Extremely refined

Annual Report 2011 of the H&R AG

H&R

Sites

The subsidiaries in the H&R network form a global conglomerate of refineries, speciality production plants and sales companies that meet customers' requirements for white oils, wax emulsions, paraffin, plasticisers and many other products.

Chemical-Pharmaceutical Raw Materials

Australia Laverton
China Ningbo*/Hong Kong*
Germany Hamburg/Salzbergen
France Lyon*
UK Tipton
Malaysia Port Klang/Batu Caves
New Zealand Auckland
Netherlands Nuth
Poland Krakow
Spain Madrid*
South Africa Durban
Thailand Bangkok/Si Racha
Czech Republic Prague
USA Denver*

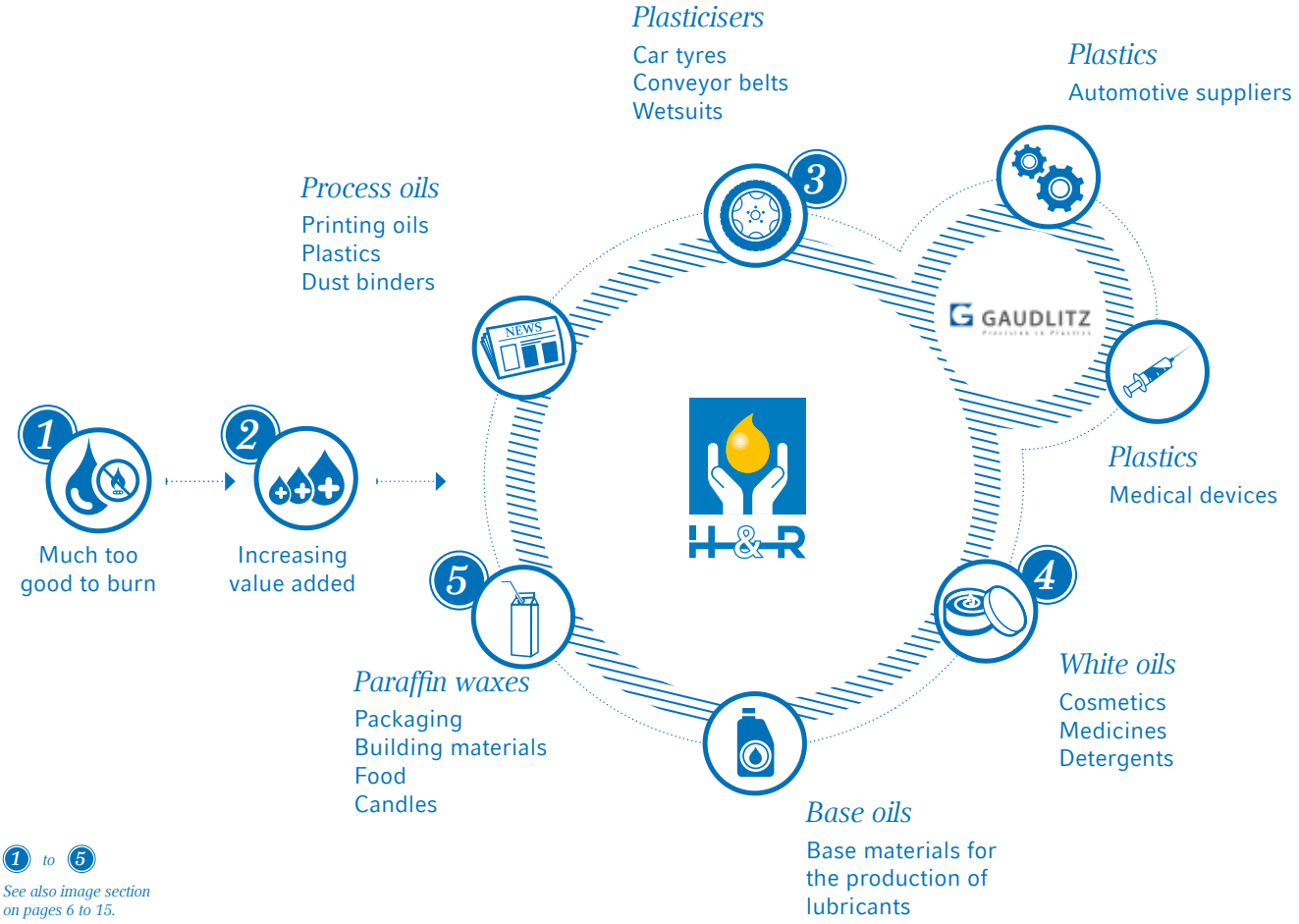
Plastics

China Wuxi
Germany Coburg
Czech Republic Dačice

** H&R network site, but not included in the consolidated group of H&R AG.*

Business model

The H&R network is an international specialist chemicals company. We take a product of crude oil distillation and apply intelligent processes to obtain more than 800 innovative, environmentally friendly and high-quality products such as plasticisers, white oils and paraffins. High-precision plastic parts complete our product portfolio. In the years ahead we intend to increase the value added by our refineries by means of targeted investments.



1 to 5

See also image section on pages 6 to 15.

Our financial year 2011

– Revenue up by 14.4% to a record €1,209.5 million
– Large-scale investment project to increase valued added successfully completed
– Clear earnings improvement for the Plastics Division
– Long-term Group financing assured
– Dividend proposal remains high at €0.60 per share[1)]

The H&R Group in figures

€ MILLION	**2011**	2010	Change in %
Sales	1,209.5	1,056.8	+14.4
Operating income (EBITDA)	89.1	103.4	–13.8
EBIT	68.1	82.0	–17.0
Pre-tax earnings	54.5	73.6	–26.0
Net income before minority interests	38.5	52.0	–26.0
Net income after minority interests	38.5	52.0	–26.0
Consolidated earnings per share (basic, in €)	1.29	1.74	–25.9
Dividend per share (in €)	0.60[1)]	0.65	–7.7
Operating cash flow	–11.8	52.1	n/a
Equity ratio (in %)	38.0	42.5	–4.5% points
Employees (31 December)	1,431	1,374	+4.1

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

The segments in figures

€ MILLION	**Sales 2011**	Sales 2010	**EBITDA 2011**	EBITDA 2010
Chemical-Pharmaceutical Raw Materials Domestic	**943.2**	**808.1**	**71.3**	**86.7**
The Chemical-Pharmaceutical Raw Materials Domestic Segment has two refineries in Hamburg and Salzbergen (Germany), which produce speciality products from crude oil.				
Chemical-Pharmaceutical Raw Materials International	**249.6**	**229.8**	**19.0**	**20.7**
Our Chemical-Pharmaceutical Raw Materials International Segment comprises the mixing and conversion plants abroad and our international sales activities.				
Plastics	**52.6**	**42.8**	**2.3**	**–0.3**
The Plastics Segment manufactures high-precision plastic parts along with the associated tools and moulds.				
Others/consolidation	**–35.9**	**–23.9**	**–3.5**	**–3.7**

Sites/Business model

Turning oil derivatives into products that protect the climate or make our lives easier is innovative. *Carrying on a successful business in niches that others consider much too small is* intelligent. *Deploying capital in a way that adds new value is* efficient. *Operating far-sightedly on the basis of a solid ownership structure is* sustainable.

And doing all these things at once is …

Extremely refined!

Contents

[1)] Includes the remuneration report and the declaration on corporate governance in line with Art. 289a of the German Commercial Code (HGB), which both form part of the Group management report.

[2)] Combined management report for H&R AG and the H&R Group.

Further information

Useful references

Information on sustainability

Links to the H&R website

Useful information

Letter from the Executive Board

Dear Shareholders,

In the 2011 financial year, H&R AG continued on the growth course established in recent years, once again setting a new record with revenue of over €1.2 billion. The operating result (EBITDA) of €89.1 million is one of the best in the company's history, even though it falls short of the exceptional year 2010.

As we told you this time last year, our result for the previous year was buoyed by particularly high, demand-driven margins for many products in our largest Chemical-Pharmaceutical Raw Materials Division. We were still able to reap the profits of this positive market environment in the first half of the reporting period. The second half began with a pronounced summer slump, however, and steep falls in sales volumes. Demand for our products returned to a normal level from September onwards. Further increases in raw materials prices nevertheless put increasing pressure on margins.

In the Plastics Division we managed to improve earnings sharply – albeit from a low base. On one hand we benefited from the continuing reorganisation in the form of lower fixed costs and additional income from innovative products in the field of medical technology. On the other hand orders improved for our customers in the automotive supply industry, which continue to account for the majority of revenues in this division.

We renamed the company: the "WASAG" that was removed from the company name stood for Westfälisch Anhaltinische Sprengstoff Aktien Gesellschaft ("Westphalian Anhaltian Explosives Corporation"). As our long-standing shareholders will know, we discarded our explosives operations back in 2007. The remaining "H&R" stands for Hansen and Rosenthal, two merchant families from Hamburg, who started a joint venture trading in waxes and petroleum jellies in 1919. The Hansen family has retained close ties to the company to this day, as majority shareholder, distribution partner and an important source of ideas for innovative chemical-pharmaceutical speciality products.

Niels H. Hansen
Chief Executive Officer

Luis Rauch
Chief Financial Officer

Detlev Wösten
Deputy Member of the Executive Board for Refineries

But now let us turn to the future development. The focus of our growth strategy remains on our largest division, Chemical-Pharmaceutical Raw Materials. In the reporting period we very successfully completed the biggest investment project in our company's history, the construction of a propane deasphalting plant at the refinery in Hamburg, which is part of this division. In the fourth quarter everything was finally ready: the first customer was supplied with crude oil-based specialities from the new plant – a moving moment for everyone involved in the project! The plant will be able to attain its full capacity for the first time in the 2012 financial year, with annual operating earnings potential (EBITDA) of €12 million to €14 million.

The successful conclusion of the project is no reason for us to slow down. The company is already working at full speed on developing the next project. Our crude oil-based input material is a real trump card, as it has virtually inexhaustible potential for further processing and enhancement. In the future our strategy will continue to focus on leveraging this potential and achieving profitable growth as a niche provider of crude oil-based speciality products. To realise this goal we have developed our research and development activities continuously in recent years, as well as expanding our production facilities, and will continue to pursue this course consistently.

In the international segment of our Chemical-Pharmaceutical Division we expect medium-term growth to come from several sources. In the first place we will continue to profit from rapid economic growth in those countries where we have overseas sites. Furthermore, we are planning to extend our sales activities in other countries – primarily in Asian and South America. Finally, we will expand the range of crude oil-based speciality products supplied by our existing sites, by stepping up manufacturing both at our own plants and via the proven concept of producing with local partners.

In the Plastics Division all indicators still signal growth. We believe the drivers of this development will be the expansion of our production capacity in Eastern European and Asian growth markets as well as additions to our product portfolio, especially for customers in the medical technology sector.

Our strong earnings and the positive outlook again make it possible to distribute a substantial dividend. At the upcoming Annual Shareholders' Meeting to be held on 31 May 2012, the Executive Board and Supervisory Board will table a proposal to you, our shareholders, to pay a dividend of €0.60 per share for the 2011 financial year. Based on the share price of €16.55 at year-end 2011, this represents a dividend yield of around 3.6%.

Looking at our future earnings development, two opposing factors need to be taken into account. On the one hand our operating position for the current year has been improved by the operational propane deasphalting plant in Hamburg, the expansion of our product portfolio in the international segment and the continuing reorganisation of the Plastics Division. On the other hand it should be borne in mind that after two years of very favourable operating conditions, early indicators are pointing to an economic downturn in 2012. If this were to happen, the volume of sales of our chemical-pharmaceutical speciality products and plastic components would not go unscathed. From today's perspective – and despite the boost to our earnings potential – a repeat of the good consolidated operating result (EBITDA) for the reporting period therefore seems ambitious in the current year.

Special thanks go to our customers, suppliers and lenders for their confidence in our company, by which they have laid the foundations for our commercial success.

We would also like to say a very sincere thank-you to our staff, whose great commitment enables us to remain a successful global supplier of crude oil-based speciality products and high-precision plastic parts and to pursue our growth strategy.

Thanks are due to you, our shareholders, for your loyalty. The trust you have placed in us will drive us to keep pursuing our strategy in the future and sustainably increase the value of H&R AG.

Best regards,

Salzbergen, March 2012

The Executive Board

N. H. Hansen L. Rauch D. Wösten

It’s always

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to start with

Crude oil is a natural resource without which modern life in all its facets would be absolutely unthinkable. We work mostly with the part of crude oil that others cannot make efficient use of: the long residue that is left by the distillation process. After half-hearted processing it often meets an inglorious and, above all, ecologically questionable end – for instance, as bunker fuel for ships. With a little more commitment, however, it can be persuaded to yield state-of-the-art chemical-pharmaceutical speciality products.

