equity. Reported goodwill is shown in the valuation of the shareholding. Scheduled amortisation is not applied to goodwill. Companies reported according to the equity method are subject to unscheduled write-downs if the recoverable amount is less than the book value.

Other financial assets

Other investments, securities held as fixed assets, and other loans are reported under "Other financial assets". Recognition for normal purchases or sales is on the trade date.

Other participating interests are shown at cost of acquisition in accordance with IAS 39, as these financial assets have no actively quoted market price, and other valuation methods fail to supply a more reliable cash value.

Securities held as fixed assets are classified as financial assets available for disposal in accordance with IAS 39. They are recognised at fair value both when first entered in the balance sheet and in subsequent periods. The assessment of fair value is generally performed by a third-party expert. The first-time valuation is performed on the trade date. Unrealised gains and losses are reported in a separate item within equity. The gain or loss is booked through the income statement on disposal.

Financial assets reported under "Other loans" are subject to IAS 39, and are classified as loans and receivables and valued at amortised historical costs.

Amortised costs comprise the value of the first-time recognition minus redemptions, plus or minus any potential difference between the original amount and the amount repayable at maturity using the effective interest rate method, and minus any reductions for value impairments or non-collectability.

Liabilities

Liabilities comprise financial liabilities, trade payables and other liabilities and deferred income.

When liabilities are reported for the first time, they are entered at fair value. In subsequent periods, liabilities, with the exception of derivative financial instruments, are reported at historical costs. Liabilities related to finance leasing agreements are entered on the liabilities side of the balance sheet at the fair value of the leasing object or the cash value of the minimum lease instalments if this is lower.

The Deferred charges primarily include investment subsidies.

Provisions

In accordance with IAS 37, other provisions are only formed if a current legal or actual obligation exists as a result of a past event, an outflow of resources of commercial value in connection with the fulfilment of this obligation is probable, and the size of the obligation can be reliably estimated.

The amount reported as a provision represents the best possible estimate of the expenditure required to fulfil the current obligation on the balance sheet reporting date. If interest has a material effect, the present value of the expected expenditure is recognised.

The anniversary provisions are valued by the projected unit credit method in compliance with IAS 19.

Contractual obligations arising from rental agreements (e.g. demolition, renovation or clearance) are recognised as provisions, to the extent that a reliable estimate of the cost is possible, and the related resources of commercial value will probably be utilised.

Restructuring provisions are created in accordance with IAS 37.70ff as soon as a company is able to present a detailed, formal restructuring plan and has given rise to the justified expectation among those affected that the restructuring measures will be carried out with respect to those affected through the start of the implementation of the plan or through the announcement of its key components.

Our annual obligation to give back emission rights in line with the actual CO_2 emissions of our refineries will initially be covered by the emission certificates obtained free of charge, and will be valued at the zero acquisition cost of these certificates. If the emission rights granted free of charge turn out to be insufficient, we will create provisions (based on expected acquisition cost) for any additional emission rights that need to be acquired.

Pensions and similar obligations

H&R WASAG Group retirement provisions, both contribution-based as well as performance-related, are carried out in accordance with the legal, fiscal and commercial situation in the relevant countries.

Pension provisions are determined by the projected unit credit method for performance-related pension schemes in accordance with IAS 19, taking into account future movements in salaries using the corridor method. If the actuarial gains and losses resulting from the modification of the actuarial parameters exceed 10% of the higher amount of pension obligations at the start of the financial year, the amount exceeding the 10% limit is booked against income over the timeframe of the average residual service period of the active employees.

The interest portion contained in the transfer of the pension reserve is shown under Financial income.

Minority interests

Minority interests are reported separately in the consolidated financial statements under Shareholders' equity. Minority interests in consolidated net income are also indicated separately.

Income statement

The income statement has been prepared using the total cost method.

Realisation of sales

Sales and other operating earnings are realised when the service is provided or the risks are transferred to the customer, or when the claim arises.

Contributions and subsidies

In accordance with IAS 20.24, public subsidies for assets are deducted from the historical costs of the assets for which these subsidies were obtained, or presented in the balance sheet as liabilities-side deferred items.

Private subsidies are reported under other long-term liabilities and written down over the anticipated useful life.

Income taxes

Income taxes include both current tax items as well as deferred taxes.

Current taxes

Current tax expenditure is computed on the basis of the annual taxable income as defined under the tax code of the relevant country, while applying the appropriate tax rates. Taxable income differs from the annual surplus derived from the Group income statement in that it excludes expenses and revenues that are tax-deductible in later years and/or never taxable. The tax liabilities of the Group include current taxes for the financial year and prior years, as well as any taxes determined by an external audit.

Deferred taxes

As per IAS 12, deferred taxes are reported for temporary differences between the balance sheet valuations of assets and liabilities in the consolidated financial statements and the valuations used to determine taxable profit. Reporting follows the Balance Sheet Liability method.

Deferred tax liabilities (passive deferred taxes) are generally reported for all taxable, temporary differences, while active deferred taxes are capitalised in the amount they are most likely to be applied in the future. Deferred taxes are not reported insofar as the temporary differences in question arise from goodwill or from the first-time recordation of assets and liabilities

from a business transaction other than a corporate merger, provided this affects neither the period result before income tax nor the taxable result.

The calculation for determining deferred taxes is based on the expected tax rates at the time of their probable realisation. For purposes of the present consolidated financial statements, a tax rate of 28.48% (previous year: 28.48%) was used to calculate deferred taxes for the German companies and the consolidated bookings. The deferred taxes of foreign companies was calculated using 28.48% (previous year 28.48%). Deferred taxes are divided between tax assets (deferred tax assets) and tax liabilities (deferred tax liabilities). They are always deemed to be long-term in accordance with IAS 1.70.

Income tax expenditure

Current and deferred taxes are credited or debited to income as an expenditure or revenue, unless they are closely linked to items that have been booked directly into equity (since taxes will then be reported directly in the equity section).

Contingent liabilities

Contingent liabilities are potential obligations towards third parties or current obligations where an outflow of resources is unlikely or its extent cannot be determined reliably. As a general rule, contingent liabilities are not reported in the balance sheet. The obligation volumes for contingent liabilities detailed in the Notes to the Accounts correspond to the scope of liability existing on the balance sheet reporting date.

Discretionary decisions and estimates

The preparation of the consolidated financial statements entails making a number of assumptions and estimates that affect the reported measurements of assets, liabilities, income, and expenses, as well as contingent liabilities during the reporting period. Actual amounts may deviate from estimates. When evaluating our financial reporting or the effects of our estimates and discretionary decisions, one should keep in mind the following descriptions of the basic estimates, underlying assumptions, and uncertainties associated with the reporting and valuation methods we have selected.

In the case of assets intended for disposal it has to be determined whether the assets can be sold in their current condition and whether their disposal is very probable. If this is the case, the assets and, where applicable, related borrowings should be reported and valued as “Assets or liabilities intended for disposal”.

Among other things, these assumptions and estimates relate to the assessment of the value of intangible assets, the Group-standard determination of economic lives for tangible fixed assets, the collectability of receivables, as well as the accounting treatment and measurement of provisions.

Basic estimates are used to identify an impairment of value or to determine recoverable value or actual cash value. These specifically include estimates of future payment streams, applicable discount factors, expected useful lives and residual values.

Other basic estimates are made with regard to the discount factors and mortality tables that underlie provisions for pensions and similar obligations, and with regard to the expenses associated with other types of provisions.

The assumptions and estimates are based on premises reflecting the current state of knowledge. This also reflects a currently realistic assessment of the future development of the commercial environment in the sectors and regions in which the Group is active. Since these background conditions are subject to change and may deviate from the assumptions made in a manner beyond management's control, actual amounts may differ from original estimates. In such instances, the assumptions and, where necessary, the book values of the affected assets and liabilities are adjusted correspondingly.

At the time of preparation of the consolidated financial statements, there were no special circumstances affecting the underlying assumptions and estimates, so no major adjustments to the book values of the reported assets and liabilities are to be expected in the next financial year from our current perspective.

Changes in reporting and valuation methods

New accounting rules

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have adopted further standards and interpretations that are not mandatory for the 2008 financial year. They were not applied prematurely by the H&R WASAG Group.

Published standards and interpretations that are not yet applied

Although the following interpretations had already been published as of the accounting cut-off date, their application was not yet mandatory:

Standard/interpretation		IASB Mandatory Effective Date	Adopted by the European Commission	Impact
IFRS 1, IAS 27	First-time application of IFRS – changes in determining acquisition cost of a holding in separate annual financial statements	01/01/2009	Yes	None
IFRS 1	Amendment for the first-time adoption of the IFRS	01/07/2009	No	None
IFRS 2	Share-based employee profit-sharing plans – changes regarding exercise terms and cancellations	01/01/2009	Yes	None
IFRS 3	Corporate mergers	01/07/2009	No	Unclear
IFRS 5	Revisions from the improvement project of May 2008	01/07/2009	Yes	None
IFRS 7	Enhancement of the disclosures about fair market value and liquidity risks regarding financial instruments, issued in March 2009	01/07/2009	No	Extended disclosures
IFRS 8	Operating segments	01/01/2009	Yes	Segmental reporting
IAS 1	Revisions regarding the presentation of the annual financial statements, including the requirement for a complete breakdown of income; revisions derived from the improvement project of May 2008	01/01/2009	Yes	Changes in presentation and designation
IAS 1	Changes regarding reporting of revocable financial instruments and of liabilities arising at liquidation	01/01/2009	Yes	None
IAS 7, 10, 16, 18, 19, 20	Various standards – revisions from the improvement project of May 2008	01/01/2009	Yes	None
IAS 23	Borrowing costs – revision and amendment regarding their expenses-related accounting treatment	01/01/2009	Yes	Unclear
IAS 27	Group and separate financial statements in accordance with IFRS	01/07/2009	No	Unclear
IAS 27	Corporate mergers – revisions from the improvement project of May 2008	01/01/2009	No	None
IAS 32, IAS 1	Puttable Financial Instruments and Obligations arising on Liquidation	01/01/2009	Yes	Unclear
IAS 28	Affiliated companies – follow-up changes from IFRS 3	01/07/2009	No	None
IAS 28	Affiliated companies – revisions from the improvement project of May 2008	01/01/2009	Yes	None
IAS 29	High-inflation countries – revisions from the improvement project of May 2008	01/01/2009	Yes	None
IAS 31	Joint ventures – revisions from the improvement project of May 2008	01/01/2009	Yes	None
IAS 31	Joint ventures – follow-up changes from IFRS 3	01/07/2009	No	None
IAS 31, 34	Revisions from the improvement project of May 2008	01/01/2009	Yes	None
IAS 36	Impairments of value – revisions from the improvement project of May 2008	01/01/2009	No	Additional explanations insofar as value impairments are to be accounted for
IAS 38	Intangible assets – revisions from the improvement project of May 2008	01/01/2009	Yes	None
IAS 39	Financial instruments – revisions from the improvement project of May 2008	01/01/2009	Yes	None
IAS 39	Financial instruments – changes regarding risk positions that qualify for hedge accounting	01/07/2009	No	Unclear
IAS 39	Financial instruments – restructuring of financial instruments	01/07/2008	No	None
IAS 40	Income-producing property – revisions from the improvement project of May 2008	01/01/2009	Yes	None
IAS 41	Agriculture – revisions from the improvement project of May 2008	01/01/2009	Yes	None
IFRIC 15	Agreements for the construction of property	01/01/2009	No	None
IFRIC 16	Hedging/safeguarding a net investment in a foreign company or operation	01/10/2009	No	None
IFRIC 17	In-kind distributions to owners	01/07/2009	No	None
IFRIC 18	Transfer of assets from customers	01/07/2009	No	Unclear

Standards and interpretations to be applied in the current year

The International Financial Reporting Interpretations Committee (IFRIC) has published four interpretations to be applied in the current financial year.

These are:

- IFRIC 11 Transactions in Accordance with IFRS 2
- IFRIC 12 Service Concession Agreements (not yet adopted by the EU)
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 Payments/Benefits to Employees.

None of the new accounting interpretations has a material effect on the Group's net worth, financial position and results, or on earnings per share in the current reporting period.

Explanatory notes to the consolidated balance sheet

(1) Cash and cash equivalents

thousand €	31/12/2008	31/12/2007
Cash in hand	303	62
Cheques	88	101
Bank balances	14,366	15,789
Total	**14,757**	**15,952**

Foreign currency balances are valued at the rate of exchange on the balance sheet date.

(2) Trade account receivables

thousand €	31/12/2008	31/12/2007
Trade receivables, gross	77,041	61,256
Value adjustments	–210	–224
Total	**76,831**	**61,032**

No trade receivables were assigned as loan collateral (previous year: €0)

Receivables from related parties are disclosed under Note (43).

The H&R WASAG Group sells trade receivables with short-term maturities to credit institutions on a revolving basis as part of a factoring agreement. Transferred receivables amounted to €9.4 million as of 31 December 2008 (previous year: €17.6 million).

Trade account receivables thousand €	Book value	Of which: neither value-impaired nor overdue on the accounting cut-off date	Of which: not value-impaired on the accounting cut-off date but overdue as follows:					
			Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
31/12/2008	76,831	63,382	6,696	1,789	1,651	1,203	2,105	6
31/12/2007	61,032	43,765	8,428	1,399	1,087	4,180	1,803	348

We have no indication that our creditors are likely to default on those trade receivables that are neither value-impaired nor overdue.

The risk provision within the Group for trade account receivables and other receivables by way of impairments is made up as follows:

thousand €	31/12/2008	31/12/2007
Status as of 01/01	224	175
Additions	140	152
Used	–116	—
Redemptions	–26	–93
Currency fluctuations	–12	–10
Changes to group of consolidated companies	—	—
Status as of 31/12	**210**	**224**

Below is the aging schedule for value-impaired trade account receivables:

Trade account receivables thousand €	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
31/12/2008	—	1	22	152	2	33
31/12/2007	138	41	—	—	—	68

(3) Receivables from companies with which a participation relationship exists

thousand €	31/12/2008	31/12/2007
SRS EcoTherm GmbH	1,633	289
Westfalen Chemie GmbH & Co. KG	1,047	918
Total	**2,680**	**1,207**

(4) Inventories

thousand €	31/12/2008	31/12/2007
Raw materials and supplies	30,256	47,493
Work in progress	21,656	28,549
Finished goods	54,406	41,711
Advance payments on inventories	231	297
Total	**106,549**	**118,050**

In preparing the 2008 financial statements, we modified the moving average used to value our consumption of raw materials for finished goods and work in progress. While we used to calculate such materials expenditures based on an accumulated annual average for the financial year, we have now switched to a monthly moving average. This allows us to better reflect current price levels in our material expenses.

In compliance with IAS 8, we have prospectively stated the effects of this change in estimate.

This change in estimate led to a €21.6 million reduction in the reported value of inventories compared to the previous method. The effects on future periods cannot yet be determined, since these will depend on future price trends.

Individual revaluations have been applied to all inventories where the proceeds likely to be realised from selling them are less than the book values of the inventories themselves (lower of cost or market value). Net proceeds from disposal are recognised as the projected realisable proceeds from disposal minus the cost payable until disposal.

The book value of inventories reported at actual cash value minus sales expenses amounted to €2.592m in the reporting year (previous year: €5.647m).

Value impairments of €830k (previous year: €837k) were reported as expenditure in the reporting period in accordance with IAS 2.34.

No inventories (previous year: €0k) were pledged as security for liabilities.

(5) Short-term prepaid expenses and other short-term assets

thousand €	31/12/2008	31/12/2007
Receivables due from the tax authorities arising from other tax	1,413	3,076
Supplier credit balance	1,132	66
Loans	750	5,000
Short-term prepaid expenses and deferred charges	409	422
Outstanding receivable from the sale of the discontinued activity	83	1,618
Other short-term assets	1,645	2,050
Total	**5,432**	**12,232**

The short-term prepaid expenses and deferred charges item contains pre-paid amounts for which the associated expenditure has to be allocated to the following year. The amount shown for this financial year relates essentially to insurance premiums, rental down-payments, and accrued IT maintenance fees.

The loan reported for 2007 amounting to €5.000m was completely paid back in 2008. The amount of €750k relates to a loan granted to a company associated with a member of the Supervisory Board and is further described under Note (43).

Of the other short-term assets, €8k had been individually value-adjusted as of 31 December 2008 (previous year: €20k).

(6) Fixed assets

Developments 2008 thousand €	Land and buildings	Technical equipment/ machinery	Other facilities/ office equipment	Advance payments and plant under construction	Total
Acquisition and production costs					
Status as of 01/01/2008	36,776	148,118	17,895	41,834	**244,623**
Currency fluctuations	–426	–701	–198	–22	**–1,347**
Sales	—	—	—	—	**—**
Acquisitions	—	—	—	—	**—**
Additions	3,566	26,737	1,154	15,266	**46,723**
Disposals	—	–1,684	–43	—	**–1,727**
Transfers	443	37,977	492	–38,912	**—**
Status as of 31/12/2008	**40,359**	**210,447**	**19,300**	**18,166**	**288,272**
Cumulative depreciation					
Status as of 01/01/2008	14,639	83,612	13,421	—	**111,672**
Currency fluctuations	–62	–309	–110	—	**–481**
Sales	—	—	—	—	**—**
Acquisitions	—	—	—	—	**—**
Additions	1,431	12,126	1,232	—	**14,789**
Disposals	—	–1,328	–41	—	**–1,369**
Write-ups	—	–345	—	—	**–345**
Transfers	—	—	—	—	**—**
Status as of 31/12/2008	**16,008**	**93,756**	**14,502**	**—**	**124,266**
Carrying amounts					
Status as of 31/12/2008	24,351	116,691	4,798	18,166	**164,006**
Status as of 31/12/2007	22,137	64,506	4,474	41,834	**132,951**

Developments 2007 thousand €	Land and buildings	Technical equipment/ machinery	Other facilities/ office equipment	Advance payments and plant under construction	Total
Acquisition and production costs					
Status as of 01/01/2007	34,024	127,954	16,580	10,340	**188,898**
Currency fluctuations	–98	–536	–71	–31	**–736**
Sales	—	—	—	—	**—**
Acquisitions	473	1,580	—	—	**2,053**
Additions	2,246	12,907	1,506	38,477	**55,136**
Disposals	–81	–356	–289	–2	**–728**
Transfers	212	6,569	169	–6,950	**—**
Status as of 31/12/2007	**36,776**	**148,118**	**17,895**	**41,834**	**244,623**
Cumulative depreciation					
Status as of 01/01/2007	13,190	73,538	12,587	—	**99,315**
Currency fluctuations	–39	–174	–35	—	**–248**
Sales	—	—	—	—	**—**
Acquisitions	252	810	—	—	**1,062**
Additions	1,244	9,785	1,220	—	**12,249**
Disposals	–76	–347	–283	—	**–706**
Transfers	68	—	–68	—	**—**
Status as of 31/12/2007	**14,639**	**83,612**	**13,421**	**—**	**111,672**
Carrying amounts					
Status as of 31/12/2007	22,137	64,506	4,474	41,834	**132,951**
Status as of 31/12/2006	20,834	54,416	3,993	10,340	**89,583**

Land and buildings relates mainly to production facilities belonging to group subsidiaries and Technical equipment/ machinery relates mainly to production facilities.

A property belonging to the SYTHENGRUND subsidiary contains subterranean deposits of silica sand, which is used mainly in the glass and steel industries. According to geologic surveys, these deposits amount to ca. 13.5 million tonnes. Once a mining permit has been obtained, extraction of these deposits can begin again (with Group participation). Approval of the overall operations plan submitted to the relevant Board of Mines at the end of 2006 has been unexpectedly delayed by official procedures and objections from local residents and is expected to be granted in 2009.

Upon receipt of the necessary approval the possible utilisation options will be discussed and negotiations with potential cooperation partners will be resumed.

At the Salzbergen refinery site, New Additions for 2008 specifically include investment in the construction of the new additive component warehouse and of a new loading/unloading station for tanker cars as well as in the expansion of the Lubrizol plant.

At the Hamburg refinery site the New Additions in the financial year primarily comprise investments in the conversion and extension of the de-waxing plant I and in the extension of the wastewater treatment plant by construction of a new flotation stage as well as in the extension of the vacuum distillation unit.

At the refinery in Salzbergen, Additions to prepayments and investments in progress in 2008 include added capacity for solvent recycling, construction of new vacuum distilling units, additional infrastructure as well as a new tank storage unit.

At the Hamburg refinery, Additions to advance payments and investments in progress mainly consisted of the construction of three new VR-LCO tanks, the conversion of Bridge C (vessel loading/unloading facility) and the engineering of the propane deasphalting plant.

Re-classifications at the Salzbergen refinery included the 2007 investments (in progress) in added solvent-refining/ deparaffinising capacity as well as an overhaul of the mixing system.

At the Hamburg refinery, Capitalised investments in progress for 2007 included upgrading of Extraction plant II (including the natural gas-fired heat transfer furnace system) and of De-waxing plant II and the installation of an online measurement system for tanks.

Leasing

The H&R WASAG Group has different financing and operating leasing agreements for technical equipment, operating and office equipment as well as intangible assets.

Finance leases typically concern an agreement that does not have the legal form of a lease but satisfies the criteria of IFRIC 4, and is related to the supply of energy and water. The agreement has a term of approximately 20 years and ends on 30 June 2023.

There are also finance-lease agreements in place for injection moulding machines in the Plastics Division. Extension options exist with respect to the injection-moulding machines. If we do not exercise these options, we are obliged to acquire the machines.

The sum of leased assets financially attributable to the H&R WASAG Group according to IAS 17, and hence reported under Fixed Assets is presented as follows:

2008 thousand €	Technical equipment/ machinery	Intangible assets	Total
Acquisition costs			
Status as of 01/01/2008	10,521	3,696	**14,217**
Additions	2,628	—	**2,628**
Disposals	–14	—	**–14**
Currency conversion	—	—	**—**
Status as of 31/12/2008	**13,135**	**3,696**	**16,831**
Cumulative depreciation			
Status as of 01/01/2008	2,268	554	**2,822**
Additions	804	741	**1,545**
Disposals	–3	—	**–3**
Change to group of consolidated companies	—	—	**—**
Write-ups	–345	—	**–345**
Currency conversion	—	—	**—**
Status as of 31/12/2008	**2,724**	**1,295**	**4,019**
Book values			
Status as of 31/12/2008	10,411	2,401	**12,812**
Status as of 31/12/2007	8,253	3,142	**11,395**

2007 thousand €	Technical equipment/ machinery	Office and operating equipment	Intangible assets	Total
Acquisition costs				
Status as of 01/01/2007	7,032	—	—	**7,032**
Additions	3,489	—	3,696	**7,185**
Disposals	—	—	—	**—**
Change to group of consolidated companies	—	—	—	**—**
Currency conversion	—	—	—	**—**
Status as of 31/12/2007	**10,521**	**—**	**3,696**	**14,217**
Cumulative depreciation				
Status as of 01/01/2007	1,594	—	—	**1,594**
Additions	674	—	554	**1,228**
Disposals	—	—	—	**—**
Change to group of consolidated companies	—	—	—	**—**
Currency conversion	—	—	—	**—**
Status as of 31/12/2007	**2,268**	**—**	**554**	**2,822**
Book values				
Status as of 31/12/2007	8,253	—	3,142	**11,395**
Status as of 31/12/2006	5,438	—	—	**5,438**

The following lease payments fell due in subsequent periods as a result of finance lease agreements. The variable leasing instalments have been extrapolated on the basis of the last prevailing rate of interest.

	Up to 1 year		1 to 5 years		More than 5 years	
thousand €	31/12/2008	31/12/2007	31/12/2008	31/12/2007	31/12/2008	31/12/2007
Minimum lease instalments	1,886	1,591	3,760	5,101	1,263	1,838
Future financing costs from finance leases	255	356	454	651	75	150
Present value of finance lease liability	1,631	1,235	3,306	4,450	1,188	1,688

These payments essentially include a finance leasing agreement with the Deutsche Leasing AG, Bad Homburg, for an integrated ERP system for a total volume of €4.2 million. The agreements commencing on 1 April 2007 comprise two tranches and have a term of at least 48 months. They are calculated on the basis of a full amortisation after 48 months and cannot be terminated until at least 42 months have passed.

The additions relate to investments in a central cooling water system that was acquired as part of the finance lease agreement for the supply of energy as well as cooling and boiler feed water.

No fixed assets that are subject to a financing lease contract can be sold during the lifetime of these contracts.

Besides the finance lease contracts, lease and rental contracts were concluded that are to be classified as operating lease contracts by virtue of their contents, as the object of the lease or rental agreement is to be allocated to the lessor. These are mainly land and buildings, hardware, cars, fork-lift trucks, office equipment and tanker wagons. The terms are, as a rule, between 2 and 5 years. The contracts usually end automatically after the contractual term expires although the option of extending the contract exists in some cases.

Future minimum lease payments based on non-cancellable operating lease agreements become due in the subsequent periods as follows:

	Up to 1 year		1 to 5 years		More than 5 years	
thousand €	31/12/2008	31/12/2007	31/12/2008	31/12/2007	31/12/2008	31/12/2007
Land and buildings	440	775	637	634	782	218
Technical equipment/machinery	769	1,230	619	1,562	—	639
Office and operating equipment	1,148	1,668	1,671	1,335	—	—

(7) Goodwill and other intangible assets

Developments 2008 thousand €	Goodwill	Other intangible assets Concessions, industrial property rights, etc.	Software	Licences/ franchises	Patents, copyrights	Advance payments/ in development	Subtotal	Total
Acquisition and production costs								
Status as of 01/01/2008	47,403	901	5,798	2,053	221	—	8,973	**56,376**
Currency fluctuations	–116	—	6	9	3	—	18	**–98**
Acquisitions	—	—	—	—	—	—	—	**—**
Additions	—	72	103	87	—	142	404	**404**
Disposals	—	—	—	—	—	—	—	**—**
Transfers	—	—	—	—	—	—	—	**—**
Status as of 31/12/2008	**47,287**	**973**	**5,907**	**2,149**	**224**	**142**	**9,395**	**56,682**
Cumulative depreciation								
Status as of 01/01/2008	12,282	671	2,296	918	111	—	3,996	**16,278**
Currency fluctuations	—	—	3	2	3	—	8	**8**
Change to group of consolidated companies	—	—	—	—	—	—	—	**—**
Additions	—	121	911	322	110	1	1,465	**1,465**
Disposals	—	—	—	—	—	—	—	**—**
Transfers	—	—	—	—	—	—	—	**—**
Status as of 31/12/2008	**12,282**	**792**	**3,210**	**1,242**	**224**	**1**	**5,469**	**17,751**
Carrying amounts								
Status as of 31/12/2008	35,005	181	2,697	907	—	141	3,926	**38,931**
Status as of 31/12/2007	35,121	230	3,502	1,135	110	—	4,977	**40,098**

Developments 2007

thousand €	Goodwill	Other intangible assets						Total
		Concessions, industrial property rights, etc.	Software	Licences/ franchises	Patents, copyrights	Prepayments	Subtotal	
Acquisition and production costs								
Status as of 01/01/2007	47,424	886	1,866	840	—	363	3,955	**51,379**
Currency fluctuations	–21	—	–1	–1	—	—	–2	**–23**
Acquisitions	—	—	—	—	—	—	—	**—**
Additions	—	15	4,002	867	221	—	5,105	**5,105**
Disposals	—	—	–52	–33	—	—	–85	**–85**
Transfers	—	—	–17	380	—	–363	—	**—**
Status as of 31/12/2007	**47,403**	**901**	**5,798**	**2,053**	**221**	**—**	**8,973**	**56,376**
Cumulative depreciation								
Status as of 01/01/2007	12,282	566	1,566	644	—	—	2,776	**15,058**
Currency fluctuations	—	—	–1	—	–3	—	–4	**–4**
Change to group of consolidated companies	—	—	—	—	—	—	—	**—**
Additions	—	105	785	305	114	—	1,309	**1,309**
Disposals	—	—	–52	–33	—	—	–85	**–85**
Transfers	—	—	–2	2	—	—	—	**—**
Status as of 31/12/2008	**12,282**	**671**	**2,296**	**918**	**111**	**—**	**3,996**	**16,278**
Carrying amounts								
Status as of 31/12/2007	35,121	230	3,502	1,135	110	—	4,977	**40,098**
Status as of 31/12/2006	35,142	320	300	196	—	363	1,179	**36,321**

Goodwill

The goodwill item is composed as follows:

thousand €	31/12/2008	31/12/2007
Companies in the Chemical-Pharmaceutical Raw Materials Division ("Old area")	16,738	16,738
Acquisition of BP business	18,267	18,383
Total	**35,005**	**35,121**

As a result of foreign exchange rate effects, there was a reduction in the carrying amount of goodwill of €116k.

The annual impairment test for goodwill from first-time consolidation is carried out at the level of the cash-generating units relevant to the test.

The value is determined by comparing the book value of the cash-generating unit, including the attributable goodwill, and the recoverable amount for the cash-generating unit. The recoverable amount for this comparison is the value in use calculated from the discounted cash flow. If the book value exceeds the recoverable amount for the division, an impairment has to be posted to net income for the amount of the difference.

The expected cash flows for the cash-generating units are derived from the current medium-term plan of the H&R WASAG AG Group. This plan covers a three-year horizon. For the subsequent time frames, the cash flow has been extrapolated using a projected growth rate of 1% p.a.

Our planning is specifically based on certain assumptions regarding the future trend of sales, the material input ratio and investments in progress, as well as on market forecasts and historical comparison data.

For 2009, we assumed a crude oil price of US$65 per barrel (Brent). For the following two planning years, we assumed a price of US$90 per barrel (Brent). In addition, we assumed that the price delta for a large number of end products will remain stable during all three planning years. This forecast is therefore adjusted for the windfall profits realised in past years.