Cracked up eight hundred times

and still laughing

It doesn’t sound so complicated to start with: at our refineries in Hamburg and Salzbergen we refine long residue into base oil, the starting point for the production of lubricating oil. The exciting thing about it is that more than 800 other crude oil-based speciality products are also created in the course of this joint production process. These are used in a diverse range of applications. By investing heavily in our plants we are continuously improving our yield structure.

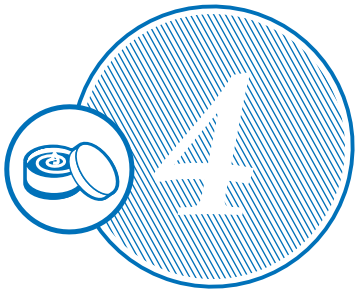
Resistance

i s f u t i l e

More than a fifth of a car's fuel consumption stems from the rolling resistance of its tyres. Reducing this figure is therefore nothing other than a practical example of climate protection. That is where our environmentally friendly plasticisers come into play. They have been scientifically proven to make a major contribution to improving the rolling properties of modern car tyres – and thereby to saving millions of litres of fuel.

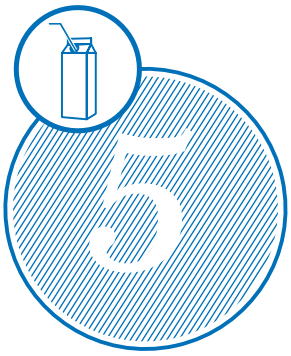
The ultimate

in tastelessness



Would you rub crude oil into your skin voluntarily? Or even drink it? We think not. Just a few steps further down the processing chain things look very different, however. Our medical white oils are completely odourless and tasteless; their purity and tolerance even meet the high standards of the European Pharmacopoeia, quality control guidelines for the pharmaceutical and cosmetic industry.

Wax



The most familiar use for paraffine wax is probably for making candles. But paraffine wax – like the substance from which it is made – is really much too good to burn. On the inside of Tetra Pak cartons for instance, or as a major component of wax coatings, it improves shelf-life and hygiene for a vast array of foods.

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eloquent

Supervisory Board report

Dear Shareholders,

In this report we inform you about the work of the Supervisory Board and the results of the audit of the separate and consolidated financial statements for the financial year 2011.

Last year we paid particular attention to the progress of our major investment project and the realignment of our Group financing arrangements. In the final quarter we took important personnel decisions for the future management of the Group by appointing Mr Niels H. Hansen as Chief Executive Officer and Mr Luis Rauch as Chief Financial Officer.

Supervision and advice for the benefit of the H&R Group

In the financial year 2011 we monitored and advised the Executive Board continuously on the performance of its company duties. We were involved from an early stage in all decisions of fundamental significance and kept fully informed.

At Supervisory Board meetings as well as by means of intermediate written and oral reports, the Executive Board informed us about the course of business, the net assets, financial and earnings position, risk exposure and all events of importance for the Group. The average attendance rate at Supervisory Board meetings came to an impressive 98% in 2011. This means that all Supervisory Board members took part in considerably more than the 50% of meetings held during their period of office required by Item 5.4.7 of the German Corporate Governance Code.

To further increase the efficiency of the Supervisory Board, the Audit Committee, Nomination Committee and the Committee for Refinery Technology and Strategy began work in 2011, in addition to the existing Personnel Committee and the Capital Measures Committee.

Supervisory Board meetings

The analysis of current market developments took up considerable time at the first meeting of the year on 3 February. The Executive Board also gave an initial indication of the result for the year 2010. Personnel changes in the previous year also required several new appointments to two Supervisory Board committees.

Mr Roland Chmiel was elected as a new member of the Capital Measures Committee and Dr Rolf Schwedhelm as a new member of the Personnel Committee.

At the meeting to discuss the financial statements on 24 March 2011, we followed the recommendation of the Audit Committee and – after carrying out our own review – approved the separate and consolidated financial statements for H&R AG. The Executive Board also presented the agenda for the Annual Shareholders' Meeting, including the planned expansion of the Supervisory Board from six to nine members.

On 31 May the Supervisory Board convened for its constitutive meeting after the Annual Shareholders' Meeting. Mr Bernd Günther was confirmed in his position as Supervisory Board Chairman. Dr Rolf Schwedhelm was also elected as his deputy.

At the meeting on 28 July the Supervisory Board discussed in detail the future management structure of the H&R Group and appointed Mr Detlev Wösten as deputy member of the Executive Board for refineries with effect from 1 August 2011. The Supervisory Board also proposed the creation of an Executive Committee as a second level of management below the Executive Board.

The meeting on 15 September was held at the main site of the Plastics Division in Coburg. After a tour of the factory, the Supervisory Board took reports from the divisional managers, who were invited as guests, on the gratifying progress made with restructuring activities. In addition the Executive Board reported on the state of negotiations relating to the Group's future financing arrangements. A Committee for Refinery Technology and Strategy was also established. It is chaired by Mr Volker Woyke and also consists of Mr Nils Hansen and Dr Joachim Girg.

Bernd Günther
Chairman of the Supervisory Board

On 27 October 2011 the meeting focused on the course of business at the international companies in the Group, which was explained in detail by the Executive Board and discussed in depth thereafter. The Supervisory Board also approved the refinancing plan and the contracts that needed to be drawn up in this regard. Dr Rolf Schwedhelm told the Supervisory Board that for professional reasons he would no longer be able to hold the post of Deputy Chairman. Dr Joachim Girg was elected to succeed him in this post as of 1 November 2011.

At the last meeting of the year held on 7 December the Executive Board gave a final report on the major investment project in Hamburg which had been successfully completed. The Executive Board also presented to the Supervisory Board the negotiated terms of the new syndicated loan and borrower's note loan. Furthermore, the Declaration of Compliance with the German Corporate Governance Code for the financial year 2011 was discussed. We carried out the annual efficiency review, using a questionnaire to be completed by the Supervisory Board members. The results of the survey provided valuable pointers for our future work in committees and in the Supervisory Board plenum. At the end of the meeting the Executive Board explained the improvements to the risk management system.

Work in the Committees

The members of the Personnel Committee met three times in the 2011 financial year. The meetings dealt with matters relating to Executive Board remuneration, performance targets, expiry dates for periods of office and the Group's future management structure.

The Nomination Committee also held three meetings. Its discussions focused on expanding the Supervisory Board from six to nine members and on the search for suitable candidates for the Supervisory Board elections in 2012, with particular regard given to diversity.

The Committee for Refinery Technology and Strategy began its work in December 2011 and held its first meeting. At this meeting the Committee dealt primarily with plant safety, investment projects and emergency management at our refineries.

The members of the Audit Committee met four times in the reporting period. The main topics were the audit of the separate and consolidated financial statements for the 2010 financial year and the pre-audit of these financial statements for 2011. In addition the Committee looked in detail at the competitive bidding process to find a new tax advisor for the H&R Group.

The Capital Measures Committee met once in the 2011 financial year. At this meeting it dealt with the advantages and drawbacks of the various capital market instruments available for funding the Group in future.

Corporate governance

In the reporting period we talked in detail about corporate governance at the H&R Group. Discussions focused on implementing the recommendations of the Government Commission of the German Corporate Governance Code. As a result of these efforts we were able to reduce the number of instances in which we do not follow the recommendations of the Code as amended on 26 May 2010 from nine to two. You will find our current Declaration of Compliance with the German Corporate Governance Code in accordance with Art. 161 AktG on page 20 of this report and online at www.hur.com under H&R AG. On 13 December the entire Supervisory Board also took part in a seminar on capital markets law.

Audit of the separate and consolidated financial statements

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Hamburg, audited the separate financial statements and the management report for H&R AG prepared by the Executive Board in accordance with the German Commercial Code as well as the consolidated financial statements and the Group management report prepared using the International Financial Reporting Standards (IFRS) for the 2011 financial year. An unqualified audit certificate was issued for each.

In addition, PWC audited the Group's early-warning system for risks in accordance with Art. 91 AktG and came to the conclusion that it fulfils the legal requirements.

The members of the Supervisory Board were provided with copies of the separate and consolidated financial statements and the combined management report as soon as they were produced. The auditors provided the members of the Audit Committee with a detailed explanation of their audit results as part of the preparation for the Supervisory Board balance sheet meeting. The above-mentioned financial statements, reports and audit reports were dealt with comprehensively at the Supervisory Board's balance sheet meeting on 27 March 2012 with the aid of verbal explanations by the Chairman of the Audit Committee and the auditor. The signing auditors reported to the Supervisory Board that the internal control system and the early-warning system for risks displayed no material weaknesses relating to the accounting process.

After examining and discussing the separate financial statements, the consolidated financial statements and the combined management report in detail, the Supervisory Board endorsed the findings of the audit and ratified the separate financial statements and the consolidated financial statements. The separate financial statements for H&R AG were thereby adopted. The Supervisory Board considers the Executive Board's proposal for the appropriation of distributable profit to be judicious and endorses it.

The report on relations with affiliated companies produced by the Executive Board as per Art. 312 AktG was also examined by the auditor. The auditor informed the Supervisory Board about the outcome of the audit and issued the following audit opinion: "Following a conscientious audit and assessment, we confirm that

1. the factual information provided in the report is correct,
2. the payments made by the company for the legal transactions listed in the report were not inappropriately high,
3. there are no grounds for a significantly different assessment of the measures listed in the report to that made by the Executive Board."

This report by the auditor was also reviewed by the Supervisory Board. The Supervisory Board endorses the closing statement made by the Executive Board in the report and has no objections to raise.

Changes in the executive bodies

At the ordinary Annual Shareholders' Meeting of H&R AG held on 31 May 2011 the Supervisory Board members Mr Roland Chmiel and Dr Rolf Schwedhelm, who had been appointed initially by Osnabrück District Court on 28 October 2010, were elected to the Supervisory Board until 2016.

A resolution was also passed at the same Annual Shareholders' Meeting to expand the Supervisory Board from six to nine members. On 6 September 2011 Osnabrück District Court then appointed Dr Joachim Girg, Mr Holger Hoff and Mr Volker Woyke as new Supervisory Board members. In line with the recommendation of the German Corporate Governance Code, the appointment of the new shareholder representatives Dr Joachim Girg and Volker Woyke is initially limited to the period until the Annual Shareholders' Meeting 2012. The period of office of Mr Holger Hoff, the new employee representative on the Supervisory Board, also ends at the close of the Annual Shareholders' Meeting 2012. New employee representatives will be elected in April 2012.

On 1 August 2011 we expanded the Executive Board by appointing Mr Detlev Wösten as a deputy member with responsibility for refineries, production and technology.

The former Chief Executive Officer Gert Wendroth and the former Chief Financial Officer Andreas Keil resigned their Executive Board seats as of 31 December 2011. The Supervisory Board thanks them for their good work and wishes them all the best for the future.

In response to these resignations we appointed Mr Niels H. Hansen, previously Chief Operating Officer, as the new Chief Executive Officer and Mr Luis Rauch as the new Chief Financial Officer on 12 December. Both appointments came into effect on 1 January 2012.

The Supervisory Board would like to thank the members of the Executive Board and all the company's employees for their excellent, successful work over the past year. Our sincere thanks also go to our loyal shareholders, who we hope will continue to see the benefit of holding H&R shares.

The Supervisory Board believes that the company is very well equipped to face future market challenges in terms of both human and financial resources.

Hamburg, 27 March 2012

Bernd Günther
Chairman

Corporate governance

Declaration on corporate governance and the corporate governance report

Corporate governance refers to a company's system of decision-making and control processes. Good corporate governance means making decisions based on long-term value creation, ensuring that a company's executive board and supervisory board work together effectively, and ensuring a high level of transparency in corporate communications. These principles shape the management and monitoring activities at H&R AG.

Below is the Executive Board's declaration on corporate governance pursuant to Art. 289a of the German Commercial Code (HGB), which forms part of the combined management report. In issuing this declaration, the Executive Board is also complying with recommendation 3.10 of the current German Corporate Governance Code (preparation of a corporate governance report).

Declaration of Compliance 2011/2012

Art. 161 of the German Companies Act (AktG) requires the executive and supervisory boards of a publicly listed company to issue an annual declaration stating that they have followed the recommendations made by the Government Commission of the German Corporate Governance Code and published by the German Federal Ministry of Justice in the official part of the electronic Federal Gazette and, if applicable, explaining why certain recommendations were or are not applied.

The Executive Board and Supervisory Board of H&R AG endorse the principles of the German Corporate Governance Code. The majority of the recommendations and suggestions made in the Code have been part of our management practices for many years. All of the Declarations of Compliance issued since 2002 can be viewed online at www.hur.com in the H&R AG section. In December 2011 the Executive and Supervisory Boards of H&R AG issued the following Declaration of Compliance:

The Executive Board and the Supervisory Board of H&R AG, Salzbergen, declare that the company has followed and continues to follow the recommendations made by the Government Commission of the German Corporate Governance Code as amended on 26 May 2010 and published by the German Federal Ministry of Justice in the official part of the electronic Federal Gazette, with the following exceptions:

- Item 4.2.3 paragraphs 2 and 4 of the Code: The monetary remuneration paid to the Executive Board member Niels H. Hansen does not comprise any variable components because Mr Hansen has opted not to receive any variable remuneration components due to his position in the Hansen & Rosenthal Group. The executive employment contract held by the Executive Board member Niels H. Hansen does not stipulate a cap on compensation corresponding to a maximum of two annual salaries should his executive role be terminated prematurely without good cause. In the company's view, any such cap on compensation would not be legally binding. Should the conditions not be met for good cause as defined in Art. 84 para. sentence 1 AktG and Art. 626 of the German Civil Code (BGB), the service contract with the Executive Board member can only be terminated by mutual consent. In this case, the relevant Executive Board member is not obliged to accept a cap on their compensation as defined in the Code's recommendation.

  The company has taken into account the regulations on executive remuneration amended by the German Act on the Appropriate Remuneration of Executives (VorstAG) along with the applicable recommendations of the Corporate Governance Code in the appointment of new executives and in the alteration or extension of existing executive contracts.

- Item 5.4.5 sentence 2 of the Code: The Chairman of the Supervisory Board at H&R AG has a seat on the Executive Board of a publicly listed company. In total, he holds more than three Supervisory Board mandates at listed companies outside the Group. In this particular case the Supervisory Board considers it unnecessary to limit the number of mandates, as the Chairman of the Supervisory Board has sufficient time to fulfil his mandates.

Executive Board and Supervisory Board of H&R AG

Salzbergen, Germany, 21 December 2011

Compliance

Management and control at H&R AG is based on the Articles of Association, the rules of procedure for the Supervisory Board and Executive Board, the German Corporate Governance Code and the relevant national legislation. Corporate governance practices which go over and above the legal requirements have been compiled in a code of conduct that applies to the entire Group. This code defines the compulsory rules of conduct derived from our company policy. Our company policy can be viewed online at www.hur.com under H&R Group.

We constantly make our employees aware of the need to behave honestly, fairly and lawfully at all times during the course of their work. We also hold extensive training sessions dedicated to special issues for staff in specific departments. These courses at H&R AG focus on topics relating to occupational health and safety, environmental protection and anti-trust legislation.

Compliance infringements are systematically pursued and consistently punished.

Shareholders and Annual Shareholders' Meeting

Our shareholders decide on issues of fundamental importance for the company by exercising their voting rights at a Shareholders' Meeting, which is held at least once a year. Shareholders who own H&R shares on the 21st day before the Annual Shareholders' Meeting (record day) and who register properly to attend the meeting are entitled to vote. Each share entitles its holder to one vote (one-share-one-vote rule).

Every shareholder who is entitled to vote has the option of exercising their voting right in person, appointing a proxy or abstaining from the vote. We also offer shareholders the option of authorising our proxies to exercise their voting rights. These proxies are bound by shareholders' voting instructions.

Shareholders have the right to speak at the Annual Shareholders' Meeting and demand information about company matters insofar as is necessary to reach a constructive assessment of an item on the agenda.

Our Annual Shareholders' Meeting elects six of the nine members of the Supervisory Board. It also makes decisions on the appropriation of distributable profit, the discharge of the Supervisory and Executive Boards, equity transactions and amendments to the Articles of Association.

Sufficient notice of the meeting is given in the H&R AG section of our website, www.hur.com. All documents to be made accessible to the Annual Shareholders' Meeting are also published there in good time. After the Annual Shareholders' Meeting, the results of voting and attendance figures can also be found in this section of the website.

Collaboration between the Executive Board and the Supervisory Board

As required by law in Germany, we have a two-tier management system with a strict distinction between corporate management and supervision. The Executive Board manages the company independently and autonomously.

The Supervisory Board appoints, monitors and supervises the Executive Board. It is also directly involved in decisions of fundamental importance for our company.

Supervisory Board

In accordance with Art. 8 para. 1 of the Articles of Association our Supervisory Board has nine members (see also page 152–153 of this report).

The board is subject to codetermination pursuant to the German Law on Codetermination. For this reason, three employee representatives sit on our Supervisory Board in addition to the six shareholder representatives elected at the Annual Shareholders' Meeting.

The period of office of the Supervisory Board members Bernd Günther and Nils Hansen ends at the close of the Annual Shareholders' Meeting 2012. Mr Roland Chmiel and Dr Rolf Schwedhelm have been elected to the Supervisory Board until the Annual Shareholders' Meeting 2016. Following the expansion of the Supervisory Board from six to nine members as adopted at the Annual Shareholders' Meeting 2011, Osnabrück District Court

appointed Dr Joachim Girg, Mr Holger Hoff and Mr Volker Woyke as new Supervisory Board members on 6 September. In line with the recommendation of the German Corporate Governance Code, the appointment of the new shareholder representatives to the Supervisory Board – Dr Joachim Girg and Volker Woyke – is initially limited to the period until the Annual Shareholders' Meeting 2012. The period of office of the employee representatives on the Supervisory Board – Holger Hoff, Reinhold Grothus and Rainer Metzner – also ends at the close of the Annual Shareholders' Meeting 2012. New employee representatives will be elected in April 2012.

The Supervisory Board oversees the Executive Board and advises its members on their management of the company. Executive Board members are appointed and dismissed in line with Art. 84 and 85 AktG. Amendments to the Articles of Association are made on the basis of Art. 133 and 179 AktG and Art. 20 para. 2 of the Articles of Association. The Supervisory Board is nevertheless entitled to adopt amendments to the Articles of Association which only affect their wording without the approval of the Annual Shareholders' Meeting. Article 13 of the Articles of Association defines further circumstances where the Supervisory Board's approval is required. Specifically, these are: entering into longer-term liabilities, establishing and dissolving branch offices, and establishing, liquidating, merging or converting subsidiaries. The Supervisory Board has also adopted rules of procedure as recommended in Item 5.1.3 of the German Corporate Governance Code.

Five Supervisory Board committees have been formed:

- A Personnel Committee chaired by Mr Bernd Günther. Dr Rolf Schwedhelm and Mr Nils Hansen are also members. This committee is responsible for making preparations for the appointment of Executive Board members and carries out long-term succession planning. In addition, the committee is expected to make proposals for resolutions regarding Executive Board remuneration to the Supervisory Board plenum.

- A Capital Measures Committee chaired by Mr Bernd Günther. Mr Roland Chmiel and Mr Nils Hansen are also members. This committee prepares Supervisory Board votes on equity transactions.

- An Audit Committee chaired by Mr Roland Chmiel. Mr Bernd Günther and Mr Nils Hansen are also members. As an auditor, Mr Chmiel has specialist knowledge and experience of applying accounting principles and internal control procedures. This is a requirement for the chairman of this committee under Item 5.3.2 of the German Corporate Governance Code. The Audit Committee's responsibilities include supervising the accounting process, monitoring the effectiveness of the risk management system and overseeing the audit of the financial statements.

- A Nomination Committee chaired by Mr Nils Hansen. Mr Bernd Günther and Dr Rolf Schwedhelm are also members. This committee's remit is to identify suitable Supervisory Board candidates that are then suggested by the Supervisory Board plenum to the Annual Shareholders' Meeting.

- A Committee for Refinery Technology and Strategy chaired by Mr Volker Woyke. Mr Nils Hansen and Dr Joachim Girg also members. The committee is responsible for advising and supervising the Executive Board on the further strategic development of the H&R Group's refinery sites.

As individuals may not be members of the Executive Board and the Supervisory Board at the same time, the two management bodies have a high degree of independence. No former Executive Board members currently sit on the Supervisory Board.

The Supervisory Board members receive advance written notice from the Executive Board of the issues to be discussed at meetings to enable them to prepare thoroughly.

Details of the Supervisory Board's work during the reporting period can be found in the report by the Supervisory Board on pages 16–19 of this annual report.

The Executive Board

The Executive Board is responsible for managing business at H&R AG autonomously in accordance with statute, the Articles of Association, the Board's rules of procedure and the resolutions passed at the Annual Shareholders' Meeting. It always acts with the aim of sustainably increasing the company's

value. Until 31 July 2011 the Executive Board consisted of three people, whose responsibilities were as follows:

Gert Wendroth, Chief Executive Officer:
Corporate strategy, organisation and capital market communications

Niels H. Hansen, Chief Operating Officer:
Sales companies, foreign business and IT

Andreas Keil, Chief Financial Officer:
Accounting, financing and human resources

With effect from 1 August 2011 Mr Detlev Wösten was appointed as a deputy member of the Executive Board with responsibility for refineries, production and technology, in order to bring additional technical expertise on board.

Mr Gert Wendroth and Mr Andreas Keil resigned their posts as of 31 December 2011. Mr Niels H. Hansen, previously Chief Operating Officer, was appointed to succeed Mr Wendroth as Chief Executive Officer with effect from 1 January 2012. Mr Luis Rauch succeeded Mr Andreas Keil as CFO as of the same date.

Since then Mr Niels H. Hansen has also been responsible for issues including corporate strategy and organisation. Amongst other duties, Mr Luis Rauch is responsible for accounting, financing and human resources.

Each member of the Executive Board is obliged to inform the other Executive Board members of all significant occurrences in their assigned areas of their own accord. The rules of procedure also stipulate circumstances which require a unanimous decision by the Executive Board plenum. As the Executive Board is relatively small, it has not formed any committees.

Audit of the financial statements by PwC

Both the consolidated financial statements for H&R and the quarterly reports were produced in line with International Financial Reporting Standards (IFRS). The separate financial statements for H&R AG, which serve as the basis for dividend payments, were drawn up in accordance with the German Commercial Code (HGB). The separate and consolidated financial statements for H&R AG for the 2011 financial year are audited by PricewaterhouseCoopers (PwC) Wirtschaftsprüfungsgesellschaft, Hamburg, which has declared itself to be independent as required by Item 7.2.1 of the German Corporate Governance Code. It was agreed with PwC that the Supervisory Board would be notified immediately of any significant findings and occurrences arising during the audit. PwC is also obliged to inform the Supervisory Board should any facts be identified during the audit which would render incorrect the Declaration of Compliance issued by the Executive and Supervisory Boards in accordance with Art. 161.

Risk management

We have an early-warning system for risks, which is also reviewed by the auditor. For a detailed description of the system, please refer to the “Risks” chapter on pages 73–81 of this report.

Shares held by members of the Supervisory Board and Executive Board

As of 31 December 2011 members of our Supervisory Board held a total of 15,112,796 shares and therefore an interest of considerably more than 1% in the share capital of H&R AG. According to the voting rights disclosure issued by Mr Nils Hansen on 23 December 2010, his interest in the share capital exceeded the 50% threshold on 17 December 2010 and came to 50.06% on this date. This corresponds to 15,004,658 H&R shares. These shares are held by H&R Beteiligung GmbH and are attributable to Mr Nils Hansen via H&R Holding GmbH. According to the last informal notification received from him, Mr Nils Hansen held an additional 78,223 H&R shares (0.26% of share capital) in person as of year-end 2011. This means that as of 31 December 2011 a total of 15,082,881 H&R shares were attributable to Mr Nils Hansen, which corresponds to an interest of 50.32% in the share capital.

As of 31 December 2011 the members of our Executive Board held a total of 2,940 shares, which represents less than 1% of the share capital of H&R AG.