The interest rate used to discount the cash flow as of the accounting cut-off date was 7.5%, which not only serves as an adequate minimum rate for the terms in question but also reflects the asset-specific risk. This interest rate corresponds to the weighted capital costs (Weighted Average Cost of Capital = WACC).

A value of 9.1% resulted with regard to the cost of equity. The calculation was based on a risk-free interest rate of 4.2%. This was supplemented by the risk premium, which was obtained by multiplying a calculated beta factor of 0.97 by an imputed market risk premium of 5.0%.

The borrowing costs amounted to 6.6% before taxes and were calculated from the relation between interest expense and the interest-bearing borrowed capital. Assuming a Group tax bracket of 28.5%, we arrived at an after-tax borrowing cost of 4.6%. Based on an equity/external capital ratio of 65/35, we arrived at the cost of capital as follows:

Cost of equity (risk-free interest rate + (0.97 * 5.0%)) * 0.65
+
Borrowing costs ((interest expense / interest-bearing external capital) * (1 – tax bracket)) * 0.35
=
WACC (after taxes)

IAS 36.55 requires discounting to be performed using an input-tax interest rate. However, the WACC calculated above represents an after-tax interest rate. The input-tax interest rate was derived in an iterative fashion from cost of capital after taxes of the individual CGUs, while factoring their corresponding taxes. The input-tax interest rate was then used to discount the input-tax cash flows. The calculated input-tax interest rates amounted to between 10.0% and 10.6%.

Other intangible assets

The other intangible assets relate mainly to production and user software as well as production and process controlling licences.

(8) Shares in at-equity reported shareholdings and other financial assets

Developments 2008 thousand €	Shares in at-equity reported shareholdings (8.1)	Other financial assets Shares in affiliated companies (8.2)	Other holdings (8.3)	Securities held as fixed assets (8.4)	Other loans (8.5)	Total
Acquisition and production costs						
Status as of 01/01/2008	71	23,087	1,052	830	4,206	**29,246**
Currency fluctuations	**—**	**—**	**—**	**—**	**–933**	**–933**
Additions	—	—	—	—	292	**292**
Disposals	—	—	—	—	–189	**–189**
Market valuation	—	—	—	58	—	**58**
Status as of 31/12/2008	**71**	**23,087**	**1,052**	**888**	**3,376**	**28,474**
Cumulative depreciation						
Status as of 01/01/2008	41	23,087	—	—	—	**23,128**
Currency fluctuations	—	—	—	—	—	**—**
Additions	—	—	—	—	—	**—**
Disposals	—	—	—	—	—	**—**
Write-ups	–132	—	—	—	—	**–132**
Status as of 31/12/2008	**–91**	**23,087**	**—**	**—**	**—**	**22,996**
Book values						
Status as of 31/12/2008	162	0	1,052	888	3,376	**5,478**
Status as of 31/12/2007	30	0	1,052	830	4,206	**6,118**

Developments 2007 thousand €	Shares in at-equity reported shareholdings (8.1)	Other financial assets Shares in affiliated companies (8.2)	Other holdings (8.3)	Securities held as fixed assets (8.4)	Other loans (8.5)	Total
Acquisition and production costs						
Status as of 01/01/2007	71	23,087	1,052	841	4,214	**29,265**
Currency fluctuations	—	—	—	—	–364	**–364**
Additions	—	—	—	—	505	**505**
Disposals	—	—	—	—	–149	**–149**
Market valuation	—	—	—	–11	—	**–11**
Status as of 31/12/2007	**71**	**23,087**	**1,052**	**830**	**4,206**	**29,246**
Cumulative depreciation						
Status as of 01/01/2007	42	23,087	—	—	—	**23,129**
Currency fluctuations	—	—	—	—	—	**—**
Additions	—	—	—	—	—	**—**
Disposals	—	—	—	—	—	**—**
Write-ups	–1	—	—	—	—	**–1**
Status as of 31/12/2007	**41**	**23,087**	**—**	**—**	**—**	**23,128**
Book values						
Status as of 31/12/2007	30	0	1,052	830	4,206	**6,118**
Status as of 31/12/2006	29	0	1,052	841	4,214	**6,136**

(8.1) Shares in at-equity reported shareholdings

Shares in domestic and foreign corporations and partnerships for which H&R WASAG AG and its subsidiaries own between 20% and 50% of the voting rights, or where the company is able to exercise a significant influence on the corporate policy of the associated company, are shown as financial assets in the balance sheet by the equity method.

thousand €	31/12/2008	31/12/2007
Westfalen Chemie Verwaltungsgesellschaft mbH	31	30
Westfalen Chemie GmbH & Co. KG	131	0
Total	**162**	**30**

Westfalen Chemie GmbH & Co. KG with its partner company, Westfalen Chemie Verwaltungsgesellschaft mbH, operates a hydrogen production and filling plant at the Salzbergen facility.

The financial information on the associated companies is as follows:

thousand €	Assets	Debts	Earnings	Profit/loss
31/12/2008	550	2,057	2,475	344
31/12/2007	875	2,725	2,122	297

The participating interests valued in terms of equity result in pro-rata deficits of the previous years which were offset by the future profits of these participations. The deficit from the previous year amounting to €75k was eliminated by the result of financial year 2008 (€206k) and led to an increase of the at-equity value by €131k.

(8.2) Shares in affiliated companies

These include five companies that are shown in the list of shareholdings as an appendix under “Non-consolidated companies” and no longer carry out any business activity.

(8.3) Other holdings

The shareholdings in SRS EcoTherm GmbH, Salzbergen, (€1.050m) and the operating company Silbersee II Haltern am See, Essen, (€2k) are reported here.

The participating interests are shown at the cost of acquisition as these financial assets have no market price listed on an active market and other valuation methods have proved unable to supply more reliable actual cash values.

(8.4) Securities held as fixed assets

"Securities held as fixed assets" cover, in particular, units in the funds Correntafonds I and II. These assets are valued at their market value on the date of the balance sheet. Changes are shown in a separate item under equity.

(8.5) Other loans

An interest-free loan of €5.032m was granted to the buyer, Kerax Ltd., in connection with the sale of H&R ESP Ltd. in 2006. Collateral was not provided. The loan is for 5 years, with a progressive repayment scale. The stipulated repayment for 2008 was made on schedule.

This loan has been discounted at 7%, according to the effective interest rate method.

(9) Long-term prepaid expenses and deferred charges and other long-term assets

thousand €	31/12/2008	31/12/2007
Investment subsidy	2,688	—
Receivable due from BP	1,875	2,182
Counter-insurance	1,611	1,609
Derivatives	24	417
Others	289	237
Total	**6,487**	**4,445**

Mutual agreements concerning job layoffs as part of the acquisition of the BP speciality business in 2004 were made with respect to those retirees allocable either in economic or contractual terms to one of the parties to the agreement, but who remained with the relevant other party to the agreement in terms of labour law. Corresponding to the contractual collective agreement with BP, which comprised all receivables and liabilities related to layoffs, and which was drawn up taking into account the aim of the contractual parties to achieve overall offsetting of receivables and liabilities, liabilities and receivables enjoying the same legal ground were amalgamated on the basis of the economic and legal contents of the business transaction and reported as a balance (€1.498m) according to IAS 1.33. The remaining amount of €377k results from a reimbursement claim for further pension provisions acquired.

The reimbursement claims developed as follows:

thousand €	2008	2007
As of 01/01	9,963	11,815
Anticipated income	519	488
Actuarial gains and losses	–120	–1,603
Benefits paid	–750	–737
As of 31/12	**9,612**	**9,963**

The anticipated income is accompanied by the following realised values:

thousand €	31/12/2008	31/12/2007
Anticipated income	519	488
Realised income	399	–1,116
Actuarial gains/losses	120	1,604

The experience-related adjustments for the reimbursement claims in 2008 amounted to €120k (2007: €1.604m, 2006: €–868k).

The derivatives are explained separately under item (38) “Reporting of financial instruments”.

(10) Deferred taxes

Deferred taxes were the result of temporary differences between IFRS-based and tax-based valuations of the individual companies (primary deferred taxes) and of consolidation transactions (secondary deferred taxes). Deferred tax assets comprise claims for reductions in taxes resulting from the anticipated use of existing tax loss carry-forwards in subsequent years. Deferred tax claims will only be capitalised if their realisation can be guaranteed with a sufficient degree of certainty.

The composition of the deferred tax assets formed for value differences in the balance sheets is portrayed in Note (34) "Income taxes".

(11) Short-term liabilities to banks and short-term component to long-term loans

Short-term bank borrowing is composed as follows:

thousand €	31/12/2008	31/12/2007
Short-term loans	1,993	1,967
Short-term portion of long-term loans	3,483	5,035
Drawings on current accounts	374	1,117
Interest deferrals	108	81
Other bank borrowing	8,491	1,739
Total	**14,449**	**9,939**
of which secured	2,227	3,793

Short-term loans

Variable interest rates for short-term loans were calculated using US$-LIBOR plus a margin of 1.40% points and/or using the key lending rate of the Bank of China plus 15%.

Short-term portion of long-term loans

The short-term portion of long-term loans relates to repayment instalments for medium-term and long-term loans due within the next 12 months.

Please refer to our remarks concerning long-term loans with respect to interest rates and the collateralisation of the short-term portion of long-term loans.

Drawings on current accounts

Drawings on current accounts as of 31 December 2008 amounted to €374k (2007: €1.117m).

(12) Trade accounts payable

The trade accounts payable have a term of up to one year. They are secured by the usual retentions of title.

(13) Liabilities due to companies in which a participating interest is held

thousand €	31/12/2008	31/12/2007
Westfalen Chemie GmbH & Co. KG	166	—
SRS EcoTherm GmbH	1,158	3,087
Total	**1,324**	**3,087**

(14) Provisions

thousand €	Personnel provisions	Other provisions	Restructuring provisions	Total
Status as of 01/01/2008	18,774	24,469	140	**43,383**
of which long-term	4,016	3,951	—	**7,967**
Neutral additions	53	—	—	**53**
Compoundings	—	159	—	**159**
Currency fluctuations	–501	–491	–32	**–1,024**
Used	–13,026	–14,487	–108	**–27,621**
Released	–1,298	–1,658	—	**–2,956**
Additions	6,932	32,295	—	**39,227**
Status as of 31/12/2008	**10,934**	**40,287**	**—**	**51,221**
of which long-term	4,097	3,438	—	**7,535**

(14.1) Monetary fine imposed by the EU Anti-Trust Office

In 2005, the EU Anti-Trust office took legal action against alleged collusion in restraint of trade on the part of paraffin suppliers. In accordance with a decision in the matter, a monetary fine totalling €600 million was collectively imposed on the alleged "cartel members" on October 1, 2008. Of this, a total of €36 million is to be paid by the Hansen & Rosenthal Group and the H&R WASAG Group, with a subsidiary of H&R WASAG AG being jointly and severally liable for €22 million. Despite the legal action filed against the penalty notice contesting both the justification for the fine and the amount in which the fine was imposed, H&R WASAG AG created a provision for the amount stated in the penalty notice of €22 million and paid this sum on 7 January 2009 to the commission.

(14.2) Personnel provisions

The personnel provisions relate mainly to bonuses, severance payments, profit shares, outstanding holidays, flexitime credit and professional association membership fees.

Employees at the Salzbergen site receive a profit share not subject to collective bargaining, related to each employee's current salary and to profits.

(14.3) Other provisions

Other provisions contain mainly provisions for complaints and guarantees, waste disposal, environmental risks, invoices outstanding, financial statements and archiving costs, as well as provisions for rebates and price discounts.

(15) Other short-term liabilities

thousand €	31/12/2008	31/12/2007
Tax liabilities	786	1,240
Put option	—	2,475
Capital gearing of preference shares	—	125
Liabilities to employees	513	549
Leasing liabilities	1,631	1,235
Deferred investment subsidy	150	—
Social security liabilities	24	38
Others	566	778
Total	**3,670**	**6,440**

Tax liabilities relate mainly to current VAT and wage tax liabilities.

For information about the put option and also the capital gearing of preference shares, please refer to the associated other long-term liabilities in Note (20).

(16) Short-term prepaid expenses and deferred income

Portions due to be repaid within 12 months are shown under short-term accruals and deferrals. The item relates to the current component of the investment subsidy granted by the State of Lower Saxony.

For more details, please see the long-term liabilities itemised under "Prepayments and accrued income" in Explanatory Note (21).

(17) Long-term bank borrowing

The following table contains the conditions for long-term finance debts as well as their book values with the due dates of repayment obligations:

Financial debt	31/12/2008		
thousand €	Book value	Residual term 2010–2013	Residual term after 2013
Syndicated loan	76,025	76,025	—
Other loans	21,130	19,755	1,375
Total	**97,155**	**95,780**	**1,375**
of which secured	1,703		

Financial debt	31/12/2007		
thousand €	Book value	Residual term 2009–2012	Residual term after 2012
Syndicated loan	23,909	23,909	—
Other loans	23,008	15,153	7,855
Total	**46,917**	**39,062**	**7,855**
of which secured	3,434		

Syndicated loan

On 7 April 2008, H&R WASAG AG concluded a new syndicated loan agreement with a consortium consisting of 11 banks, under the leadership of DZ BANK AG, HSH Nordbank AG, and WestLB AG, for a total volume of €300 million. This new agreement substitutes the old syndicated loan agreement and could be concluded to significantly better terms and condition, and for the first time without providing collateral. The syndicated loan has a term of five years. In addition, H&R WASAG AG has the option to exercise two one-year extensions.

During the reporting year, the average drawdown against the credit facility granted under the syndicated loan agreement amounted to €92.978m.

A closing commission of €1.500m was paid when taking out the syndicated loan in 2008. This has been accrued over the life of the loan.

Interest rates

The variable interest rates on the syndicated loan are based on the EURIBOR plus a margin. The margin is tied to financial covenants (net debt/EBITDA). A change of the financial covenants can result in the change of the margin, and may increase or decrease the interest payments to this extent. The adjustment is made in each case after the submission of quarterly and annual financial statements.

The other credits were agreed with fixed interest rates, with fixed interest periods or dependent on EURIBOR and LIBOR. The interest rate of loans with fixed interest rates lay between 3.90% and 5.77% per annum.

Currency

The majority of these loans were made in €.

Security

Two loans from IKB, with a book value of €2.8 million (previous year: €4.4 million), have been collateralised by means of a chattel mortgage on one of our extraction plants (book value: €6.3 million, previous year: €6.7 million). The long-term portion of the IKB loans amounts to €1.2 million (previous year: €2.8 million).

A loan taken out by the Plastics Division, with a book value of €681k (previous year: €805k), was collateralised by means of a land charge as of 31 December 2008. The long-term portion of this loan is €503k (previous year: €634k), while the land charge amounts to €2.6 million. The book value of the assets encumbered by the land charge amounted to €2.9 million (previous year: €3.1 million) as of 31 December 2008.

No collateral was granted for the syndicated loan agreement.

(18) Pension provisions

Operating retirement provisions in the Group are not only contribution-based but also performance-based.