Directors' dealings

In accordance with Art. 15a of the German Securities Trading Act (WpHG), management bodies and related individuals are obliged to disclose transactions involving H&R AG shares with a trading volume exceeding €5,000 in the course of a calendar year. This also includes financial instruments such as derivatives based on the H&R share. H&R AG was notified of the following transactions for the 2011 financial year:

DIRECTORS' DEALINGS 2011

Date	Place	Name	Function	Financial instrument	Type of trans-action	Number of shares	Price per share	Transaction volume
18/1/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	5,000	21.00	104,990.75
25/1/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	5,000	20.07	100,338.90
11/2/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	5,000	19.85	99,267.80
7/3/11	Frankfurt	Reinhold Grothus	Supervisory Board	H&R Share	Purchase	250	19.95	4,986.25
11/3/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	5,000	18.46	92,290.00
11/3/11	XETRA	Bernd Günther	Supervisory Board	H&R Share	Purchase	1,000	18.54	18,535.00
15/3/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	5,000	18.05	90,259.30
26/4/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	5,000	20.78	103,900.00
31/5/11	XETRA	Bernd Günther	Supervisory Board	H&R Share	Purchase	2,000	21.43	42,860.00
31/5/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	5,000	21.46	107,290.00
3/8/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	5,000	18.43	92,158.60
3/8/11	Frankfurt	Reinhold Grothus	Supervisory Board	H&R Share	Purchase	260	18.49	4,807.40
5/8/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	5,000	15.82	79,123.25
9/8/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	6,284	15.57	97,832.27
18/8/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	2,375	15.44	36,662.76
26/8/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	5,000	15.25	76,242.10
15/9/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	3,000	15.84	47,533.35
20/9/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	3,000	15.93	47,775.15
23/9/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	1,255	14.42	18,095.92
14/10/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	3,309	15.40	50,972.56
1/11/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	5,000	14.45	72,250.00
27/12/11	XETRA	Bernd Günther	Supervisory Board	H&R Share	Sell	2,701	16.40	44,309.44
28/12/11	XETRA	Bernd Günther	Supervisory Board	H&R Share	Sell	3,799	16.34	62,070.67
29/12/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	1,000	16.43	16,431.90
30/12/11	XETRA	Nils Hansen	Supervisory Board	H&R Share	Purchase	3,000	16.46	49,369.80

Transparency

The prime objective of our communications is to provide comprehensive, prompt and equal information to shareholders, financial analysts, journalists, staff and interested members of the public alike. For this purpose, important documents – such as quarterly and annual reports, ad-hoc statements and press releases, the Declaration of Compliance with the German Corporate Governance Code, the Articles of Association, the invitation to the Annual Shareholders' Meeting and the financial calendar – are all published in the Investor Relations section of the H&R AG website. Interested parties can also register to receive the latest company news automatically via an email newsletter. We publish our annual and quarterly reports within the timeframes recommended by the German Corporate Governance Code. Free copies of the reports are available on request. The Executive Board and Investor Relations team are regularly in contact with both private and institutional investors at capital market conferences and shareholder forums. For a detailed description of our capital market activities, please refer to the chapter "H&R on the capital market" (pages 28–33 of this report).

Remuneration report

The following remuneration report forms part of the management report. It describes the system of Executive and Supervisory Board remuneration at H&R AG.

Executive Board remuneration

The Executive Board of H&R AG has three members – for a short period from 1 August to 31 December 2011 there were four. The Supervisory Board plenum establishes and reviews the remuneration system for the Executive Board and the total remuneration paid to individual Executive Board members on the basis of discussions by the Personnel Committee. In accordance with the German Act on the Appropriate Remuneration of Executives (VorstAG), which came into effect on 5 August 2009, the Supervisory Board must ensure that the individual Executive Board members' total remuneration is commensurate with their responsibilities and performance. It must also be appropriate in the light of the company's position and should not exceed standard remuneration levels except in special cases. At publicly listed companies such as H&R AG, the remuneration structure must also be geared towards sustainable corporate development.

In line with these demands, total remuneration of Executive Board members at H&R AG is made up of non-performance-related and performance-related components. The non-performance-related portion consists of a fixed salary and fringe benefits, while the performance-related components comprise two-part variable remuneration with a long-term incentive component and a special/acknowledgement bonus that is awarded at the Supervisory Board's discretion. Special rules apply to the deputy member of the Executive Board Detlev Wösten, whose variable remuneration is based equally on the consolidated operating result (EBITDA) and on personal targets, and to Mr Niels H. Hansen, who has opted not to receive any variable remuneration.

Executive Board remuneration is determined on the basis of the economic situation, the company's performance and its future prospects. Individual remuneration also reflects the Executive Board members' different remits and their individual performance. The amount and structure of the remuneration paid to the Executive Board is regularly reviewed and adjusted as necessary. To assess whether the system is appropriate, the Executive Board's remuneration is compared with that paid by other publicly listed companies of a similar size and complexity in the same sector and with the pay structure used in the company. Furthermore, remuneration is set at a level which is competitive for highly qualified executives.

FIXED REMUNERATION. The fixed remuneration consists of a non-performance-related basic rate of pay – which is paid pro rata each month as a salary – plus various fringe benefits and non-monetary remuneration. At present, this primarily comprises insurance premiums for private life and disability insurance policies; contributions to pension, health and nursing insurance schemes corresponding to the amount payable by an employer if social insurance contributions were payable in full; and the private use of a company car. The Executive Board members pay tax on non-monetary remuneration based on the amounts reportable under tax guidelines.

With the exception of Mr Wendroth, the Executive Board members listed have no pension entitlements. Mr Wendroth will receive a monthly retirement pension of €5,050 when he reaches the age of 65. If he ceases to serve on the Executive Board before pensionable age, Mr Wendroth will receive an early monthly retirement pension of €9,400 from the age of 60.

The fixed salary is reviewed regularly every two years.

VARIABLE REMUNERATION. The variable remuneration paid to Executive Board members is based on a hurdle system with a target range determined using the Group's operating result for the year (EBITDA) and certain long-term objectives for a rolling three-year period. The maximum target management bonus for any given year is capped at 100% of the respective gross annual salary.

The variable remuneration is made up equally of a short-term incentive component (earnings component), based on the annual operating result (Group EBITDA), adjusted for any extraordinary result as defined in Art. 275 para. 2 no. 16 HGB, and a second, long-term incentive component (sustainability component). The sustainability component provides for a variable bonus based on the average return on capital employed (ROCE) over a rolling three-year period. By including this component we comply with the requirements of Art. 87 para. 2 sentence 3 AktG, which stipulates that variable remuneration components must be calculated based on a time-frame spanning several years.

Should a Board member's executive role be terminated prematurely without good cause, any payments agreed upon – including fringe benefits – should not exceed the value of two annual salaries (severance pay cap) or the value of the remuneration that would be payable for the remaining term of the contract. This is stipulated in recommendation number 4.2.3 subparagraph 4 of the German Corporate Governance Code as amended on 18 June 2009.

The Supervisory Board also has the power to grant the Executive Board member a bonus of up to €100,000 per annum at its discretion for special services.

The company does not use securities-based incentive systems such as stock option programmes. No loans or advances were granted to members of the Executive Board.

EXECUTIVE BOARD REMUNERATION	Fixed remuneration		Variable remuneration		Total	
	2011 IN €	2010 IN T€	**2011 IN €**	2010 IN T€	**2011 IN €**	2010 IN T€
Gert Wendroth (until 31/12/2011)	475,739	423	400,000	250	875,739	673
Niels H. Hansen	296,000	246	–	–	296,000	246
Andreas Keil (until 31/12/2011)	374,897	331	350,000	325	724,897	656
Detlev Wösten (since 1/8/2011)	83,771	–	62,500	–	146,271	–
Total	**1,230,407**	**1,000**	**812,500**	**575**	**2,042,907**	**1,575**

Supervisory Board remuneration

Supervisory Board remuneration is governed by Art. 15 of our Articles of Association and primarily comprises the following elements:

Every member of the Supervisory Board receives a fixed annual payment of €20,000 in addition to the reimbursement of out-of-pocket expenses. The Chairman of the Supervisory Board receives three times and his deputy one and a half times this amount. In addition to this, every member of the Supervisory Board receives variable annual remuneration linked to the return on capital employed (ROCE), which is calculated on the basis of the audited and approved consolidated financial statements for the respective year. ROCE is calculated by dividing the earnings before interest and tax (EBIT) by the interest-bearing capital, i. e. the sum of net financial debt, equity, pension provisions and non-current provisions.

A minimum return of 10% must be achieved in order for variable remuneration to be paid. If the minimum return is achieved, €10,000 is paid to each Supervisory Board member per financial year. For each percentage point over the 10% minimum return, the variable remuneration increases by €1,500 for each Supervisory Board member per financial year. The variable remuneration is limited to a total of €32,500 per Supervisory Board member and financial year.

Supervisory Board members who belong to one of the Supervisory Board's committees receive an additional ⅛ of the annual fixed remuneration per committee. Members of the company's Audit Committee receive ¼ of the annual fixed remuneration. Supervisory Board members who chair one of the committees receive twice the remuneration payable for membership of the committee in question. The members of the Supervisory Board receive an attendance fee of €200 for each Supervisory Board or committee meeting they attend.

Under a consultancy agreement with Idunahall Verwaltungs-Gesellschaft m.b.H., which is controlled by the Chairman of the Supervisory Board, the fees paid and expenses reimbursed in 2011 came to €84 thousand (previous year: €87 thousand).

SUPERVISORY BOARD REMUNERATION[1]

	Fixed remuneration		Remuneration for Supervisory Board activities		Variable remuneration		Total	
	2011 IN €	2010 IN T€	**2011 IN €**	2010 IN T€	**2011 IN €**	2010 IN T€	**2011 IN €**	2010 IN T€
Bernd Günther (Chairman)	60,000	60	17,500	10	17,800	27	95,300	97
Roland Chmiel[2] since 28/10/2010	24,137	5	12,500	1	17,800	5	54,437	11
Dr Rolf Schwedhelm[3] since 28/10/2010	24,192	4	5,000	1	17,800	5	46,992	10
Dr Joachim Girg[4] since 6/9/2011	8,082	–	740	–	5,706	–	14,528	–
Nils Hansen	20,000	20	15,740	6	17,800	27	53,540	53
Eckbert von Bohlen und Halbach[5] until 9/10/2010	–	23	–	4	–	21	–	48
Günter Papenburg until 1/10/2010	–	15	–	–	–	20	–	35
Volker Woyke since 6/9/2011	6,411	–	1,479	–	5,706	–	13,596	–
Reinhold Grothus	20,000	20	–	–	17,800	27	37,800	47
Holger Hoff since 6/9/2011	6,411	–	–	–	5,706	–	12,117	–
Rainer Metzner	20,000	20	–	–	17,800	27	37,800	47
Total	**189,233**	**167**	**52,959**	**22**	**123,918**	**159**	**366,110**	**348**

[1] Figures without attendance fees
[2] Deputy Chairman from 15/12/2010 to 31/5/2011
[3] Deputy Chairman from 31/5/2011 to 1/11/2011
[4] Deputy Chairman from 1/11/2011
[5] Deputy Chairman until 9/10/2010

Company share and share price performance

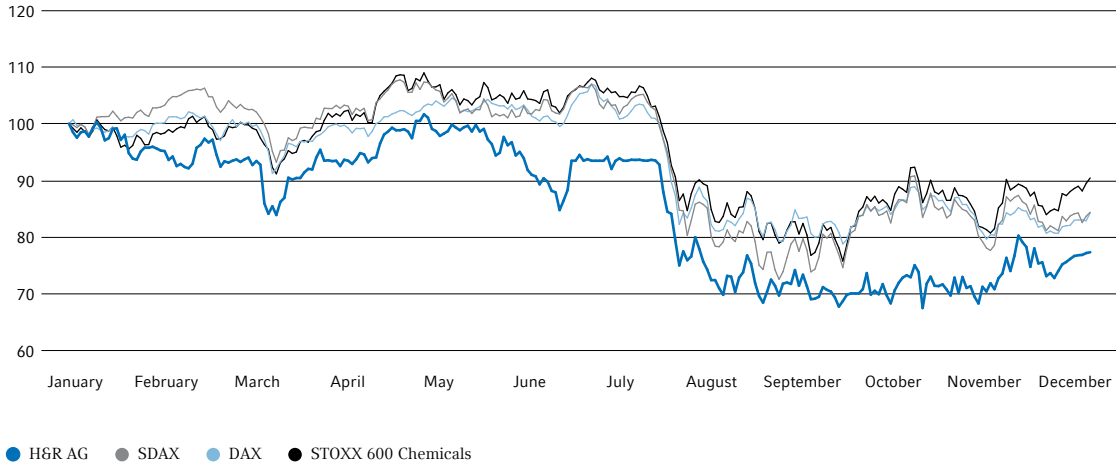
WIDE SWINGS ON STOCK MARKETS. Trading on international stock markets was very nervous in the reporting period. The terrible earthquake in Japan on 11 March provoked severe losses around the world. Many investors took advantage of lower prices to increase their positions, however, so that share prices recovered quickly before beginning a sideways trend that lasted into the summer. From late July investors again turned their thoughts to the sovereign debt crisis: numerous pieces of negative news fuelled their doubts that the highly indebted members of the eurozone in particular would be able to reduce their debt burden significantly in the foreseeable future. The result was a sudden change of sentiment on stock exchanges – equity investors worldwide sustained double-digit percentage losses within just a few trading days.

Even though share prices rose again slightly towards the end of the year, the annual performance of the main international stock market barometers was overwhelmingly negative. The leading UK index FTSE 100 only lost a moderate 6.1%, whereas for the French CAC 40 and the Japanese Nikkei the losses were much more severe at 18.0% and 17.3% respectively. Only the US Dow Jones index managed to register a gain for the year, rising by 5.5%.