In the case of the pensions systems (defined contribution plans) the Group pays contributions to state or private pension schemes on the basis of legal or contractual provisions, or on a voluntary basis. Following payment of the contributions, the Group's obligations in this area are fulfilled. Defined contribution pension plans exist particularly in the international companies of the Chemical-Pharmaceutical Raw Materials Division.

All other retirement provisions are performance-based and result from various take-overs of business areas and activities. The following table shows the composition of these commitments by company.

thousand €	31/12/2008	31/12/2007
H&R Ölwerke Schindler GmbH, Hamburg	25,323	24,498
SYTHENGRUND Wasagchemie Grundstücksverwertungs-Gesellschaft Haltern mbH, Haltern	7,064	7,607
H&R ChemPharm GmbH, Salzbergen	4,593	4,701
GAUDLITZ GmbH, Coburg	4,635	4,651
H&R WASAG AG, Salzbergen	4,195	4,298
Other companies	2,407	2,523
Total	**48,217**	**48,278**

The present H&R WASAG AG was formed from the merger of Schmierstoffraffinerie Salzbergen GmbH (SRS GmbH) with H&R WASAG AG in 2001.

As a result of the works agreement on 7 October 1986, all employees taken on by SRS GmbH from Wintershall have a right to company pension benefits in accordance with the Wintershall pension agreement dated 1 January 1987. The works agreement of 9 March 1994 terminated the works agreement of 7 October 1986 with effect from 30 June 1994, and thereby enacted the pension agreement for the new arrivals. The level of benefits agreed depends essentially on the length of service and the last salary drawn. After the termination of the works agreement of 7 October 1986, the entitlements earned were frozen. The pension entitlements of some people drawing pensions are based on the older Wintershall pension charter.

All employees at H&R WASAG AG have a right to a company pension in accordance with the pension agreement in the version dated 1 January 1986, last changed by the works agreement of 4 June 1998. For those drawing pensions, their rights in some cases are based on earlier versions of the pension agreement. For those drawing pensions, their rights in some cases are based on earlier versions of the pension agreement. The level of the pension depends on the number of pensionable years of service and the pensionable salary in the last year before leaving the company. Some employees receive so-called contractual pensions due to individual contractual commitments. The requirements and calculation of benefits differ in individual agreements.

In accordance with the pension agreement at GAUDLITZ GmbH in the version of 18 December 1978, all employees who joined the company by 10 June 1978 and whose contracts of employment had not been terminated had the right to a company pension. The level of the pension depends on the number of pensionable years of service and the pensionable salary in 1978. For those drawing pensions, their rights in some cases are based on earlier versions of the pension agreement.

At SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH, there is a pension provision of 1 January 1986 in the version of the works agreement of 4 June 1998 of WASAGCHEMIE Sythen GmbH. The pension scheme was closed in 1992 for people joining the company after 31 July 1991.

Pension obligations for a total of 183 employees were transferred to H&R Ölwerke Schindler with effect from 2 January 2004 with the takeover of BP's special product activities.

Due to various mergers and takeovers, there are a total of 13 different sets of rules and addenda which may apply to these 183 employees. The basic principles are set forth in the following pension-related directives, statutes, regulations, schemes etc.:

- Pension regulations for employees of ARAL AG on non-union rates dated 24 June 1991
- Pension scheme for employees of ARAL AG on union rates dated 15 October 1985
- ARAL AG pension regulations 1999
- Pension statutes dated 1 January 1980 pursuant to central works agreement dated 30 November 1979
- Additional pension for shift work in accordance with Letter F of the Pension Statute of 1 January 1980 pursuant to the central works agreement dated 30 November 1979
- Pension Statute 1988 on the basis of central works agreement dated 2 December 1987
- Pension statutes dated 1 January 1988, Section 13 (articles 40 – 46) on the basis of the central works agreement dated 2 December 1987
- Pension plan of Burmah Oil (Germany) GmbH dated 1 January 1992
- Salary conversion in accordance with the ARAL pension regulation model 1999
- Transitional payment regulations RAAB KARCHER dated 1 March 1989
- Central works agreement dated 1 February 1993 (pension plan 1975)
- Central works agreement dated 1 January 1993 (pension plan 1986)
- Central works agreement dated 1 February 1993 (pension plan 1990)

The following provisions were formed for individual groups as of 31 December 2008:

thousand €	31/12/2008	31/12/2007
Group 1	15,711	14,535
Group 3	9,612	9,963

H&R Ölwerke Schindler has not only assumed pension obligations for employees of the company with entitlements (Group 1) but has also agreed an exemption obligation for some former employees of BP Lubes Services GmbH (pensioners and employees who left the company, Group 3). The company is entitled to reimbursement from BP of the sum posted for the obligations towards the aforementioned categories of people.

A further category (Group 2) comprises employees of BP who were not taken on by H&R Ölwerke Schindler.

For this group of people, H&R Ölwerke Schindler has agreed to reimburse BP for the relevant pension obligations which remain with BP, for an amount of €8.114m. These obligations were netted off in accordance with IAS 1.33 against a receivable from BP from a reimbursement claim for pension obligations assumed amounting to €9.612m which also arose as part of the takeover of the speciality products business (see Note (9)). The balancing receivable of €1.498m is shown under receivables from BP in Other long-term assets.

The pension provisions are valued as a performance-related pension scheme by the projected unit credit method in compliance with IAS 19. Future obligations are calculated using actuarial methods, taking into account any future salary increases and other adjustments to benefits to the extent that they are salary-dependent.

The scope of the obligations can fluctuate due to changes in the actuarial assumptions. Any actuarial profits or losses arising in the process are treated by the 10 percent corridor rule. If the actuarial gains and losses resulting from the modification of the actuarial parameters exceed 10% of the higher amount of pension obligations at the start of the financial year, the amount exceeding the 10% limit is booked against income over the timeframe of the average residual service period of the active employees.

The changes to pension provisions can be summarised as follows:

thousand €	2008	2007
Status as of 01/01	48,278	49,775
Additions	2,659	2,530
Released/used	–2,730	–4,027
Neutral addition	10	—
Status as of 31/12	**48,217**	**48,278**
of which not financed via a fund	48,217	48,278

The development in the balance sheet provision is made up as follows:

thousand €	2008	2007	2006	2005	2004
Present value	50,438	47,458	57,405	60,517	57,780
Unrealised actuarial gains and losses	–2,192	856	–4,461	–9,673	–6,943
Past service cost	–29	–36	—	—	—
IFRS 5 reclassification	—	—	–3,169	—	—
Provision	48,217	48,278	49,775	50,844	50,837

The above disclosures are shown retrospectively from the 2004 reporting period onwards in accordance with the transitional rules relating to the changes to IAS 19 Employee Benefits dated December 2004.

The addition to pension provisions contained in the income statement is as follows:

thousand €	31/12/2008	31/12/2007
Current service cost	712	850
Past service cost	7	—
Acturial gains/losses	1	17
Interest cost	2,458	2,151
Changes in reimbursement rights	–519	–488
Addition (total)	**2,659**	**2,530**

The current service period expenditure and the amortised actuarial profits are shown as personnel expenses, and the compound interest on the expected pension obligations as interest expense.

The following valuation parameters were used to determine the pension obligations:

	31/12/2008	31/12/2007
Interest rate	5.70%	5.40%
Payment trends	0.0%/4.0%	0.0%/2.0%
Entitlement trend	0.0%/0.6%	0.0%/0.6%
Pensions trend	0.0%/2.0%	0.9%/1.50%
Pension age	60/61/63/65	60/61/63/65
Fluctuation probability	5%/0%	5%/0%

The likelihood of leaving is based on the 2005G Heubeck guideline tables.

An age-dependent staff turnover probability has been built into the pension provision for employees of H&R Ölwerke Schindler for which tables drawn up by internal experts have been used.

By not taking the likelihood of fluctuations into account, the assumption is made by way of simplification that no employee will leave the company before the non-forfeitability deadlines are met, and that thereafter the non-forfeitable right to a pension will be exactly financed by the existing provision in each case.

The present value of the obligation is composed as follows:

thousand €	2008	2007
Present value of the obligation as of 01/01	47,458	57,405
Current service cost	712	850
Interest expense relating to the obligation	2,458	2,151
Increase/decrease of staff	–7	–2,967
Current pension payments	–3,130	–2,909
Past service cost	—	36
Actuarial gains/losses	2,947	–7,108
Present value of the obligation on 31/12	**50,438**	**47,458**

An experience-related adjustment to the present value of the pension obligations amounting to €605k occurred in the reporting year (2007: €–711k, 2006: €132k).

(19) Other long-term provision

The other long-term provisions relate to part-time working regulations for older employees and anniversaries as well as provisions due to legal obligations arising from the directive concerning systems for handling substances harmful to the water supply, and specialised plants (VawS).

For additional details, please see Explanatory Note (14).

(20) Other long-term liabilities

thousand €	31/12/2008	31/12/2007
Put option	—	6,616
Leasing liabilities	4,494	6,138
Capital gearing of preference shares	—	2,075
Deferred investment subsidy	2,838	—
Other liabilities	37	3
Total	**7,369**	**14,832**

In December 2007, a tranche of preference shares was issued in connection with former outside shareholders of SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH.

When these preference shares were first booked, their value was subdivided into an equity component and an external capital component, based on the cash value of the guaranteed advance dividend.

In addition, the preferential shareholders were given the right to sell up to €2.475m in preference shares to H&R WASAG (the maximum amount permitted by law and under the Articles of Incorporation). Irrespective of a determination of permissibility under securities law, these were reported under "Other short-term liabilities" (insofar as the options were exercisable in the following year) and under "Other long-term liabilities" for subsequent years (see Explanatory Note (15)).

In the context of converting the preference shares into ordinary shares the borrowed capital component was re-classified as "Other operating income" and the liabilities from the put option were re-classified as "Other reserves".

The "Deferred investment subsidy" refers to a particular client's contribution to investment in property, plant and equipment. This investment subsidy will be liquidated over the useful life of the investment.

Of the reported "Long-term liabilities", €3.613m have a term of more than five years (previous year: €3.950m).

For more details, please see Explanatory Note (22) ("Subscribed capital") and (24) ("Other reserves").

Please refer to additional disclosures under Note (6) with respect to leasing liabilities.

(21) Long-term prepaid expenses and deferred income

thousand €	31/12/2008	31/12/2007
Investment subsidies	242	262

The item Investments subsidies contains primarily an investment subsidy granted to H&R Lube Blending GmbH by the State of Lower Saxony. The subsidy was applied for in 1996, approved in 1998, and amounts to 15% of the investment sum. The subsidy was granted on the condition that the company provides evidence of where the subsidy is, and the use to which it is put, fulfils reporting obligations, and creates 58 permanent jobs. The subsidy is taken on a pro rata basis over time in accordance with the particular useful life of the subsidised assets.

(22) Subscribed capital

By decision of the Supervisory Board on 23 January 2008, the Articles of Incorporation were amended with respect to issued capital (issue of preference shares).

By decision of the Annual Shareholders' Meeting of 24 June 2008, the preference shares were converted into ordinary shares. Conditional capital was limited to the issuance of shares.

	thousand €	Shares	For issue by
Subscribed capital			
Ordinary shares	76,625	29,973,112	
Conditional capital			
Conditional capital 2006	7,500	2,933,745	27/06/2011
Approved capital			
Approved capital 2006	1,000	391,166	27/06/2011
Approved capital 2007	34,000	13,299,644	18/07/2012

The following reconciliation shows the shares in circulation at the start and end of the reporting period:

	2008 Ordinary shares	2007 Preference shares	2007 Ordinary shares
Status as of 01/01	27,323,112	2,650,000	27,323,112
Conversion of preference shares into ordinary shares	2,650,000	—	—
Status as of 31/12	**29,973,112**	**2,650,000**	**27,323,112**

Preference shares

On 17 December 2007, an agreement was reached on the issue of 2,650,000 preference shares for payment in kind comprising the minority interests in SYTHENGRUND Grundstücksverwertungsgesellschaft Haltern mbH, thus taking advantage of the conditional capital for 2003. These preference shares are bearer shares and have an arithmetic nominal value of €2.56 per share. They were transferred at an issued value of €7.20 per share, with dividend entitlement as of the start of financial year 2007, so that the total issued volume amounted to €19.080m.

By decision of an Annual Shareholders' Meeting and by special decision of the preference shareholders (both on 24 June 2008), the preference shares were exchanged 1:1 for ordinary shares.

The preference shares had included the right to an advance dividend and to a higher share of profits than ordinary shares.

The liability from the borrowed-capital component for the granted advance dividend as reported in 2007 has thus ceased to exist and in the reporting year it was appropriated to other operating income.

Given the conversion into ordinary shares, the put option originally granted to the preference shares has lapsed as well, so that the short-term liabilities (Explanatory Note (15)) and long-term liabilities (Explanatory Note 20) reported in the prior year in connection with the put option have now been re-classified as "Other reserves".

Conditional capital

By a resolution of the Shareholders' Meeting of 24 July 2003, issued share capital was conditionally increased by up to €7.350m through the issuance of up to 2,875,000 new preference shares with an arithmetic face value of ca. €2.56 per share and with an issued value of €7.20 per share (Conditional capital 2003). In this case, subscription rights were excluded from shareholders.

Conditional capital has now been eliminated, given that a total of 2,650,000 preference shares were issued in accordance with the decision on 17 December 2007, and given that the Articles of Incorporation were amended with respect to issued capital on 23 January 2008.

The authorised issued share capital has been conditionally increased by up to €7.500m through the issue of up to 2,933,745 new ordinary bearer shares (Conditional Capital 2006). The conditional capital increase will only be carried out where the bearers of convertible and/or option bonds which have been issued against cash until 27 June 2011 by the company or its direct or indirect domestic subsidiaries on the basis of the authorising resolution passed by the Annual Shareholders' Meeting on 28 June 2006, make use of their conversion or option rights, or the bearers of convertible bonds obliged to convert fulfil their obligation to convert, and to this extent no treasury shares are used to service the operation. The new shares participate in profits from the beginning of the financial year in which they are created through conversion or option rights being exercised or conversion obligations being fulfilled. The Executive Board is authorised, with the approval of the Supervisory Board, to determine further details concerning the conditional capital increase and its execution. The Supervisory Board is authorised to amend article 4 paragraph 6 of the company's Articles of Incorporation to reflect the utilisation of the conditional capital.

No conversion and/or option bonds were issued in the 2008 financial year.

Approved Capital

By a decision of the Annual Shareholders' Meeting of 28 June 2006, as subsequently amended on 24 June 2008, the Executive Board is entitled, subject to approval by the Supervisory Board, to increase issued capital through one or more issues of ordinary, bearer shares without face value in return for cash. Said issuance(s) may occur any time before 27 June 2011, may total up to €1.000m in volume, and must be for purposes of distributing employee shares to the personnel of the Group and/or its affiliated companies (Approved capital 2006). In this case, subscription rights are excluded to shareholders.

According to the company's Articles of Incorporation, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the issued capital by up to €34,000,000 through the issue of one or several tranches of ordinary bearer shares for cash and/or payment in kind by 18 July 2012, and to decide concerning the terms of the share issue with the agreement of the Supervisory Board (Approved Capital 2007). The shareholders are to be granted stock options. The most recent amendment (limitation to the issuance of ordinary shares) was recorded in the trade register on 8 August 2008.