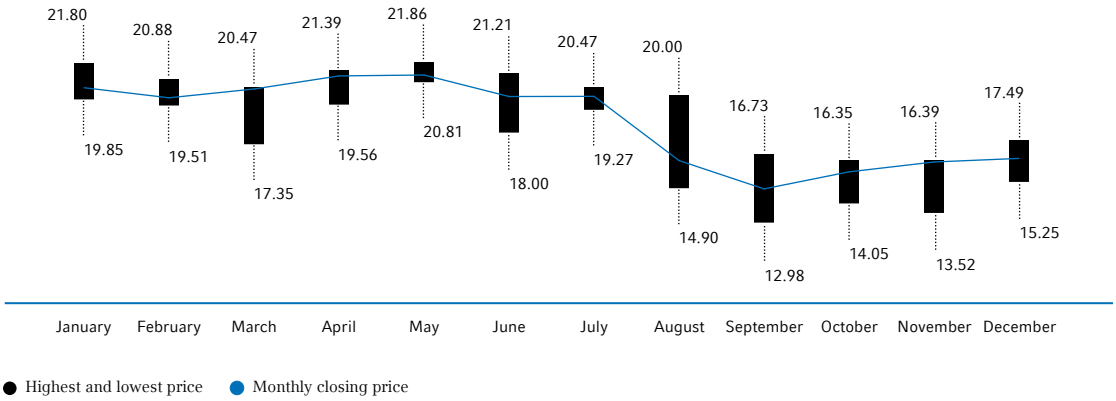
Investors in Germany also saw share prices tumble, with the DAX shedding 14.7% over the course of the year. The benchmark relevant for the H&R AG share – the SDAX, which lists 50 smaller German companies – sustained a similar fall of 14.5%.

PERFORMANCE OF THE H&R SHARE, DAX, SDAX AND STOXX 600 CHEMICALS

(INDEX 30/12/2010 = 100)



HIGHEGST AND LOWEST PRICES OF THE H&R SHARE, FULL YEAR 2011 (IN €)

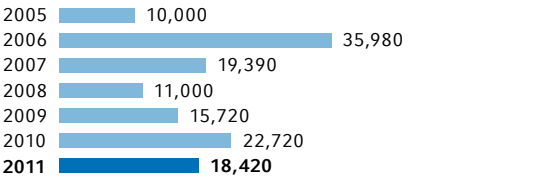


H&R SHARE CONSOLIDATES AFTER RAPID PRICE RISE. After rising sharply by over 40% the previous year, the H&R share initially continued this upwards trend in 2011, reaching its high for the year at €21.86 on 11 May. This represented an increase of 3.8% over the beginning of the year. In the second half of the year the H&R share was not able to escape the negative stock market environment, however. In the first trading days of August in particular, the share fell sharply in line with the market as a whole, reaching a low for the year at €12.98 on 23 September. The share was able to recover from this low point, however, and closed the year at a price of €16.55 (previous year: €21.05).

Over the longer term an investment in the H&R share has still delivered a sound return, however. Shareholders who had held their shares since year-end 2005, participated in the 2006 capital increase and reinvested their dividends achieved an average annual return of 10.7% at the end of the reporting period. With a total return of 84.2%, an initial investment of €10,000 has grown into assets worth €18,420 within six years.

PERFORMANCE OF THE H&R SHARE ACCOUNT[1)]

(AS OF 31/12, IN €)



[1)] Assumptions: Taxes and transaction costs not taken into account; cost-neutral exercise of the subscription rights received during the 2006 capital increase

BASIC DATA ON THE H&R SHARE

ISIN/WKN	DE0007757007 /775700
Abbreviation	2HR
Type	No-par bearer shares
Listings	Official market Frankfurt (Prime Standard), Hamburg and Düsseldorf, freely traded Stuttgart and Munich
Index	SDAX, Prime Standard All Share, Classic All Share, Prime Chemicals und Prime IG Chemicals Speciality, DAXplus Family-Index
Designated Sponsor	Close Brothers Seydler Bank AG

NUMBER OF SHARES, MARKET CAPITALISATION AND TRADING VOLUME. As of 31 December 2011 the market value of our company at a constant number of shares came to €496.1 million (31 December 2010: €630.9 million). Despite the lower market capitalisation we moved up from 70th to 66th place in the Deutsche Börse joint index ranking for MDAX and SDAX companies based on this criterion.

On the criterion of trading volume our share came in 73rd place (31 December 2010: 68th place) at the end of the reporting period. Altogether, H&R shares worth a total of €147.8 million changed hands on stock exchanges in Germany in 2011. This corresponds to an average daily trading volume of €575.1 thousand. The majority of transactions in H&R shares were completed via the XETRA electronic trading platform.

KEY SHARE DATA

	2011	2010	2009	2008	2007
Number of shares on 31 December	29,973,112	29,973,112	29,973,112	29,973,112	29,973,112
of which ordinary shares	29,973,112	29,973,112	29,973,112	29,973,112	27,323,112
of which preference shares	–	–	–	–	2,650,000
Earnings per ordinary share	€1.29	€1.74	€0.83	€1.05[3]	€1.72
Highest price for the year	€21.86	€22.89	€16.85	€21.11	€42.07
Lowest price for the year	€12.98	€13.20	€7.55	€9.25	€17.21
Price on 31 December[1]	€16.55	€21.05	€14.98	€10.90	€20.24
Performance (excluding dividend)[2]	–21.4%	40.5%	37.4%	–46.1%	–47.3%
Market capitalisation 31 December[2]	€496.1 million	€630.9 million	€449.0 million	€326.7 million	€553.0 million
Dividend	€0.60[4]	€0.65	€0.45	€0.40	€0.80
Dividend return	3.6%[4]	3.1%	3.0%	3.7%	4.0%
Average daily sales volume[1]	€575 thousand	€666 thousand	€423 thousand	€859 thousand	€2,139 thousand

[1] Ordinary shares
[2] Based on closing price of the ordinary shares for the year
[3] The cartel fine reduced earnings per share by €0.73
[4] Dividend proposal from the Executive Board and Supervisory Board for resolution at the Annual Shareholders' Meeting

NILS HANSEN INCREASES STAKE IN H&R AG. In the reporting period we received notice of 25 directors' dealings in H&R shares.

The Supervisory Board member Nils Hansen increased his holdings of H&R shares in 19 steps by a total of 78,223 shares.

Bernd Günther, the Chairman of the Supervisory Board, bought 3,000 shares in two stages before selling 6,500 shares – also split into two transactions – at the end of the year.

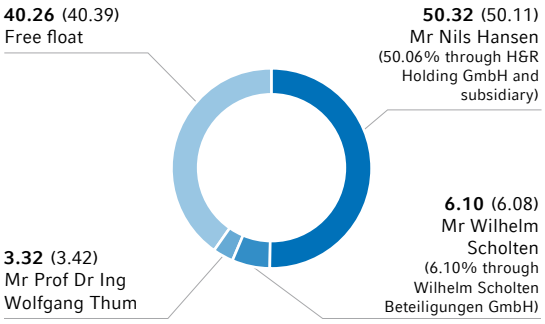
The Supervisory Board member Reinhold Grothus also bought a total of 510 shares in the reporting period.

The individual transactions are listed in the "Directors' dealings" section on page 24 of this report.

SHAREHOLDER STRUCTURE. According to the voting rights disclosure issued by Mr Nils Hansen on 23 December 2010, his share of voting rights exceeded the 50% threshold on 17 December 2010 and came to 50.06% on this date. These voting rights are held by H&R Beteiligung GmbH and are attributable to Mr Nils Hansen via H&R Holding GmbH. According to the last informal notification received from him, Mr Nils Hansen held an additional 0.26% of the voting rights in person as of year-end 2011.

SHAREHOLDER STRUCTURE AS OF 31/12/2011

IN % (VALUES AT THE END OF THE PREVIOUS YEAR)



According to a disclosure under the German Securities Trading Act (WpHG) dated 2 April 2003, Mr Wilhelm Scholten held 6.65% of the voting rights on 28 March 2003 via the company Wilhelm Scholten Beteiligungen GmbH, which is attributable to him. Following the dilution of voting rights caused by the conversion of preference shares into ordinary shares in 2008, this corresponded to a stake of 6.08% on paper. According to his most recent informal disclosure Mr Wilhelm Scholten held 6.10% of the voting rights as of 31 December 2011.

According to a disclosure as per WpHG dated 3 February 2009, Prof Dr Ing Wolfgang Thum held 4.13% of the voting rights in H&R AG as of 28 January 2009. According to an informal disclosure his share of voting rights came to 3.32% as of year-end 2011.

The remaining 40.26% of H&R shares were in free float as of 31 December 2011.

ANNUAL SHAREHOLDERS' MEETING WELL ATTENDED. Attendance hit a record high at our Annual Shareholders' Meeting in Hamburg on 31 May 2011, despite the general trend towards dwindling participation. 76.4% (previous year: 74.9%) of voting capital was represented at the meeting – a gratifying indication that our shareholders are highly interested in company issues. All of the items on the agenda which were open to voting met with widespread approval of more than 99.8% of the represented capital. This included the Executive Board's proposals to increase the dividend for the 2010 financial year to €0.65 (2009: €0.45) and to strike the suffix "WASAG" from the company name.

Investor relations

INTENSIVE CONTACT WITH INVESTORS. Our investor relations activities seek to maintain an ongoing, constant and open exchange of information with everyone involved in the capital market. In the year under review, the Executive Board and Investor Relations team further stepped up their contact with private and institutional investors alike.

We spoke with more than 100 fund managers at a total of 20 (previous year: 16) conference and roadshow days in Baden-Baden, Frankfurt, Hamburg, Munich, London, Lugano, Luxembourg and Zurich.

In addition to this, a large number of investors again visited our sites in Hamburg and Salzbergen to see our refineries for themselves.

We were also present at discussion forums for private investors, providing information about H&R AG's performance and prospects at events organised by the associations Deutsche Schutzvereinigung für Wertpapierbesitz (DSW) in Hamburg and Düsseldorf and Schutzgemeinschaft der Kapitalanleger (SDK) in Peine. At the Börsentag trade show in Hamburg we had our own stand and a number of lively discussions with private investors. Shareholders and interested members of the public were also provided with more opportunities to visit our refineries in Hamburg and Salzbergen. Many shareholders also made the most of the opportunity to find out about the latest business developments by email or phone during the period between publication of our quarterly and annual reports.

INVESTOR RELATIONS

Banks offering research coverage	10
Analyst reports	61
Participants at the analysts' conference	14
Roadshow and conference days involving the Executive Board	20
Events for private investors	7

RESEARCH COVERAGE REMAINS HIGH. During the reporting period, analysts from ten different banks and other financial institutions produced research studies about the H&R share. Although UniCredit Bank AG closed its research department and stopped its analysis of the H&R share at year-end 2011, Close Brothers Seydler AG and Hauck & Aufhäuser Institutional Research AG announced that they would start covering the share. We have an above-average number of analysts for an SDAX share, which will keep helping us to reach out to new investors in the future.

RESEARCH COVERAGE OF THE H&R SHARE

Bankhaus Lampe
Berenberg Bank
CA Cheuvreux
Close Brothers Seydler (new in 2012)
Commerzbank
Hauck & Aufhäuser (new in 2012)
LBBW
NordLB
Silvia Quandt
SRH Alster Research
UniCredit
WestLB

REGULAR PUBLICATIONS TAKE THIRD PLACE IN COMPETITION RUN BY MANAGER MAGAZIN. Our quarterly and annual reports achieved third place in the SDAX category in the Best Annual Report competition held every year by the German management journal "manager magazin". After coming in sixth for the prior three years, this is an indication that the quality of our reporting has become even better. The reports can be downloaded from the H&R AG section of our website, www.hur.com. We will happily send you a printed copy on request.

We would also gladly keep you up to date with the latest developments at the company via our email newsletter. You can register for these publications in the Investor Relations section of our website.

WE WOULD BE GLAD TO HEAR FROM YOU. Should you have any questions or comments, please contact us as follows:

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Group management report[1)2)]

[1)] For the remuneration report and the declaration on corporate governance pursuant to Art. 289a HGB, which form part of the Group management report, please refer to the corporate governance report on page 20 ff. of this report.

[2)] Combined management report for H&R AG and the H&R Group

Highlights 2011

– Revenue up by 14.4% to a record €1,209.5 million

– Large-scale investment project to increase valued added successfully completed

– Clear earnings improvement for the Plastics Division

– Long-term Group financing assured

– Dividend proposal remains high at €0.60 per share[1)]

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

Business and overall climate

– Chemical-Pharmaceutical Raw Materials Division accounts for 96% of revenue
– Product portfolio comprises more than 800 crude oil-based speciality products
– Very good market position thanks to consistent focus on customer needs

Group structure and business activities

Sectors and organisational structure

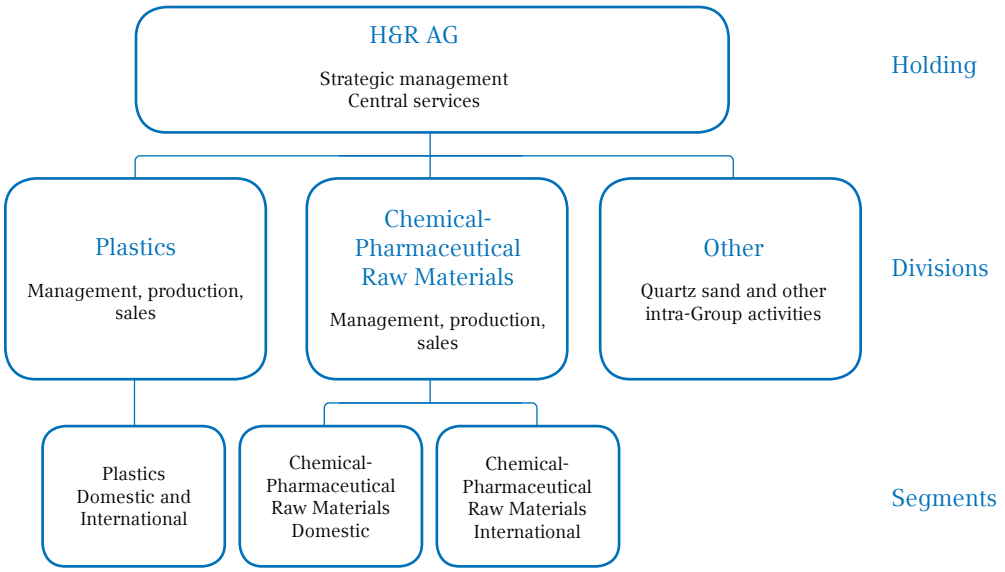
H&R is a group with three operating segments. Our largest segment, the Chemical-Pharmaceutical Raw Materials Domestic Segment (share of revenue in 2011: 75%), includes the refineries in Hamburg-Neuhof and Salzbergen. The main products that we manufacture at these plants are crude oil-based speciality products such as plasticisers, paraffins, white oils and base oils. Most of the over 800 products are sold through our distributor Hansen & Rosenthal to more than 100 different buyer industries.

Our Chemical-Pharmaceutical Raw Materials International Segment (share of revenue in 2011: 21%) bundles numerous mixing and conversion plants as well as distribution sites in other European countries and overseas. The segment's main products include label-free plasticisers for the tyre industry and wax emulsions for the building materials industry.

In the much smaller Plastics Division (share of revenue in 2011: 4%) we produce high-precision plastic parts and the moulds needed to manufacture them. In addition to the headquarters in Coburg, we also operate production sites in Eastern Europe and Asia. The automotive industry is our Plastics Division's largest customer. Areas of increasing importance include other industrial applications and medical technology.

Following the sale of the Group's explosives business in 2007, we still own a site with high-quality reserves of quartz sand in Haltern am See (Germany). Further preparations were made in the reporting period for a possible future exploitation of the reserves, which total some 13.5 million tonnes.

PRESENTATION OF GROUP STRUCTURE



Legal structure

As the Group's parent company, H&R AG manages our operations strategically. It is responsible for communication with the public and the capital market, and for the Group's financing. In addition, various services are provided centrally for our subsidiaries. As well as generating synergistic effects for the Group, this enables the subsidiaries to concentrate fully on their operating business.

At the end of the reporting period the number of consolidated subsidiaries was 27 (31 December 2010: 28). To reduce the complexity of our Group structure we liquidated the companies Dussek Campbell (Proprietary) Limited, Durban (South Africa), and H&R GSP Inc., Detroit (USA). H&R GSP Inc. did not have any operating business, and Dussek Campbell (Proprietary) Limited's operations were transferred to H&R South Africa Sales (Proprietary) Limited. GAUDLITZ Grundstücksverwaltungs-Beteiligungsgesellschaft mbh, Coburg, was established in the reporting period. This new subsidiary was established in connection with the purchase of a plot of land, which is intended for use if production in the Plastics Division is expanded. Our subsidiaries can be found in the list of shareholdings (page 159 of this annual report).

Sites

At year-end 2011, our Group employed some 1,431 people around the world. The following overview shows our most important sites with more than ten members of staff:

MAIN SITES IN THE H&R GROUP

Continent	Country	City	Division	Employees
Africa	South Africa	Durban	Chemical-Pharmaceutical Raw Materials	44
Asia	Malaysia	Port Klang/Batu Caves	Chemical-Pharmaceutical Raw Materials	30
	Thailand	Bangkok/Si Racha	Chemical-Pharmaceutical Raw Materials	28
	China	Wuxi	Plastics	138
Australia	Australia	Laverton	Chemical-Pharmaceutical Raw Materials	37
Europe	Germany	Hamburg	Chemical-Pharmaceutical Raw Materials	257
		Salzbergen	Chemical-Pharmaceutical Raw Materials	385
		Coburg	Plastics	339
	UK	Tipton	Chemical-Pharmaceutical Raw Materials	52
	Netherlands	Nuth	Chemical-Pharmaceutical Raw Materials	22
	Czech Republic	Dačice	Plastics	52

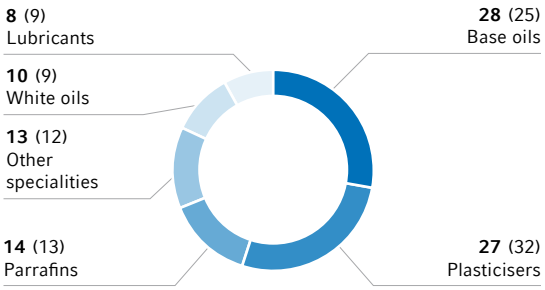
Main products, services and business processes

So-called long residue is the primary raw material used at our specialist refineries in Germany. This is a derivative which is produced when crude oil is distilled at fuel refineries. This feedstock undergoes a number of production stages to turn it into base oil – the raw material needed to manufacture lubricants. This is a joint production process: more than 800 other crude oil-based speciality products are generated in the course of the manufacturing process. These can essentially be classified as plasticisers for the rubber industry, technical and medical white oils, and paraffin/speciality wax products. In addition to this, our refineries produce a by-product which used to be sold to the shipping industry as heavy fuel oil, generating a small amount of income. The propane deasphalting plant which was completed in Hamburg in late 2011 enabled us to reduce the amount of this by-product significantly and to increase our production capacity for crude oil-based speciality products accordingly.

Customer demand was particularly strong in the previous year due to the economic upturn, so new orders fell slightly in the reporting period. As a result the volume of major products sold by our Chemical-Pharmaceutical Raw Materials Division declined from 932,000 tonnes in 2010 to 872,000 tonnes.

SALES OF MAIN PRODUCTS IN 2011

IN % (PREVIOUS YEAR'S FIGURES)



We also refine crude oil-based substances at the Chemical-Pharmaceutical Raw Materials International Segment's mixing and conversion plants. Production here centres on environmentally friendly, label-free plasticisers and wax emulsions. Our international segment also enters into production partnerships: using our local partners' production facilities reduces both the costs and risks of investment and accelerates our growth.

In the Plastics Division, we produce highly precise, injection-moulded plastic components and the moulds needed to manufacture them. The division specialises in producing complex plastic components that require the use of different types of materials.

Key sales markets and competitive position

Thanks to our consistent focus on customer needs, we have achieved a very good market position in recent years as a provider of crude oil-based speciality products.

More than 90% of our environmentally friendly, label-free plasticisers are used in rubber mixes for car tyres. The rest are incorporated into rubber products such as conveyor belts and diving suits. Our main competitors are the major oil companies.

Our paraffins are used for a wide variety of applications. In the food industry, for example, cheese rinds are coated with paraffin to prevent the cheese from drying out. The packaging industry has various uses for paraffin, including coating the inside of Tetra Pak cartons. In the building materials sector, chipboard is soaked in wax emulsions to make it water-repellent. There is growing demand for these wax emulsions, especially at our Asian sites. We and other competing companies jostle for second place behind the market leader.

Thanks to our ability to reliably fulfil high quality standards, we have also established a good reputation on the market for white oils. For instance, our technical white oils are used to clean printing presses or as plasticisers for plastic components. Our medical white oils are used for cosmetic products such as creams and ointments. The large oil companies are major rival producers in this field, too.

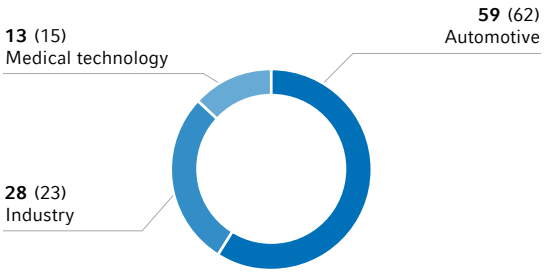
We sell the vast majority of our base oils to lubricant manufacturers as a raw material. Using additives, we further process a small quantity of them into ready-made lubricants which are primarily used in agriculture.

The customers of our Plastics Division can be divided into three groups, of which the automotive industry is still the largest by far. Other increasingly important customer groups are medical technology and the general industrial sector. In the latter group we primarily include products for customers from the electrical, measuring and control technology and mechanical engineering segments.

The market for plastic components is highly fragmented and comprises hundreds of competitors in Germany alone.

REVENUE BY CUSTOMER GROUP IN THE PLASTICS DIVISION FOR 2011

IN % (PREVIOUS YEAR'S FIGURES)



Legal and economic factors

The production process at our largest plant in Hamburg used to generate large quantities of a residue which is used as a component of a shipping fuel containing sulphur. With effect from 1 January 2015, the International Maritime Organization (IMO) plans to reduce the maximum permissible sulphur content for ship fuels in the North Sea and Baltic from 1.0% to 0.1%. As of 2020, the limit is then due to be cut to 0.5% worldwide. This trend towards reducing the permitted level of sulphur in bunker fuel will in all probability restrict the marketing opportunities for our residue in future. We responded to this trend by building a propane deasphalting plant in Hamburg, which converts the residue into an environmentally friendly, crude oil-based speciality product and an asphalt used in the road-building industry. The plant has been in operation since late 2011. We expect it to have an annual gross operating profit potential (EBITDA) of €12 million to €14 million.

The new tyre labelling regulation for the European Union comes into force on 1 November 2012. From then on, manufacturers must classify their tyres in terms of noise, fuel efficiency and wet grip. Our research findings regularly show that tyre makers can improve performance in the latter two criteria by using our environmentally friendly, label-free plasticisers. For this reason, we explicitly welcome the new labelling regulation, both from an environmental and commercial perspective.

The cost of the raw material used at our refineries largely shadows the price for crude oil. The cost of our feedstock is therefore subject to considerable fluctuations. We can only pass on increases in raw material costs to our customers with a certain delay, which can put temporary pressure on margins during such phases. On the other hand, margins tend to be above average during periods of falling fuel prices.

Corporate management, objectives and strategy

Internal management system

A value-based management system is used to run and steer the Group. At the heart of this system is a comprehensive system of reporting for key figures. This helps the management team to steer profitability, liquidity, the capital structure and growth. In addition to this, we monitor early indicators relating to both the company and the macroeconomic environment. At production level, this means data relating to plant availability, reject rates and quality fluctuations. In sales, we examine sales volume statistics, general market data and early macroeconomic indicators. The system also consists of monthly reports from the divisions, the management of risks and opportunities, and our functional management structure whereby responsibility is assigned for more than one site in important fields such as raw materials purchasing, project management and sales.

PROFITABILITY. We work out the minimum rate of return required for our investment projects based on the weighted average cost of capital (WACC). This is made up of the weighted cost of capital for our equity and debt.

We calculate our equity costs using the return on a long-term, risk-free alternative investment plus a market risk premium which is adjusted for the specific risk of H&R AG in comparison to the overall market. This resulted in a 7.7% rate of return for the reporting period (previous year: 8.0%).

Our borrowing costs are determined by calculating the ratio of interest expense to average interest-bearing debt. They came in at 5.0% in the reporting period (previous year: 4.7%). Taking the tax rate of 28.3% into account, the after-tax figure was 3.6% (previous year: 3.4%).

The market value of our equity, defined as a factor of the average share price (€18.31) and the number of shares (29,973,112), came to €548.8 million in the reporting period.

Our interest-bearing debt was worth €241.2 million on average over the year. It comprised financial debt, pension provisions and other non-current provisions.

This corresponds to a weighted average cost of capital after tax of 6.4% (previous year: 6.9%) for the H&R Group. Adjusted for the Group's tax rate, this is equivalent to a cost of capital before tax of 8.9% (previous year: 9.6%).