(23) Capital reserve

The capital reserve of €2.823m results from the merger of Schmierstoffraffinerie Salzbergen GmbH with WASAG-CHEMIE AG in 2001. The amount is composed of a sum of €21.972m (article 272 paragraph 2 number 1 HGB) minus withdrawals of €19.149m (article 150 paragraph 4 number 2 of the Stock Corporation Act (AktG)).

The costs associated with the capital increase that formed the subject of a resolution of 18 December 2006 were deducted in equity in accordance with IAS 32.37, reduced for the non-tax-deductible amount.

The preference shares issued in December 2007 included a minimum dividend which was to reported as borrowed capital (as per IAS 32), and which therefore led to an allocation to the capital reserve of €10.105m.

Please refer to Notes (20) and (22).

(24) Other reserves

The conversion of the preference shares resulted in the elimination of the liabilities associated with the put option. These liabilities were re-classified as "Other reserves" without affecting income.

"Other reserves" also contain additional reserves for securities with a market value of €73k (previous year: €18k) and for cash flow hedges in the amount of €–30k (previous year: €141k), while also factoring in taxes with neutral effect on equity.

(25) Consolidated retained earnings

The Annual Shareholders' Meeting of 24 June 2008 decided to allocate retained earnings from financial year 2007 to a dividend distribution of €0.80 per ordinary share and €0.88 per preference share. For a total of 29,973,112 dividend-bearing ordinary shares, this resulted in a payment of €24.190m.

The statement of changes in equity presents the development of the Group's consolidated retained earnings.

Proposal for the appropriation of earnings

The Executive Board and the Supervisory Board of H&R WASAG AG propose to the Annual Shareholders' Meeting that €11.989m of the total retained earnings of H&R WASAG AG which results from the withdrawal from the reserves should be distributed in the form of a dividend. This corresponds to a dividend of €0.40 per ordinary share.

A liability is reported in the financial statements as soon as the Shareholders' Meeting has passed a resolution concerning the dividend.

(26) Minority interests

Shares of minority shareholders include shares of earnings and capital held by third-party shareholders.

thousand €	2008	2007
Status as of 01/01	1,001	4,746
Changes to group of consolidated companies	—	–1,293
Acquisition of minority shareholdings	–373	—
Currency fluctuations	–90	–85
Outgoing payments	—	–2,002
Share of results	29	–365
Status as of 31/12	**567**	**1,001**

In financial year 2008, a minority shareholding of 49% was acquired in GAUDLITZ Precision Technology (Wuxi) Co., Ltd., Wuxi, China for a price of €585k. The amount in excess of the purchased minority shareholding was allocated to the other reserves.

The shareholding in GAUDLITZ Precision s.r.o. (Czech Republic) was increased from 52% to 83.64%.

Explanatory notes on the Groups' income statement

(27) Research and development costs

Research and development activities in the Chemical-Pharmaceuticals area concentrated in 2008 on the further development of product qualities in the product areas of doped oils, paraffins, and white oils. Research and development costs were incurred in the Plastics Division for testing and experiments concerning new materials in the plastics area, as well as research concerning a higher level of implementation of plastic components in various sectors.

Expenses incurred in 2008 for research and development amounted to €1.202m (2007: €1.147m).

(28) Sales

Sales are realised – less sales deductions – at the time when the service is provided or on the passage of risk to the customer. The segment report gives an overview of the growth of sales by division and by geographical segment (see Note (36)).

(29) Other operating income

thousand €	2008	2007
Income from passing on costs	3,704	3,531
Exchange rate gains from foreign currency items	10,113	4,000
Income from release of provisions	2,956	2,589
Income from first-time consolidation	—	16,376
Others	9,286	5,992
Total	**26,059**	**32,488**

The income from passing on costs results mainly from re-invoicing consumption taxes, project related costs and other costs to the companies in which there is a participating interest, Westfalen Chemie GmbH & Co. KG and SRS EcoTherm GmbH.

(30) Material costs

thousand €	2008	2007
Raw materials	714,730	451,581
Supplies	15,372	16,260
Trade goods	63,026	56,494
Expenditure for raw, auxiliary and operating materials and for purchased goods	**793,128**	**524,335**
Energy costs	31,182	24,894
Other outside services	904	1,057
Total expenditure on purchased services	**32,086**	**25,951**
Total	**825,214**	**550,286**

(31) Personnel expenses

thousand €	2008	2007
Wages and salaries	53,196	66,168
Social security payments	8,549	9,790
Defined benefit plan expenses	318	1,416
Defined contribution plan expenses	562	558
Other social expenses	88	100
Total	**62,713**	**78,032**

Amounts arising from the discounting of personnel provisions, particularly pension provisions, are not reported as personnel expenses. These form part of the financial result and are reported with the interest result.

Average number of employees	2008	2007
Technical personnel	439	656
Salaried employees	590	465
Employees on fixed-term contracts	203	190
Trainees	68	64
Total	**1,300**	**1,375**

(32) Other operating expenses

thousand €	2008	2007
Anti-trust fine	22,000	–
Freight costs, dispatch systems and other distribution costs	20,304	18,532
Third-party repairs and maintenance	17,802	15,277
Third-party goods and services	11,004	10,371
Costs passed on	2,264	2,861
Loss from foreign currency translation	13,771	6,672
Rents and leases	7,239	7,663
Legal and consultancy costs, costs for year-end accounts and shareholders' meeting	4,938	8,297
Other personnel costs	4,310	4,915
Insurance premiums, fees and contributions	4,233	5,112
Lease instalments	2,345	2,083
Slop volumes	2,593	1,872
IT costs	2,762	2,725
Travel expenses	1,504	1,519
Commissions	1,476	966
Others	6,838	8,291
Total	**125,383**	**97,156**

(33) Net interest result

thousand €	2008	2007
Interest income from short-term bank deposits	934	772
Income from loans	157	399
Income from compounding non-interest-bearing long-term loans	199	265
Other interest and similar income	483	645
Interest income	**1,773**	**2,081**
Interest expense relating to loan interest	6,388	3,189
Interest expense from compounding arising from liabilities associated with a put option	268	375
Interest expense from the compounding of pension provisions	2,458	2,151
Interest expense from the compounding of other long-term personnel provisions	86	71
Interest expense relating to external audit	400	–
Other interest and similar income	3,249	2,467
Interest expense	**12,849**	**8,253**
Net interest result	**–11,076**	**–6,172**

Of which: financial instruments broken down by the valuation categories of IAS 39:

thousand €	2008	2007
Loans and Receivables (LaR)	614	740
Held-to-Maturity Investments (HtM)	—	—
Financial Assets Available-for-Sale (AfS)	—	—
Financial Instruments Held for Trading (FAHfT und FLHfT)	–372	179
Financial Liabilities Measured at Amortised Costs (FLAC)	–7,667	–4,642

(34) Taxes on earnings and income

Taxes on income paid or owed in individual countries as well as tax accruals and deferrals are shown as income taxes.

These are made up as follows:

thousand €	2008	2007
Income tax expense for the current year	11,646	22,773
Income tax expenses for the previous years	2,477	962
Deferred taxes	148	–2,377
Total	**14,271**	**21,358**

Since 1 January 2008, the net income of German companies has been subject to a corporation tax rate of 15% plus a solidarity surcharge of 5.5%. In conjunction with a trade tax burden of 12.65%, this gives a combined income tax rate in Germany of 28.48% for the Group (2007: 37.65%).

Income tax rates for companies abroad lie between 15% and 34%, so it is reasonable to apply the above combined tax rate of 28.48% to the foreign companies also.

Income tax expense for prior years is characterised by expected tax payments for prior years as a result of outside tax audits. This allowance for expected follow-up tax payments is based on available audit results, since full audit reports have not yet been presented.

Excess tax expense mainly result from the postponement of expenses to future periods, so that excess expense will be partially offset by future tax underpayments. These future reductions in tax will be reported in the context of deferred taxes.

The interest due on follow-up tax payments has been included in interest expense.

Deferred income tax expense includes changes in active and passive deferred taxes.

The tax effect arising from the loss carried forward existing on the reporting date is capitalised in accordance with IAS 12.34 if it is sufficiently likely that enough taxable earnings will be available in future to offset the losses.

Besides the capitalised deferred tax losses carried forward, there are also corporation tax losses carried forward of €5.250m (previous year: €4.706m) and trade tax losses carried forward of €181k (previous year: €160k), whose realisation is not sufficiently assured and for which no deferred tax claims have therefore been recognised. The losses carried forward are non-forfeitable according to the current legal situation.

The reported income tax expenditure can be reconciled against the expected income tax expenditure as follows:

thousand €	2008	2007
Pre-tax earnings	**26,044**	**72,999**
Expected tax expenditure 28.48% (2007: 37.65%)	**7,417**	**27,484**
Effects from tax rate differences of German and foreign sovereignties	194	–541
Adjustment of deferred taxes due to tax rate changes in Germany	—	668
Previous years' taxes	2,477	962
Reduction in tax due to netting off with tax loss carry forwards	—	0
Non-capitalised deferred taxes on losses	5	1,033
Non-deductible operating expenses	6,644	799
Tax-free income	–362	–9,034
Catch-up on previous years' deferred taxes	–2,147	—
Outside basis differences	—	—
Permanent tax deferrals	—	—
Tax expenditure from allocation of income from partnerships to joint-stock company	–30	–57
Other	73	44
Actual tax expenditure	**14,271**	**21,358**

The deferred tax items result as follows from the individual balance sheet items:

thousand €	31/12/2008 Deferred tax assets	31/12/2008 Deferred tax liabilities	31/12/2007 Deferred tax assets	31/12/2007 Deferred tax liabilities
Intangible assets	—	2,599	30	2,587
Fixed assets	235	3,286	196	2,045
Financial assets	29	1	105	—
Inventories	86	48	93	45
Receivables and other assets	650	85	143	316
Pension provisions	1,983	30	2,149	—
Other provisions	830	99	816	371
Liabilities	769	439	1,175	85
Carried forward tax losses	163	—	138	—
Consolidation activities	4,087	258	2,732	29
	8,832	**6,845**	**7,577**	**5,478**
Balancing	–2,919	–2,919	–2,887	–2,887
Total	**5,913**	**3,926**	**4,690**	**2,591**

The change to deferred taxes payable and receivable in the current year is made up as follows:

thousand €	Taxes receivable	Taxes payable
Status as of 01/01/2008	4,690	2,591
Release/addition	1,271	1,334
Neutral expense in equity	–7	48
Changes to group of consolidated companies	—	—
Currency conversion	–41	–47
Status as of 31/12/2008	**5,913**	**3,926**

The tax deferral resulting from consolidation measures is mainly based on the internal sale of the customer base in 2002 and the supply agreements for the doped lubricants business. The item will be released over the depreciation period for the customer base.

In 2008, the depreciation period for our client base was revised. The resulting extension in useful life led to excess taxes for prior periods. These excess tax amounts are included in the tax expense for prior years. At the same time, deferred tax claims were recalculated, which led to an increase in active deferred taxes (€1.062m).

Additional notes on the income statement according to IFRS 5.33

The results from the discontinued activity are made up as follows:

thousand €	01/01 to 31/12/2008	01/01 to 31/12/2007
Earnings before taxes (EBT)	—	–592
Taxes on earnings and on income	—	–671
Earnings before taxes	**—**	**–1,263**
Earnings from the disposal of the discontinued activity before taxes	—	13,821
Taxes on earnings and on income	—	–189
Earnings from the disposal of the discontinued activity after taxes	**—**	**13,632**
Earnings for the discontinued activity	**—**	**12,369**

(35) Earnings per share

	2008	2007		
	Whole company	Discontinued activity	Continuing activities	Whole company
Net profit/loss to shareholders in thousand €	11,744	12,332	39,674	52,006
Share of results to preference shareholders in thousand €	—	—	—	—
Net profit/loss in thousand €	11,744	12,332	39,674	52,006
of which amounts allocated to:				
Ordinary shareholders in thousand €	11,744	11,143	35,849	46,992
Preference shareholders in thousand €	—	1,189	3,825	5,014
Ordinary shares	29,973,112	27,323,112		
Preference shares	—	2,650,000		
Earnings per ordinary share undiluted in €	0.39	0.41	1.31	1.72
Earnings per preference share undiluted in €	—	0.45	1.44	1.89

In 2007 the number of ordinary shares in circulation was 29,973,112.

The issue of preference shares in December 2007 was carried out in order to acquire the previous minority shareholdings in the company SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH, Haltern. Due to a lacking inflow of resources, the preference shares were taken into account in accordance with IAS 33.26 from the beginning of the reporting period. In accordance with IAS 33.64, a retrospective adjustment of the preference shares was also carried out in the year 2006 in conjunction with a simultaneous correction of the consolidated net profit by the share of results previously allocated to minority interests.

In determining the diluted earnings per share, the put options affecting a proportion of the preference shares were taken into account. The calculation of the diluted earnings per share was based on the assumption in line with the economic situation that the hypothetical financing required in accordance with IAS 33.63 would be raised by the issue of ordinary shares. This did not lead to a diluting effect for the years 2006 and 2007.

Potential diluting effects could arise from the conditional and approved capital reported under Note 22 "Subscribed capital".

Additional notes

(36) Segmental reporting

The activities of the H&R WASAG Group are bundled in three divisions that correspond to the two mandatory IFRS 14 reporting segments.

The most significant division – the Chemical-Pharmaceutical Raw Materials Division – develops and produces crude oil-based speciality products as source materials for the chemical and pharmaceutical industries. The development and production of plastic parts and components by injection moulding processes are bundled under the Plastics Division.

The Explosives Division basically covers activities discontinued in the previous year which have to be reported on separately, and so is still maintained as a segment. The companies covered by the continuing activities were last reported under the Explosives Division, and will in future be assigned to "Other activities".

In addition, both the holding company and individual companies that either perform activities within the Group or perform non-operating administrative functions are reported under "Other activities". The list of shareholdings shows which division each group company belongs to.

Regarding the Explosives Division, which was reported on in 2007, the continuing part of this division covers general administrative tasks for the Explosives Division and the administration of real estate assets.

The operating development of the divisions is explained in the management report.

Remarks concerning segmental data

In the primary segment reporting, intercompany sales report the level of sales between the divisions. Sales and revenues between the divisions are always posted at prices which would also have been agreed with third parties.

The sum of external and internal sales provides the segmental sales.

The consolidation column contains eliminations of all intercompany transactions as well as intra-divisional receivables and liabilities.

The following table shows the reconciliation of gross assets/gross liabilities to segment assets/segment liabilities:

Segment assets thousand €	31/12/2008	31/12/2007
Reported gross assets	432,506	398,304
Income tax claims	–5,011	–1,013
Deferred tax assets	–5,913	–4,690
Total	**421,582**	**392,601**

Segment liabilities thousand €	31/12/2008	31/12/2007
Reported gross liabilities	267,120	225,049
Income tax liabilities	–5,950	–3,074
Deferred tax liabilities	–3,926	–2,591
Total	**257,244**	**219,384**

In the secondary reporting, revenues have been allocated on the basis of the country in which the customer is located. The assets and investments are assigned on the basis of the domicile of the company to which they relate.