COST OF CAPITAL (WACC)

IN %	**2011**	2010
Risk-free interest rate	3.2	3.5
Market risk premium	5.0	5.0
Beta for H&R AG	0.9	0.9
Cost of equity	7.7	8.0
Percentage of equity	69.0	76.0
Cost of debt before tax	5.0	4.7
Group tax rate	28.3	28.3
Cost of debt after tax	3.6	3.4
Percentage of debt	31.0	24.0
WACC after tax	**6.4**	**6.9**
WACC before tax	**8.9**	**9.6**

Our key profitability indicator is ROCE (return on capital employed), which is the return generated on the average committed capital necessary for operations. We aim to achieve ROCE of at least 15.0%. In the reporting period we met this minimum target with ROCE of 15.2%.

RETURN ON CAPITAL EMPLOYED (ROCE)

€ MILLION	**2011**	2010	2009	2008[1]	2007
EBIT	68.1	82.0	44.7	56.9	79.2
Ø Capital employed	449.5	377.8	343.8	341.8	286.5
ROCE in %	**15.2**	**21.7**	**13.0**	**16.6**	**27.6**

[1] Adjusted for cartel fine

Multiplying the capital committed to operations by the difference between ROCE and WACC before tax enables us to derive our economic value added (EVA). Calculated using the EVA method, the value generated by the H&R Group totalled €28.3 million in the reporting period (previous year: €45.7 million).

LIQUIDITY. By focussing on our free cash flow, we ensure that the H&R Group will retain its financial solidity in the future. To a large extent, our free cash flow is determined by the operating result (EBITDA), the change in net working capital (total of inventories and trade accounts receivable less trade accounts payable) and capital expenditure.

FREE CASH FLOW

€ MILLION	**2011**	2010	2009	2008	2007
Cash flow from operating activities	–11.8	52.1	21.5	16.0	39.6
Cash flow from investing activities	–42.3	–32.8	–23.6	–44.9	6.2
Free Cash flow	**–54.2**	**19.3**	**–2.1**	**–28.9**	**45.8**

The investment in our plants and greater net working capital due to raw materials prices resulted in high cash outflows. As a result, the free cash flow (total cash flow from investing and operating activities) was negative despite the good EBIT for the period of €68.1 million.

CAPITAL STRUCTURE. We aim for a balanced capital structure which optimises the cost of our equity and debt. Under the terms of our syndicated loan agreement and our borrower's note loans, we are first and foremost obliged to uphold two financial covenants relating to our equity and the ratio of our net debt to operating earnings (EBITDA). Net gearing is another important key performance indicator for our capital structure. This expresses our net debt in relation to equity.

CAPITAL STRUCTURE

€ MILLION	2011	2010	2009	2008	2007
Net debt/ EBITDA	2.15	1.08	1.79	2.00	0.61
Equity ratio in %	38.0	42.5	39.3	38.2	43.5
Net gearing in %	79.4	49.2	64.7	62.0	32.4

GROWTH. We quantify our growth using absolute earnings indicators such as EBITDA, EBIT and EBT as well as with sales volumes for our chemical-pharmaceutical speciality products. As crude oil prices have a major impact on our raw materials costs, the price of many of our products is also subject to considerable fluctuations. Our revenue is therefore only of limited use as an indicator of growth.

EARNINGS AND VOLUME GROWTH

€ MILLION	2011	2010	2009	2008	2007
Sales volume main products in kt[1]	872	932	812	775	767
EBITDA	89.1	103.4	65.6	51.2	92.7
EBIT	68.1	82.0	44.7	34.9	79.2
EBT	54.5	73.6	36.2	23.8	73.0

[1] Chemical-Pharmaceutical Raw Materials Division

Strategy

STRATEGIC ALIGNMENT OF OUR DIVISIONS. Our Chemical-Pharmaceutical Segments continue to focus consistently on crude oil-based speciality products such as paraffins, plasticisers and white oils. Our activities centre on constantly improving customer satisfaction by offering high quality standards, providing documented levels of reliability and manufacturing products adapted to our customers' specific needs. Our distribution partner Hansen & Rosenthal also provides new stimuli for product improvements and innovations thanks to the close customer relations it has developed over the course of several decades.

Up until 2009, investment at our production sites in Germany focussed on modernising plants and expanding capacity. Now that the plants are in good technical condition and capacities have been increased significantly by "Project 40", the current focus is on increasing the value added by our refineries. One key construction project initiated with this aim in mind – the installation of a propane deasphalting plant at our refinery in Hamburg – was completed successfully in the reporting period. Since late 2011 the plant has been converting the residue produced during the manufacturing process into high-quality, crude oil-based speciality products.

In our International Chemical-Pharmaceutical Segment we are planning to keep ramping up our activities in high-growth markets, especially in Asia and South America.

In addition to organic growth and smaller-scale acquisitions, we also intend to expand upon our successful production collaboration strategy.

In the Plastics Division, we still generate a large proportion of our revenue with customers from the automotive supplier industry. The trend towards replacing heavy and expensive metal parts in vehicles with lighter, cheaper plastic ones promises growth opportunities for us in this customer segment. However, the crisis in the automotive industry in 2009 clearly showed how important it is to build up additional customer segments – such as medical technology – in order to diversify risk. To set ourselves apart from the many manufacturers on the market and to increase our depth of added value, we have chosen to specialise in the production of complex parts using several different materials. We are also reaping ever greater benefits from our clean room in Coburg, which enables us to produce under sterile conditions and thus to meet the demands of customers from the medical technology industry.

STRATEGIC GROUP STRUCTURE. Our operating activities are grouped into two divisions: the large Chemical-Pharmaceutical Division and the much smaller Plastics Division. The Chemical-Pharmaceutical Division is subdivided into a domestic segment and an international segment. Our divisions are steered and supported by H&R AG, which acts as a management and service provider for its subsidiaries in its capacity as the Group's holding company.

The strategic organisation of the individual segments reflects the regional distribution of the sites and the circumstances specific to the different industries. The Domestic Chemical-Pharmaceutical Segment comprises the refineries in Hamburg and Salzbergen. Due to the similarity and regional proximity of the production sites, a functional management structure is used. This means that managerial staff within this segment are responsible for key fields such as raw materials purchasing, project management or sales at both sites. This enables us keep the organisational structure lean and thereby tap synergies between the sites. In the international segment, the responsibility for all functions is held by local managing directors who report directly to the Group's Executive Board. There are two management levels at the Plastics Division. Managing directors at the international sites report to the divisional management team, which is also responsible for the production plant in Coburg, Germany.

STRATEGIC FINANCING MEASURES. In order to secure favourable terms and greater diversity in our Group's funding long term, we replaced our syndicated loan taken out in 2008 for up to €250.0 million in November 2011 with borrower's note loans for a total of €150.0 million and a new syndicated loan for a maximum of €150.0 million.

In addition to these debt instruments we took out non-current loans of €20.0 million in May 2009 and €50.0 million in January 2011 via the state-owned promotional bank Kreditanstalt für Wiederaufbau as part of another syndicated loan. These loans are part of a funding scheme which offers financing for environmentally friendly investments at very favourable conditions. For more information on our main financing instruments, please refer to the section "Financial management principles and objectives" on page 54 of this report.

Research and development

Focus of our R&D activities

Our crude oil-based speciality products and plastic parts are incorporated directly into our customers' products. We collaborate closely with our clients when developing new products or enhancing existing ones. Our aim is to optimise the effect of the components we supply on the finished product.

Another focal point of our R&D work aims to make our production processes more efficient and thereby to increase the value we add. Research activities are steered at division level. Our Chemical-Pharmaceutical Division operates R&D laboratories at its refineries in Hamburg and Salzbergen. By establishing R&D laboratories at our production sites, we promote communication between staff working in these areas and tap synergies between our research department and quality control. We apply a similar concept in our Plastics Division and have pooled our R&D activities at the headquarters in Coburg.

In this reporting period we were again able to do without purchasing external production know-how or patents. As far as possible we try to protect our own research findings from third-party use by means of patents.

We did not receive any subsidies or other funding for research activities.

CHEMICAL-PHARMACEUTICAL RAW MATERIALS. Our crude oil-based speciality products have an extremely wide range of uses.

We manufacture some 800 products in total. These products are used as feedstocks in more than 100 different industries. There is therefore significant potential for developing new products and/or improving the properties of our existing product portfolio. Our sales partner Hansen & Rosenthal is an important source of ideas for product innovations in this division. As a result of the long-term customer relationships that they cultivate, Hansen & Rosenthal has an excellent feel for how clients' needs change over time.

Our researchers are particularly active for the product groups paraffins, plasticisers, white oils and other crude oil-based speciality products. This increasingly involves investigating the use of renewable raw materials as an alternative to crude oil. In addition to two existing patents, our research activities led to two further patent applications in the reporting period, relating to alternative production methods for plasticisers and white oils.

We are also researching processes which could increase the yield of crude oil-based speciality products from our raw material and thereby further improve value added at our refineries. The promising results of this research work have had an effect on our investment planning. While capital expenditure in the past focussed mainly on expanding our production capacity, we have more recently invested in plants that further enhance our products.

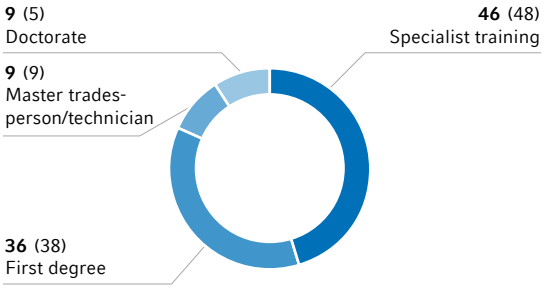
A promising new research project is currently looking at the production of membranes that are impermeable to water, which could be used to build houses, dykes or canals.

The division's collaboration with the universities of Hamburg, Hanover, Magdeburg, Munich, Rostock (all Germany), Bangkok (Thailand) and Enschede (Netherlands) forms an important part of its research activities. These partnerships give us access to the universities' research infrastructure and enable us to establish contact with high-potential recruits from the field of R&D at an early stage.

PLASTICS. Increasingly complex technology is being used in vehicles to reduce fuel consumption and CO_2 emissions. This is prompting growing demand for complex plastic parts. We often develop such parts – which consist of several different materials – in conjunction with our clients, who supply car makers directly.

QUALIFICATION STRUCTURE IN R&D IN 2011

IN % (PREVIOUS YEAR'S FIGURES)

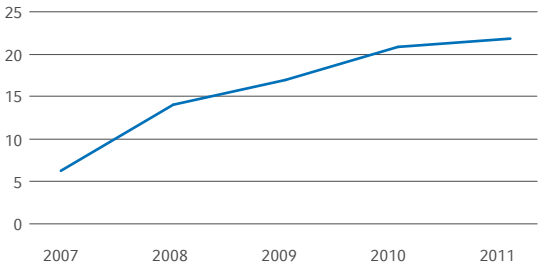


We again stepped up our research and development work in the field of medical technology – an increasingly important market segment for the Plastics Division. Research activities in this area have already resulted in two patent applications.

R&D expenditure, staff and key figures

EMPLOYEES IN R&D

NUMBER



The expansion of our research activities in recent years is also reflected in much higher expenses and greater recruitment in this area. Of the 22 employees (previous year: 21) in the Research & Development department, 13 have a professional qualification – most of them in a chemistry-related trade. Furthermore, three of the employees hold a master trade qualification and eight have engineering degrees. Two of them have a doctorate in chemistry.

R&D expenses went up by 18.7% to €2.1 million. Our R&D ratio, which shows R&D expenditure in relation to revenue, rose slightly from 0.17% to 0.18%. Following the inauguration of our new research laboratory in Hamburg the previous year, there was no capital expenditure on R&D in the reporting period.

RESEARCH AND DEVELOPMENT COSTS

€ THOUSAND	2011	2010	2009	2008	2007
Research and development costs	2,117	1,783	1,477	1,202	1,147
of which Chemical-Pharmaceutical Raw Materials	1,817	1,424	1,147	852	817
of which Plastics Division	300	359	330	350	330
As % of annual sales	0.18	0.17	0.19	0.12	0.14
Capitalised development costs	17	–	–	66	–
Amortisation of capitalised development costs	7	7	7	1	0

Course of business at a glance

The performance of the H&R Group in the reporting period was largely defined by developments at the Chemical-Pharmaceutical Division, which accounted for 96% of revenue in 2011. After an exceptionally strong first half-year, sales volumes in this division fell sharply, but temporarily, during the summer months. In the final quarter rising raw material expenses then depressed margins for crude oil-based speciality products. The Plastics Division made further progress with its restructuring and reorganisation and was able to generate an operating profit again for the first time after two years of losses. Altogether, our EBITDA of €89.1 million was one of the best results in the company's history, but was still below the operating result of €103.4 million in the exceptional year 2010.