Primary segments (divisions)

	Chemical-Pharmaceutical Raw Materials		Plastics		Explosives				Other activities		Consolidations		Total	
					Total	Continuing activities	Discontinued activity	Total						
thousand €	2008	2007	2008	2007	2008	2007	2007	2007	2008	2007	2008	2007	2008	2007
External sales	987,551	729,281	47,635	47,282	–	24	21,266	21,290	–	–	–	–	1,035,186	797,853
Intercompany sales	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Sales	987,551	729,281	47,635	47,282	–	24	21,266	21,290	–	–	–	–	1,035,186	797,853
Depreciation	15,416	12,936	2,605	2,501	108	108	–	108	1,125	1,013	–3,000	–3,000	16,254	13,558
Unscheduled depreciation	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Result of at-equity reported shareholdings	132	1	–	–	–	–	–	–	–	–	–	–	132	1
Other financial results	–	1	28	28	–	–	–	–	–84	–20,580	–	20,580	–56	29
Pre-tax earnings	24,933	63,654	–1,743	426	446	504	13,229	13,733	–592	–26,977	3,000	22,163	26,044	72,999
EBIT	35,122	68,153	–507	1,435	–619	–309	13,808	13,499	139	–26,071	2,985	22,155	37,120	79,171
EBITDA	50,538	81,089	2,098	3,936	–511	–201	13,808	13,607	1,264	–25,058	–15	19,155	53,374	92,729
Debts	278,690	256,420	29,429	29,567	9,460	11,488	–	11,488	136,053	92,284	–196,388	–170,375	257,244	219,384
Assets	406,272	355,618	32,810	32,764	12,509	12,889	–	12,889	242,982	238,626	–272,991	–247,296	421,582	392,601
Investments	45,488	54,024	1,498	1,968	–	–	–	–	141	4,248	–	–	47,127	60,241
Shares in associated companies	162	30	–	–	–	–	–	–	–	–	–	–	162	30

Secondary segments (Geographical regions)

thousand €	Germany		Rest of Europe		Rest of world		Consolidations		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
External sales of continuing operations	584,375	514,391	306,418	147,675	144,393	114,521	—	—	1,035,186	776,587
Sales from discontinued operations	—	11,586	—	9,333	—	347	—	—	—	21,266
Total sales	**584,375**	**525,977**	**306,418**	**157,008**	**144,393**	**114,868**	**—**	**—**	**1,035,186**	**797,853**
Assets of continuing operations	382,956	340,175	17,418	27,571	52,369	49,330	–31,161	–24,475	421,582	392,601
Assets of discontinued operations	—	—	—	—	—	—	—	—	—	—
Total assets	**382,956**	**340,175**	**17,418**	**27,571**	**52,369**	**49,330**	**–31,161**	**–24,475**	**421,582**	**392,601**
Investments of continuing operations	44,696	57,239	1,352	712	1,079	2,290	—	—	47,127	60,241
Investments of discontinued operations	—	—	—	—	—	—	—	—	—	—
Total investments	**44,696**	**57,239**	**1,352**	**712**	**1,079**	**2,290**	**—**	**—**	**47,127**	**60,241**

(37) Explanations on the consolidated statement of cash flows

The statement of cash flows has been prepared in accordance with the provisions of IAS 7. It shows the origin and use of cash flows.

The statement of cash flows divides the payment streams into the three areas of operating business, investment activity and financing activity.

The reported financial resources consist of bank deposits, cash positions, cheques and overdrafts.

Net operating expenses and earnings and income from the sale of assets are eliminated from the cash flow from operating activities. Interest paid and interest received as well as income tax paid are allocated to this area. The cash flow from operating activities is calculated by the indirect method.

Cash flow from investment activity includes net investments in intangible, fixed and financial assets, including holdings consolidated for the first time in the financial year.

Cash flow from financing activity includes new and redeemed financial liabilities and liabilities from finance leasing and dividend payments.

The composition of "Cash and cash equivalents", the general form of presentation of the statement of cash flows, and the utilisation of reporting options are unchanged from the previous period.

The cash flow statement is supplemented by a cash reconciliation.

In the previous year, the Explosives subsidiaries sold off in 2007 are still being reported as a discontinued division.

(38) Reporting of financial instruments

The financial instruments include both original and derivative financial instruments.

The original financial instruments comprise on the assets side primarily other financial investments, receivables, short-term securities and cash and cash equivalents. Financial assets available for disposal are reported at fair value. Other financial assets are reported at historical costs. The fair values of financial assets available for disposal are derived from the stock market prices or are calculated on the basis of recognised valuation methods. In the case of other financial assets, we work on the basis that fair value corresponds to the book value. On the liabilities side, original financial instruments contain mainly liabilities valued at historical cost. The stock of original financial instruments is reported in the balance sheet. The level of the financial assets corresponds to the maximum default risk. Insofar as default risks are identifiable with respect to financial assets, these risks are reported using value adjustments.

GAUDLITZ GmbH holds financial assets for sale in the form of securities reported at actual cash value as of the balance sheet date. The reported market value was €887k, €58k above the value of €829k as of 31 December 2007. This change in value is recorded under equity, with no effect on net income.

As an international company, the H&R WASAG Group is exposed in the course of its ordinary business activities to risks from raw material prices, currency fluctuations and interest rate changes. These risks are limited through systematic risk management and are offset by such measures as hedging transactions.

Derivative financial instruments are employed to hedge foreign exchange risks from the operating business and risks from changes in interest rates related to financing transactions. The types of instruments employed concerned primarily foreign currency forward transactions as well as interest-rate hedging transactions such as caps and interest-rate swaps.

The Group companies are subject to strict risk management. Dealing authorisations, responsibilities and supervision procedures are established on a binding basis in internal guidelines. In this respect, derivative financial instruments may not, as a matter of principle, be implemented for speculative purposes but instead serve to hedge against risks in connection with the operating business. Credit risk exposure to contractual partners is investigated systematically at the time of signing a contract and monitored on an ongoing basis. In addition to this, credit risk is reduced using appropriate types of security. Balance sheet hedging transactions as per IAS 39 exist primarily to hedge against foreign exchange liabilities and interest-rate risks from long-term liabilities.

These derivatives are recognised when the related contracts are concluded. They are reported in the balance sheet among "Other assets". Derivative financial instruments are reported at fair value irrespective of your purpose. The calculation is based on information from banks on the fair value of the derivatives as of the balance sheet reporting date.

To the extent that the derivative serves effective hedging purposes, a fair value modification of these cash flow hedges is reported earnings-neutrally in equity until the underlying transaction is realised. The ineffective portion of these hedging transactions is reported in each case through the income statement in interest earnings. The result from the hedging transaction is booked out of equity and through the income statement at the time when the underlying transaction is realised.

Cash flow hedges exist to hedge variable-rate liabilities against risks from changes in interest rates.

The following tables show the reported fair values of the various derivative financial instruments as of 31 December 2008 and 31 December 2007. They are distinguished according to whether or not they are part of an effective hedging relationship per IAS 39 (fair-value hedge, cash flow hedge or net investment hedge).

31/12/2008	Nominal value		Type	Currency	Maturity	Book values 31/12/2008 thousand €
Assets						
Interest rate swaps						
No hedging relationship						
	thousand €	14,800	Interest rate cap	€	to 2010	40
	thousand €	14,800	Interest rate cap	€	to 2010	42
	thousand €	6,000	Interest rate cap	€	to 2010	2
	thousand €	3,000	Interest rate cap	€	to 2010	4
	thousand €	3,000	Interest rate cap	€	to 2010	3
	thousand €	4,000	Interest rate cap	€	to 2010	2
	thousand €	5,000	Interest rate cap	€	to 2010	4
Cash flow hedge						
	thousand €	2,275	Bandwidth swap – floater version	€	to 2010	10
Liabilities						
Interest rate swaps						
Cash flow hedge						
	thousand US$	933	Interest rate swap	US$	to 2012	–37

31/12/2007	Nominal value		Type	Currency	Maturity	Book values 31/12/2007 thousand €
Assets						
Interest rate swaps						
No hedging relationship						
	thousand €	14,800	Interest rate cap	€	to 2010	213
	thousand €	14,800	Interest rate cap	€	to 2010	228
	thousand €	6,000	Interest rate cap	€	to 2010	81
	thousand €	3,000	Interest rate cap	€	to 2010	51
	thousand €	3,000	Interest rate cap	€	to 2010	29
	thousand €	4,000	Interest rate cap	€	to 2010	40
	thousand €	5,000	Interest rate cap	€	to 2010	50
Cash flow hedge						
	thousand €	3,575	Bandwidth swap – floater version	€	to 2010	50
Liabilities						
Interest rate swaps						
Cash flow hedge						
	thousand US$	1,167	Interest rate swap	US$	to 2012	–4

During the reporting year, the net loss from financial instruments recognised at fair value applied to income amounting to €595k (previous year net loss of €291k).

Maturity analysis

The H&R WASAG Group's liquidity risk consists of contractually agreed obligations to make future interest rate and amortisation payments for financial liabilities and derivative financial instruments.

The maturities of these undiscounted payment streams are shown in the table below:

2008	Book value	Cash flows 2009		Cash flows 2010		Cash flows 2011–2013		Cash flows 2014–2018		Cash flows 2018 ff.	
thousand €		Interests	Redemption	Interests	Redemption	Interests	Redemption	Interests	Redemption	Interests	Redemption
Trade accounts payable	33,453	—	33,453	—	—	—	—	—	—	—	—
Bank borrowing	111,604	3,453	14,449	3,606	2,148	7,173	93,632	68	1,375	—	—
Finance lease liabilities	6,125	255	1,631	181	1,590	266	1,666	83	1,238	—	—
Derivative financial liabilities	37	—	—	—	—	—	37	—	—	—	—
Other liabilities	13,236	—	13,236	—	—	—	—	—	—	—	—

Net results by valuation category

The expenses, revenues, profits and losses arising from financial instruments can be broken down as follows:

thousand €	2008	2007
Loans and Receivables (LaR)	1,631	–1,071
Held-to-Maturity Investments (HtM)	—	—
Financial Assets Available-for-Sale (AfS)	—	—
Financial Instruments Held for Trading (FAHfT und FLHfT)	–680	–259
Financial Liabilities Measured at Amortised Costs (FLAC)	–2,887	–1,591
	–1,936	**–2,921**

For the presentation of market risks, IFRS 7 demands sensitivity analyses showing the impact of hypothetical changes in relevant risk variables on results and equity. This assumes that the position on the reporting date is representative of the whole year.

The open foreign currency positions of the most significant foreign currencies as of the balance sheet reporting date are documented below.

31/12/2008		thousand US$	thousand GBP	thousand ZAR	thousand AUD	thousand THB
Cash and cash equivalents	+	3,078	975	10,516	734	159,010
Trade accounts receivable	+	11,078	2,065	49,361	7,521	146,000
of which: currency hedged	–	3,364	—	—	—	—
Trade accounts payable	–	10,034	1,957	40,890	4,132	42,776
Net exposure	=	**758**	**1,083**	**18,987**	**4,123**	**262,234**

31/12/2007		thousand US$	thousand GBP	thousand ZAR	thousand AUD	thousand THB
Cash and cash equivalents	+	1,367	678	44,486	3,424	117,059
Trade accounts receivable	+	4,497	3,555	55,289	6,009	113,961
of which: currency hedged	–	40	—	—	—	—
Trade accounts payable	–	12,156	1,243	88,661	2,717	65,767
Net exposure	=	**–6,332**	**2,990**	**11,114**	**6,716**	**165,253**

For the currency risk, a sensitivity analysis carried out here by way of example for the US dollar, which is the most important foreign currency for the Group. The indirect quotation for the US dollar against the Euro stood at $ 1.39/€ as of 31/12/2008, as against $ 1.47/€ as of 31 December 2007. Assuming a realistic range of fluctuation of +/–15% in the exchange rate at the reporting date, the following would be the impact in terms of profit (+) or loss (–):

	2008		2007	
thousand €	US$ 1.18/€	US$ 1.60/€	US$ 1.25/€	US$ 1.69/€
Impact	+96	–71	–759	+561

With regard to interest rate risk, a sensitivity analysis has been carried out for the variable interest loan (syndicated loan agreement). Based on an outstanding balance of €77m as of December 2008 and on an unchanged margin, a change in the EURIBOR rate brought about by a parallel increase of 100 basis points or a decrease of 100 basis points in the underlying margin as of the accounting cut-off date would have the following effect:

	2008		2007	
thousand €	100 bp parallel increase	100 bp parallel decrease	100 bp parallel increase	100 bp parallel decrease
Impact	+770	–770	+240	–240

In the operating business, the outstanding balances are continuously monitored at the divisional level, i.e. locally. Insofar as the Hansen & Rosenthal Group handles sales, details are also integrated into the monitoring system. Default risks are addressed by individual impairments and flat-rate impairments (additions).

Non-recoverable receivables are booked out and the difference is posted to the impairment account (used). When a doubtful receivable is realised, the previous impairment is cancelled (redemption).

The maximum default risk is given by the book values of the financial assets reported in the balance sheet, including free-standing derivatives with a positive market value. As of the reporting date, there are no material agreements in place that reduce the maximum default risk.

According to IFRS 7, financial assets and liabilities have to be grouped in such a way that a distinction can be made between financial instruments reported at actual cash value and others valued at historical cost.

The following tabular view breaks the balance sheet items down by valuation categories as defined in IAS 39. Together with the details of the financial instruments reported at fair value, the reconciliation against the balance sheet items serves to give the reader an insight into the type and nature of the financial instruments held by the reporting company.

2008 thousand €	Valuation category acc. to IAS 39	Book value 31/12/2008	Balance sheet valuation acc. to IAS 39 Historical acquisition and pro-duction costs	Acquisition and production costs	Fair value not affecting net income	Fair value affecting net income	Balance sheet valuation acc. to IAS 17	Not within the scope of IFRS 7
Assets								
Cash and cash equivalent	LaR	14,757	14,757	—	—	—	—	—
Marketable securities	FAHfT	431	—	—	—	431	—	—
Trade account receivables	LaR	76,831	76,831	—	—	—	—	—
Derivatives without hedging relationship	FAHfT	103	—	—	—	103	—	—
Derivatives with hedging relationship		10	—	—	10	—	—	—
Other assets								
Loans and Receivables	LaR/n. a.	18,915	15,924	—	—	—	—	2,991
Available for Sale Financial Assets	AfS	887	—	—	887	—	—	—
Liabilities								
Trade accounts payable	FLAC	33,453	33,453	—	—	—	—	—
Bank borrowing	FLAC	111,604	111,604	—	—	—	—	—
Finance lease liabilities		6,125	—	—	—	—	6,125	—
Derivative liabilities with hedging relationship		37	—	—	37	—	—	—
Other liabilities	FLAC/n. a.	49,989	13,236	—	—	—	—	36,753
Thereof aggregated according to valuation categories pursuant to IAS 39:								
Loans and Receivables (LaR)		110,503	107,512	—	—	—	—	2,991
Held-to-Maturity Investments (HtM)		—	—	—	—	—	—	—
Financial Assets Available-for-Sale (AfS)		887	—	—	887	—	—	—
Financial Assets Held for Trading (FAHfT)		534	—	—	—	534	—	—
Financial Liabilities Measured at Amortised Costs (FLAC)		195,046	158,293	—	—	—	—	36,753
Financial Liabilities Held for Trading (FLHfT)		—	—	—	—	—	—	—

2007 thousand €	Valuation category acc. to IAS 39	Book value 31/12/2007	Balance sheet valuation acc. to IAS 39 Historical acquisition and pro-duction costs	Acquisition and production costs	Fair value not affecting net income	Fair value affecting net income	Balance sheet valuation acc. to IAS 17	Not within the scope of IFRS 7
Assets								
Cash and cash equivalent	LaR	15,952	15,952	—	—	—	—	—
Marketable securities	FAHfT	516	—	—	—	516	—	—
Trade account receivables	LaR	61,032	61,032	—	—	—	—	—
Derivatives without hedging relationship	FAHfT	692	—	—	—	692	—	—
Derivatives with hedging relationship		50	—	—	50	—	—	—
Other assets								
Loans and Receivables	LaR/n. a.	21,978	—	21,978	—	—	—	—
Available for Sale Financial Assets	AfS	828	—	—	828	—	—	—
Liabilities								
Trade accounts payable	FLAC	45,696	45,696	—	—	—	—	—
Bank borrowing	FLAC	56,856	56,856	—	—	—	—	—
Finance lease liabilities		7,373	—	—	—	—	7,373	—
Derivative liabilities with hedging relationship		4	—	—	4	—	—	—
Other liabilities	FLAC/n. a.	52,884	33,182	—	—	—	—	19,702
Thereof aggregated according to valuation categories pursuant to IAS 39:								
Loans and Receivables (LaR)		98,962	76,984	21,978	—	—	—	—
Held-to-Maturity Investments (HtM)		—	—	—	—	—	—	—
Financial Assets Available-for-Sale (AfS)		828	—	—	828	—	—	—
Financial Assets Held for Trading (FAHfT)		1,208	—	—	—	1,208	—	—
Financial Liabilities Measured at Amortised Costs (FLAC)		155,436	135,734	—	—	—	—	19,702
Financial Liabilities Held for Trading (FLHfT)		—	—	—	—	—	—	—

Since trade account receivables, payables for deliveries and services, other receivables and liabilities, cash and cash equivalents generally have short-term maturities, their actual cash value will not deviate significant from their book value as of the accounting cut-off date.

The actual cash value of other long-term receivables and liabilities with remaining maturities of more than one year will correspond to the cash value of their associated payments, subject to the relevant interest-rate parameter.

(39) Open commitments

Investment expenses for which contractual obligations exist on the reporting date but which have not yet been incurred amount to:

thousand €	31/12/2008	31/12/2007
Fixed assets	9,167	11,159
Intangible assets	136	—
Total	**9,303**	**11,159**

(40) Contingent liabilities

As of the balance sheet reporting date, the following contingent liabilities existed:

thousand €	31/12/2008	31/12/2007
Guarantees	299	967
Deposits for guarantees	1,187	1,187
Joint liability for pensions	230	256
Other contingent liabilities	62	74
Total	**1,778**	**2,484**

The liabilities from guarantees relate to a guarantee in favour of Westfalen Chemie GmbH & Co. KG made to Commerzbank AG.

The outstanding liability contributions concern Westfalen Chemie GmbH & Co. KG.

Subsoil contaminated with harmful substances used in explosives production was discovered already some time ago on a piece of land belonging to a Group company, which was used to produce explosive materials. This contamination results from the periods of the First or Second World Wars when the site was placed under the auspices of the army and used to manufacture and decommission military explosives. The respective soil layers were removed and disposed of some years ago. However, the concentration of existing pollutants that accumulated on the site over several decades was detected as a result of official measurements taken from ground and surface water, and appropriate measures were implemented. The Explosives Division was sold in 2007, while the land has not been transferred to the party acquiring the Division, but been leased for use by the explosives company operating there, within the framework of a lease agreement.

In order to assess the current contamination status, in 2008 the Group company concerned commissioned further investigations, which were completed for the time being in February 2009 and the results of which will presumably be available by the end of the first quarter of 2009. The findings of these investigations will involve the risk of an additional burden to profitability, if additional activities exceeding the previously initiated monitoring and cleanup measures become necessary. To date it has not been possible to carry out the permanent pumping test that was originally planned for 2008; it is planned now to be started in 2009 as soon as the weather conditions are favourable.

Accordingly, up to now there are no new findings available that justify a correction of the provision to the amount of €667k set aside so far to cover the risk.

The operating premises of the Chemical-Pharmaceutical division are partially rented. Cleanup obligations apply when the various rental contracts end. It is unclear whether and to what extent potential contamination exists, and the expected costs cannot be reliably estimated anyway. For this reason, no provision has been raised and no contingent liability reported.

For the areas rented in the port of Hamburg, there is an obligation – as is usual there – to demolish and remove the buildings and operating facilities constructed or acquired by the tenant. Since claims for compensation will arise vis-à-vis the lessor if he gives extraordinary notice of termination or if the long-term rental agreement is not extended, no outflow of resource is assumed and so no provision has been provided for reinstatement commitments.

(41) Other financial obligations

The financial obligations resulting from long-term rental and lease contracts as well as other obligations stretching over several years, can be seen from the following table:

thousand €	31/12/2008	31/12/2007
of which due within one year	15,940	12,745
of which due > 1 year and < 5 years	20,886	21,964
of which due > 5 years	1,227	511
Total	**38,053**	**35,220**

The other financial liabilities mainly include a maintenance agreement with BIS Industrieservice Nord GmbH, Hamburg, with a total value of more than €12.1 million.

In addition, the other financial liabilities at the Salzbergen location include contracts for the delivery of natural gas, compressed air and nitrogen as well as maintenance and servicing contracts regarding the process controlling system.

(42) Governance bodies of H&R WASAG AG

Executive Board	Membership of supervisory or advisory boards
Gert Wendroth	
Chairman of the Executive Board Großhansdorf	– Member of the Advisory Board of WestLB, Düsseldorf
Andreas Keil	
Chief Financial Officer Ahrensburg	
Niels H. Hansen	
Chief Operating Officer Hamburg	
Maria-Elisabeth Ostermann-Müller	
Chief Financial Officer (until 31 January 2008) Lingen (Ems)	

Supervisory Board	Membership of other supervisory or advisory boards
Bernd Günther	
Chief Executive of Hamburger Getreide-Lagerhaus AG, Hamburg Chairman of the Supervisory Board	– Chairman of the Supervisory Board of Maschinenfabrik Heid AG, Stockerau, Austria – Chairman of the Supervisory Board of New-York Hamburger Gummi-Waaren Compagnie AG, Hamburg – Member of the Supervisory Board of Real AG, Kelkheim – Member of the Supervisory Board of Kremlin AG, Hamburg – Chairman of the Supervisory Board of MATERNUS-Kliniken AG
Eckbert von Bohlen und Halbach	
Chief Executive of Bohlen Industrie GmbH, Essen Chief Executive of Bohlen Handel GmbH, Essen Chief Executive of Prosecur Holding GmbH, Essen Deputy Chairman of the Supervisory Board	– Chairman of the Supervisory Board of Feierabend AG Onlinedienste für Senioren, Frankfurt am Main
Nils Hansen	
Personally liable partner of the H&R Group, Hamburg	– Member of the Supervisory Board of Otto M. Schröder Bank Aktiengesellschaft, Hamburg
Günter Papenburg	
Chief Executive of GP Günter Papenburg AG, Schwarmstedt	– Member of the Supervisory Board of AVA Allgemeine Handelsgesellschaft der Verbraucher AG, Bielefeld – Member of the Advisory Board of Arena Hannover GmbH, Hanover – Member of the Advisory Board of Mitteldeutsche Baustoffe GmbH, Sennewitz – Member of the Advisory Board of Norddeutsche Landesbank Girozentrale, Hanover – Member of the Advisory Board of Poller Steinbrüche GmbH & Co. KG, Vahlbruch – Member of the Advisory Board of Sindelfinger Asphalt-Mischwerk GmbH & Co. KG, Sindelfingen

Supervisory Board (employee representatives)	
Reinhold Grothus	
Chairman of the Works Council H&R ChemPharm GmbH, Salzbergen	
Rainer Metzner	
Technical Customer Advisor, Chairman of the Works Council, GAUDLITZ GmbH, Coburg	

(43) Disclosures of relationships with related parties according to IAS 24

The following goods and services have been rendered for related companies and persons who might exercise a significant degree of influence, or utilised by them:

	Provided to Hansen & Rosenthal		Received from Hansen & Rosenthal	
Goods and services thousand €	**2008**	**2007**	**2008**	**2007**
Supplies of chemical pharmaceutical	256,870	229,144	9,398	8,420
– Salzbergen	193,961	178,797		
– Hamburg	62,909	50,347		
Incidental expenses from the supply relationship (freight costs, toll charges etc.)	193	189	8,781	8,401
Commission fees	159	7	619	553
Other services and third party costs (IT services, personnel costs etc.)	959	930	968	1,417

The supplies and the commission business are based on contractual agreements that regulate both, the terms of supply as well as their processing.

The following receivables and liabilities existed as of 31 December 2008:

	Receivables from Hansen & Rosenthal		Liabilities to Hansen & Rosenthal	
thousand €	**31/12/2008**	**31/12/2007**	**31/12/2008**	**31/12/2007**
Goods and services	10,479	4,751	884	2,202
Others	11,908	7,079	9	295
Total	**22,387**	**11,830**	**893**	**2,497**

Other receivables concern mainly receivables from the commission business (€11.904m, 2007: €7.072m) where Hansen & Rosenthal, as commission agent, receives payments from customers and forwards them to H&R WASAG AG.

The following services were rendered for associated companies, or utilised by them:

Services thousand €	Provided to associated companies 2008	Provided to associated companies 2007	Received from associated companies 2008	Received from associated companies 2007
Purchase of hydrogen and steam	—	—	1,555	1,440
Interest income	60	53	—	—
Rental income	41	41	—	—
Services	212	200	—	—
Total	**313**	**294**	**1,555**	**1,440**

The following receivables and liabilities existed as of 31 December 2008:

Services thousand €	Receivables from associated companies 31/12/2008	Receivables from associated companies 31/12/2007	Liabilities to associated companies 31/12/2008	Liabilities to associated companies 31/12/2007
Goods and services	197	53	166	—
Others	850	864	—	—
Total	**1,047**	**917**	**166**	**—**

The following services were rendered for members of management bodies, or utilised by them:

In 2008, the fees invoiced as part of consultancy contracts and for sales activities to BOWAS Group and BOHLEN Handel GmbH totalled €214k (previous year: €247k). The fees paid in 2008 and third party costs invoiced as part of the consultancy contract with Idunahall Verwaltungs-Gesellschaft m.b.H. totalled €77k (previous year: €27k).

Supervisory Board and Executive Board

For fulfilling their tasks, the members of the Supervisory Board received a total of €1.324m (2007: €4.101m) during the financial year. Of this sum, the performance-related element of the remuneration accounted for €454k (2007: €3.093m). The required value for pension commitments to a member of the Executive Board totalled €99k (previous year: €36k). Former members of the Executive Board and their surviving dependants received a total remuneration of €322k (previous year: €320k). For former members of the Executive Board and their surviving dependants, the required value for pension commitments totalled €2.891m (previous year: €2.914m).

In the financial year, members of the Supervisory Board received a total of €158k (2007: €283k).

The remuneration of the individual members of the Executive Board and the Supervisory Board of H&R WASAG AG is disclosed in the "Corporate Governance" section of the Group management report.

The following receivables and liabilities existed as of 31 December 2008:

	Receivables from members of management bodies		Liabilities towards members of management bodies	
Goods and services thousand €	**31/12/2008**	**31/12/2007**	**31/12/2008**	**31/12/2007**
Goods and services	—	—	48	52
Liabilities from Executive Board bonuses	—	—	225	1,267
Others	754	—	90	237
Total	**754**	**—**	**363**	**1,556**

The other receivable involves a property-secured loan which H&R WASAG AG had granted to a company associated with a Supervisory Board member until 29 December 2008. Meanwhile, the loan has been extended until 30 June 2009. The loan amounts to €750k and accrues interest at 6% p.a. The interest yield from this loan in 2008 was €13k.

(44) Declaration of conformity in accordance with article 161 AktG

The declaration on the German Corporate Governance Code specified by article 161 of the German Companies Act (AktG) was submitted in December 2008. It is published on the Internet at www.hur-wasag.de and in this annual report.

(45) Group audit expenses recorded as expenditure in the financial year

In the financial year the following fees were reported as expenditure for the Group auditor:

thousand €	2008 Group auditors	2008 Auditing firms internationally affiliated with these	2008 Total	2007 Total
Audits	432	114	546	573
Other certification or evaluation services	17	21	38	470
Tax consultancy services	278	24	302	267
Other services provided for the parent company or subsidiaries	57	—	57	65
Total	**784**	**159**	**943**	**1,375**

The other certification or evaluation services arose in the context of the participation in a due diligence performed in the reporting year.

Tax consulting in Germany in the reporting year comprised the current tax consulting including tax declarations as well as the fiscal analysis of various concepts, as well as assistance with tax auditing.

Other services concerned mainly a compliance audit of the new ERP software implemented in the previous year.

(46) Exemption from disclosure under article 264 paragraph 3 HGB

The following fully consolidated subsidiaries have elected to make use of the opportunity to be released from the requirement of disclosure in accordance with article § 264 paragraph 3 in conjunction with article 325 of the German Commercial Code (HGB), and partly made use of concessions regarding the preparation of their financial statements:

- H&R Ölwerke Schindler GmbH
- H&R Chemisch-Pharmazeutische Spezialitäten GmbH
- GAUDLITZ GmbH
- H&R Lube Blending GmbH
- H&R LubeTech GmbH
- H&R ChemPharm GmbH
- H&R Lube Trading GmbH
- H&R International GmbH
- H&R InfoTech GmbH
- H&R South Africa GmbH
- SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH

(47) Discontinued activities as per IFRS 5

On 26 April 2007, the Group companies Westspreng GmbH and WANO Schwarzpulver GmbH were sold to the Spanish-Italian Maxam/Pravisani group with immediate effect.

These activities are therefore shown separately in the income statement and capital flow calculation for the prior year.

(48) Risk-management policy, capital management and safeguards

However, the operating business as well as the financing transactions of the H&R WASAG Group, as an internationally active concern, are subject to different financial risks. These specifically include liquidity risk, and counterparty default risk, as well as risks associated with fluctuations in raw material prices, currency exchange rates and interest rates.

H&R WASAG AG has implemented a Group-wide risk-management system which serves as the basis for identifying, analysing and valuing these risks, so that informed decisions can then be taken with regard to preventing or limiting such risks. The key components of the risk-management systems are planning and controlling, Group-internal regulations and reporting. Regular conferences are held to discuss current business developments, operational results, potential risks and opportunities, objectives and management procedures. Derivative financial instruments are also utilised in this connection. The purchase of derivative financial instruments for speculative purposes is not permitted. All transactions with derivative financial instruments must be approved by the Executive Board.

The Executive Board defines the equity of the Group as the basic parameter for capital management, which in turns serves to ensure that the Group can continue to cover its investment needs and debt service. The H&R WASAG Group is not subject to any legally mandated equity requirements.

Liquidity risks

The H&R WASAG Group ensures sufficient liquidity through the daily monitoring of its liquidity status and unutilised financing facilities.

Default risks

The H&R WASAG Group supplies predominantly to customers of first-class credit quality, which results in extremely few instances of receivables default. In addition, revolving trade account receivables with an average volume of €17 million are assigned without recourse to credit institutions in the context of factoring agreements.

Receivables that are uncollectible according to current knowledge are covered through write-downs.

Raw material price risk

The H&R WASAG Group is exposed to price fluctuation risk among other things in the purchasing of raw materials, particularly the purchasing of atmospheric residue and vacuum gas oil. Most supply agreements concluded with customers relating to speciality products manufactured by the Chemical-Pharmaceutical Raw Materials division's speciality refineries incorporate prices fixed for a period of three months at the most. A speciality refinery's production process, from the delivery of raw materials to the supply of the finished product to the customer, can take up to eight weeks. This means that rapid increases in raw materials costs cannot be passed on immediately to markets but only with a time delay.

Relevant price developments are subject to constant monitoring and analysis. Rising raw materials prices may result in windfall losses in earnings, and falling raw materials prices may lead to windfall profits, which balance out over long periods, as a rule.

Foreign currency risks

The international orientation of the H&R WASAG Group means that its operating activities gives rise to, among other things, currency risks that result from exchange-rate fluctuations between the company's currency and other currencies. These arise particularly in the purchasing area as a result of US-dollar transactions.

Such risks are hedged using forward transactions in the trading business. No hedging is performed in the production process, as the length of time entailed in the production process means that the intended hedge may be reversed by the time that the currency forward transaction has concluded.

Interest-rate risks

The H&R WASAG Group utilises, among other things, variable interest-rate facilities as part of its financing activity. Interest hedging instruments are implemented to limit risks arising from changes in market interest rates. These concern interest rate caps and interest-rate swaps. Such transactions may be entered into on a decentralised basis within the H&R WASAG Group but require the prior approval of the Executive Board.

Further information concerning financial instruments can be found in Note (38).

(49) Events after the date of the balance sheet

There were no significant events occurring after the end of the financial year.

(50) Approval of the financial statements

The financial statements were approved by the Executive Board on March 25, 2009, and released for publication.

Salzbergen, 25 March 2009

The Executive Board

G. Wendroth

N. H. Hansen

A. Keil

(51) Affidavit

We hereby affirm that, to the best of our knowledge and according to the applicable accounting standards, the consolidated financial statements convey a true picture of the net worth, financial position and the results of operations of the Group and that the management report presents the course of business including operating profits and the situation of the Group in such a way that a true and fair view is presented and the material opportunities and risks to the projected development of the Group are described.

Salzbergen, 25 March 2009

The Executive Board

G. Wendroth

N. H. Hansen

A. Keil

Equity holdings

	Division	Shareholders' equity thousand €	Holding %	Net profit/loss thousand €
Consolidated companies				
H&R Chemisch-Pharmazeutische Spezialitäten GmbH, Salzbergen	a	25,988	100	PLTA[2]
H&R Lube Blending GmbH, Salzbergen	a	1,927	100	PLTA[2]
H&R LubeTech GmbH, Salzbergen	a	25	100	PLTA[2]
H&R ChemPharm GmbH, Salzbergen	a	53,636	100	PLTA[2]
H&R LubeTrading GmbH, Salzbergen	a	473	100	PLTA[2]
H&R International GmbH, Hamburg	a	25	100	PLTA[2]
H&R Ölwerke Schindler GmbH, Hamburg	a	22,986	100	PLTA[2]
H&R InfoTech GmbH, Hamburg	c	25	100	PLTA[2]
H&R Benelux B.V., Nuth, The Netherlands	a	2,854	100	545
H&R ESP Tipton Limited, Milton Keynes, UK	a	[3]	100	[3]
H&R ChemPharm (UK) Ltd., Milton Keynes, UK	a	3,566	100	948
H&R GSP Inc., Detroit, USA	a	173	100	28
H&R Czechia s.r.o., Prag, Czech Republic	a	322	90	268
H&R ANZ Pty Ltd, Victoria, Australia	a	8,060	100	1,894
H&R Global Special Products Co. Ltd., Bangkok, Thailand	a	–11	100[1]	2
H&R Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia	a	805	100[1]	332
H&R ChemPharm (Thailand) Ltd., Bangkok, Thailand	a	6,904	100	3,683
H&R GSP Co. (HK) Limited, Hongkong	a	29	100	31
H&R WAX Malaysia Sdn. Bhd., Selangor, Malaysia	a	319	100	–252
H&R South Africa (Pty) Limited, Durban, South Africa	a	2,766	100	637
H&R South Africa GmbH, Hamburg	a	14,025	100	EAV[2]
H&R South Africa Sales (Pty) Limited, Durban, South Africa	a	1,738	100	555
Dussek Campbell (Proprietary) Limited, Durban, South Africa	a	1,017	51	361
H&R Grundstücksverwaltungs GmbH, Salzbergen	a	7,448	100	151
H&R Grundstücksverwaltungs-Beteiligungsgesellschaft mbH, Salzbergen	a	–47	74.04	–24
GAUDLITZ GmbH, Coburg	b	4,502	100	EAV[2]
GAUDLITZ Precision Technology (Wuxi) Co., Ltd., Wuxi, China	b	2,084	100	–1,488
GAUDLITZ Precision s.r.o., Dačice, Czech Republic	b	257	83.64	–68
WANO Entertainment GmbH, Liebenburg	c	–233	100	–13
SYTHENGRUND Wasagchemie Grundstücksverwertungsges. Haltern mbH, Haltern	c	3,833	100	PLTA[2]
B.-H. Beteiligungs- und Handelsges. mbH, Salzbergen	c	–106	100	–20

	Division	Shareholders' equity thousand €	Holding %	Net profit/loss thousand €
Financial assets shown by the equity method				
Westfalen Chemie GmbH & Co. KG, Salzbergen	a	–1,568	50	342
Westfalen Chemie Verwaltungsgesellschaft mbH, Salzbergen	a	61	50	1
Non-consolidated companies				
WAFA Kunststofftechnik GmbH & Co. KG, Augsburg, i. K.		[3]	100	[3]
WAFA Kunststofftechnik Verwaltungs GmbH, Augsburg, i. K.		[3]	100	[3]
H&R European Special Products Chorley Limited, Milton Keynes, UK	a	[3]	100	[3]
H&R European Special Products Sales Limited, Milton Keynes, UK	a	[3]	100	[3]
H&R European Special Products Tipton Limited, Milton Keynes, UK	a	[3]	100	[3]
Participating interests				
SRS EcoTherm GmbH, Salzbergen	a	5,622	10	1,738
Betreibergesellschaft Silbersee II Haltern am See mit beschränkter Haftung, Essen	c	[3]	8	[3]

[1] Including shares held in trust: shares in the following companies are held only indirectly through trustees. In H&R Global Special Products Co., Ltd., Bangkok, Thailand, H&R WASAG AG holds 49% of the shares through subsidiaries, while 51% are managed on behalf of the Group by trustees. H&R Global Special Products Co., Ltd. in turn holds 60.98% of the shares in H&R GSP Co., Ltd., Bangkok, Thailand. A further 38.98% are held by a subsidiary whose shares are 100%-owned by H&R WASAG AG. The remaining 0.04% are managed on behalf of the Group by trustees. The Group directly holds 30% of the shares in H&R Global Special Products Sdn. Bhd., Kuala Lumpur, Malaysia. The remaining 70% are managed on behalf of the Group by trustees.

[2] PLTA = Profit and loss transfer agreement

[3] There are no financial statements for these companies as of 31 December 2008

Divisions:

a) Chemical-Pharmaceutical Raw Materials b) Precision Plastics c) Other activities

As of 31/12/2008

Audit certificate

We have audited the consolidated financial statements prepared by H&R WASAG Aktiengesellschaft, Salzbergen, consisting of the balance sheet, profit and loss account, movements in net equity, cash flow statement and notes, for the financial year from 1 January to 31 December 2008. The preparation of the consolidated financial statements in accordance with IFRS, as applied in the EU, and the applicable rules as set out in article 315 a paragraph 1 of the German Commercial Code (HGB) lies within the scope of responsibility of the legal representatives of the company. It is our task, on the basis of the audit that we have conducted, to provide an assessment of the consolidated financial statements and the Group management report.

We have conducted our audit of the consolidated financial statements in accordance with article 317 of the German Commercial Code taking into account the German principles of proper auditing defined by the Institute of Auditors (IDW). Accordingly, the audit should be planned and carried out in such a way that incorrect statements and infringements are identified with sufficient confidence that have an effect on the presentation of the net worth, financial position and the results of operations as conveyed by the consolidated financial statements, taking into account applicable accounting principles, as well as by the Group management report. The scope of the audit was planned taking into account our understanding of business operations, the Group's economic and legal environment and any potential errors expected. As part of the audit, the effectiveness of the accounting-related internal control system, as well as documented evidence for the disclosures made in the consolidated financial statements and in the consolidated management report was subject to evaluation on the basis of random checks. The audit comprises the assessment of the annual financial statements of companies included in the consolidated financial statements, the delimitation of the scope of consolidation, the accounting and consolidation principles applied, key estimates made by the legal representatives, as well as an evaluation of the overall presentation of the consolidated financial statements and of the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has led to no objections.

In our opinion, on the basis of knowledge gained as part of our audit, the consolidated financial statements have been prepared in accordance with IFRS, as applied in the EU, and the applicable commercial law rules as set out in article 315 a paragraph 1 of the German Commercial Code and, taking these principles into account, they convey a picture of the net worth, financial position and the results of operations of the Group that corresponds to the actual circumstances. The Group management report harmonizes with the consolidated financial statements, conveys an overall appropriate picture of the situation of the Group and appropriately represents the opportunities and risks related to future development.

Hamburg, 25 March 2009

Susat & Partner oHG
Wirtschaftsprüfungsgesellschaft (Auditing company)

Wolff
Auditor

Jakumeit
Auditor

Financial calendar

May 14, 2009	Q1 Report 2009
May 28, 2009	Annual Shareholders' Meeting in Hamburg
August 14, 2009	Q2 Report 2009
November 12, 2009	Q3 Report 2009

Contact

If you should have further questions concerning our company or if you would like to sign up for the company mailing list, please contact our Investor Relations Team:

H&R WASAG AG
Investor Relations
Am Sandtorkai 64
20457 Hamburg
Germany

Christian Pokropp
Phone: +49 (0) 40-4 32 18-321
Fax: +49 (0) 40-4 32 18-390
E-mail: christian.pokropp@hur-wasag.de

Tanja Hemker
Phone: +49 (0) 40-4 32 18-301
Fax: +49 (0) 40-4 32 18-390
E-mail: tanja.hemker@hur-wasag.de

www.hur-wasag.com

Glossary

Barrel
Unit of measurement for liquid; in relation to oil products, a barrel contains 159 litres.

Blending
In the production of lubricants, blending refers to the mixing of oil and additives to form automotive and industrial lubricants.

Brent
Leading type of oil from the North Sea.

Cash flow
Key financial figure: cash balance of inflow and outflow of funds; split between current operations, investment activity and financing activity.

Earnings per share
Key financial figure: net income for year divided by the weighted average number of outstanding shares; shows how high the profit is for each share.

EBIT
(Earnings before interest and taxes)
Key financial figure: defines as consolidated earnings before interest earnings and taxes on income.

EBITA
(Earnings before interest, Taxes and amortisation) Key financial figure: defined as consolidated earnings before interest earnings, taxes on income and amortisation of goodwill.

EBITDA
(Earnings before interest, taxes, depreciation and amortisation) Key financial figure: defined as consolidated earnings before interest earnings, taxes on income as well as depreciation on tangible assets and amortisation of goodwill. In the case of H&R WASAG, operation income.

Equity ratio
Key financial figure: shows the ratio of equity to total assets and represents the finance structure.

Extract
Product of special refinery production: extracts are used as softening agents in the rubber and caoutchouc industry (in particular in tyre production).

German Corperate Governance Code
Recommendations and suggestions on conduct from the governmential commission of the same name on corporate management and supervision for listed companies in Germany.

Investment cover
Key financial figure: ratio of depreciation on tangible assets to additions to tangible assets; shows to what extent depreciation amounts are reinvested.

Marine lubricant
Special lubricant for use in ships' motors.

Net finance debt
Key financial figure: finance debts minus the balance sheets items, short-term security investments and liquid assets; reveals the level of debt if all liquid assets were used to pay it off.

Net gearing
Key financial figure: ratio of net financial debt to equity; shows the relationship between finance provided by third parties and that provided by the company owners.

Paraffin
Products of special refinery production: paraffin is oil-based wax which is used in over 100 different industries and sectors for manufacturing a wide variety of products.

Return on capital employed (ROCE)
Key financial figure: ratio of EBIT to capital employed (equity plus net finance debt and pension provisions); shows the earning power of a company.

Return on equity
Key financial figure: ratio of profit (net income for year before third party profit shares) to equity (including minority interests); reveals investors' rate of interest on their capital.

Return on total capital
Key financial figure: ratio of EBIT to total capital (equity and borrowed capital); reveals the rate of interest on the total capital used.

Special refinery activities
Production of highly refined raw materials for the chemical and pharmaceutical industries using oil-based materials.

Tool
Designation for the injection mould in the manufacture of plastic parts.

Value creation
Increase in value of goods used in the production process.

WACC
Weighted Average Cost of Capital

White oil
Product of special refinery production: highly refined and purified oil which is used especially as an input material in the cosmetics and polystyrene industries.

Working capital
Key financial figure: calculated from current assets minus short-term liabilities; shows the share of current assets covered by long-term borrowings.

< Glossary

Imprint

Published by:	H&R WASAG AG Neuenkirchener Straße 8 48499 Salzbergen Germany
Editorial office:	BSK Becker+Schreiner Kommunikation GmbH, Willich, Germany
Concept/Design:	vE&K Werbeagentur GmbH & Co. KG, Essen, Germany
Photos:	Selim Sudheimer, Hamburg, Germany; Yavuz Arslan, Essen, Germany
Printing:	Buersche Druckerei Neufang KG, Gelsenkirchen, Germany
Published:	26 March 2009

H&R WASAG AG
Neuenkirchener Straße 8
48499 Salzbergen · Germany

Phone: +49 (0) 59 76-9 45-0
Fax: +49 (0) 59 76-9 45-308

E-mail: info@hur-wasag.de
Internet: www.hur-wasag.com