Macroeconomic climate

According to an estimate by the Kiel Institute for the World Economy, global economic growth slowed sharply in 2011 to 3.8% (previous year: 5.1%). Rising prices for raw materials and lost production due to the earthquake in Japan held back the expansion of global gross domestic product in the first half-year. Although these handicaps diminished in the second half of the year, other negative factors for economic growth came to the fore. One of these was the European sovereign debt crisis, which provoked considerable turmoil on financial markets and dwindling business and consumer confidence. Another was the increasingly restrictive fiscal and monetary policy pursued by many emerging and developing economies, which also dampened growth.

According to estimates by the International Monetary Fund (IMF), the ASEAN 5 zone[1], which is of great importance to H&R AG, was not able to match the previous year's growth in gross domestic product: economic expansion in this region slowed to 4.8% compared with 6.9% in 2010.

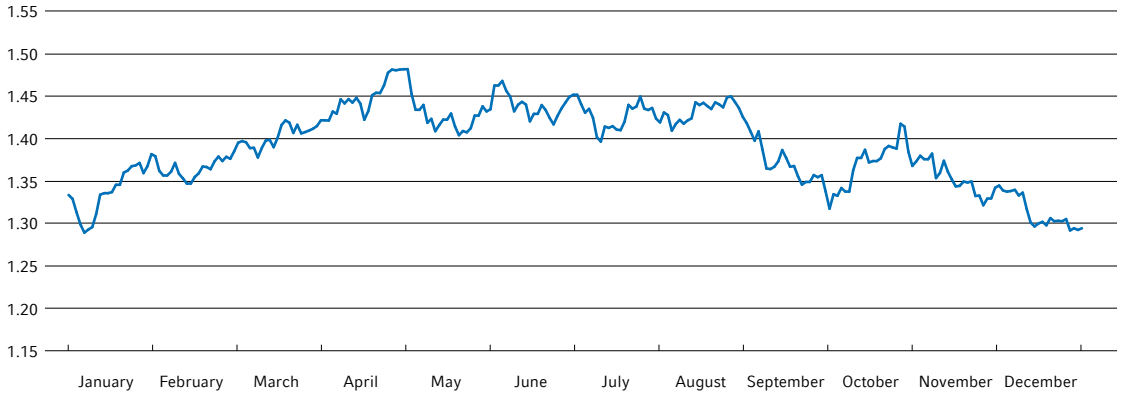
Much lower growth rates are expected for industrialised countries. Economic growth in both the USA (+1.8%) and the eurozone (+1.6%) is forecast to be below two per cent in the reporting period.

According to the IMF forecast the German economy was again able to break away from the growth rates in these economic areas, expanding by 3.0% (previous year: 3.6%). The domestic economy benefited in particular from increasing orders from abroad. Exports rose by 12%, surpassing the magic figure of €1 trillion for the first time.

[1] Indonesia, Malaysia, Philippines, Thailand and Vietnam

€/US$ EXCHANGE RATES IN 2011

(US$ PER €)

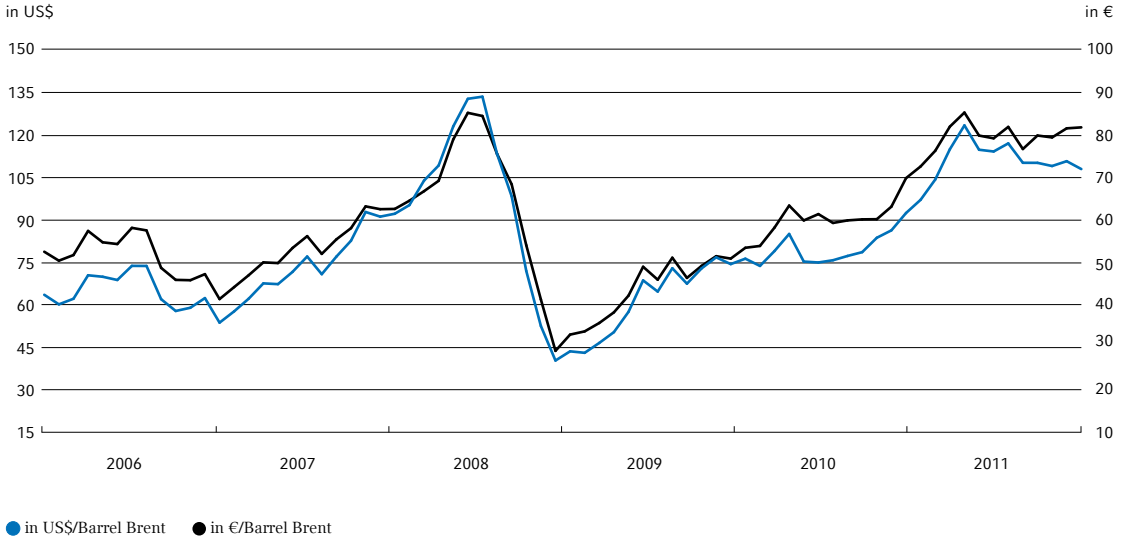


The euro initially appreciated against the US dollar in the reporting period. After closing the previous year at US$1.34 per euro, the exchange rate rose to a high for the year of US$1.49 on 4 May 2011. The worsening debt crisis in many European states caused the euro to lose all these gains over the remainder of the year before closing the year at US$1.30 per euro. This was not far off the annual low of US$1.29 and represented a fall of 3.0% for the year.

The price of crude oil (all figures refer to a barrel of North Sea Brent) rose sharply over the first four months of the year under review, driven largely by the unrest in North Africa. The high was reached in the course of trading on 8 April at a price of US$126.90. From May onwards oil prices fell slightly amid great volatility but remained above the US$100 mark for the rest of the year. At US$107.50 (31 December 2010: US$92.60), the closing price for the year represents an increase of 16.1%. As the euro depreciated against the US dollar, the price of oil went up even more steeply in euros, climbing by 19.7% over the course of the year.

OIL PRICES 2006–2011

(AVERAGE MONTHLY PRICES)



Industry-specific climate

The German chemical industry set new records in 2011 according to the trade association VCI. Production was up by 2.2% and pricing by 5.2%. Overall, industry revenue rose by 7.7%. These record figures are based solely on strong growth in the first half of 2011, however. In the second half-year both sales volumes and pricing declined in the chemical industry. The deteriorating outlook for the global economy prompted many customers to run down their inventories from the third quarter onwards. Sinking raw material costs fanned hopes of further declines in product prices and compounded companies' reluctance to buy.

Mean capacity utilisation in the chemical industry came to 84.8% in 2011, which is close to the figure of 85.0% that is considered standard. The number of employees in the sector increased by 3.0% to 427,000 as of 31 December 2011.

Events with a major impact on the course of business

We laid the foundations for our strong earnings right in the first quarter. In this period our Chemical-Pharmaceutical Division, which contributes around 96% of Group revenue, enjoyed particularly favourable market conditions. Demand was robust, product prices were on the rise and we were initially able to process raw materials that had been purchased when prices were lower. The upshot was that we achieved the best quarterly result in the last five years.

In the summer months many customers were reluctant to place orders for crude oil-based speciality products as the economic outlook was becoming gloomier and the price of raw materials suggested that product prices would fall. In the fourth quarter rising raw materials prices then squeezed the margins for the Chemical-Pharmaceutical Division's products. These factors were largely responsible for the fact that we were not able to prolong the first six months' earnings growth over the full year 2011 at Group level.

Comparison of the actual course of business with the forecast made in the previous year

In the Chemical-Pharmaceutical Raw Materials Division revenue of €1,156.9 million was well above the anticipated minimum of €950.0 million mentioned in the 2010 annual report. The main reason for the revenue growth in our largest division was the increase in raw material costs, which after a certain lag we were able to pass on in the form of higher product prices. The price of our most important raw material – a derivative which is produced when crude oil is distilled at fuel refineries – correlates closely with the price of crude oil. Contrary to our budget assumption of constant year-on-year crude oil prices, with an average price of US$80.00 per barrel, the price continued to go up over the reporting period. After climbing rapidly at the beginning of the year, prices fluctuated between US$100.00 and US$125.00 for much of 2011. The effective average annual price of US$110.80 was around 39% higher than our forecast. At an average for the year of US$1.39 (H&R forecast: US$1.30), the euro was stronger than in 2010, when the euro cost an average of US$1.32. The price of our feedstock therefore climbed rather less sharply in our functional currency, the euro, than in US dollars.

Revenue of €52.6 million in our Plastics Division was slightly above our forecast range of €45.0 million to €50.0 million. Orders from the automotive and industrial sectors in particular turned out better than expected. In the latter segment we primarily include products for customers from the electrical, measuring and control technology and mechanical engineering sectors.

Contrary to our expectations, the cost of raw materials continued to rise for our Chemical-Pharmaceutical Division, which had an effect on other important items in the income statement and balance sheet for the H&R Group. The cost of materials went up to €987.3 million (previous year: €812.8 million) and also inflated net working capital (balance of inventories and trade accounts receivable less trade accounts payable). The resulting capital requirement was financed with debt. As a result of higher debt and losses on interest rate hedges, net interest fell more sharply than expected to €–12.3 million (previous year: €–8.4 million).

In view of the extreme volatility on crude oil markets at the beginning of 2011, the Executive Board initially decided not to put a concrete figure on the earnings forecast for the full year, but described a repeat of the previous year's outstanding consolidated operating result as ambitious instead. When the results were published for the second quarter of 2011 on 12 August, the Executive Board offered a more precise earnings estimate (EBITDA) of €90.0 million to €100.0 million. The actual figure of €89.1 million was slightly below this forecast range. Rising raw material costs were the main reason behind the worse-than-expected earnings, as they severely constricted the margins for our crude oil-based speciality products at the end of 2011.

FORECASTS FOR THE 2011 FINANCIAL YEAR

Date of guidance	30 March 2011	12 August 2011	Actual figure
Sales at Chemical-Pharmaceutical Division	≥ €950.0 million		€1,156.9 million
Sales at Plastics Division	€45.0 million – €50.0 million		€52.6 million
Group EBITDA	≤ €103.4 million	€90.0 million – €100.0 million	€89.1 million

Earnings, financial and asset position of the H&R Group

– Revenue up by 14.4% to a record €1,209.5 million
– Clear improvement in earnings for the Plastics Division
– EBITDA for the Group comes to €89.1 million

Earnings position

In the 2011 financial year we generated record revenue of €1,209.5 million (previous year: €1,056.8 million). The revenue increase stems largely from higher pricing levels – in turn due to the higher cost of raw materials – in our Chemical-Pharmaceutical Raw Materials Division. This division accounted for 96% of revenue in 2011.

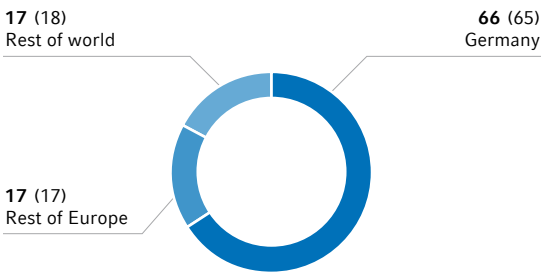
VARIATION ANALYSIS

IN PERCENTAGE POINTS	2011
Revenue change	**14.4**
Due to volume/structure	1.4
Due to pricing	13.1
Due to currency movements	–0.1

The regional focus of our business activities remains on Germany, where 66% of revenue was generated. This percentage includes transactions with our sales partner – the Hansen & Rosenthal Group – which in turn makes a large proportion of its revenue abroad. The actual percentage of products purchased by foreign end customers is therefore higher than our statistics suggest. Of the remaining 34% of revenue, other European countries and the rest of the world each account for 17 percentage points.

GROUP REVENUE BY REGION IN 2011

IN % (PREVIOUS YEAR'S FIGURES)



After a very good first half-year, sales of crude oil-based speciality products fell sharply, but temporarily, during the summer months. In the fourth quarter increasing raw material costs put pressure on our product margins. As a result, the consolidated operating result (EBITDA) declined by 13.8% to €89.1 million (previous year: €103.4 million).

NON-RECURRING EFFECTS ON GROUP EARNINGS

€ THOUSAND	Effect on EBT	Effect on EBITDA
Extending remaining useful life of plants at refineries	1,380	–
Reimbursement of network fees for the Hamburg refinery	730	730
Provision for pension entitlements of former Executive Board members	–501	–501
Provision for outstanding remuneration for former Executive Board members	–713	–713
Provision for onerous contracts natural gas price hedges	–1,181	–1,181
Revaluation of interest rate hedges	–1,403	–
Unwinding of interest rate hedges	–2,018	–
Total	**–3,706**	**–1,665**

The EBITDA margin contracted by 2.4 percentage points to 7.4%, compared with 9.8% in the 2010 financial year. After deducting depreciation and amortisation, we posted Group earnings before interest and taxes (EBIT) of €68.1 million – a 17.0% decrease (previous year: €82.0 million). Sizeable investments in our plants and higher working capital due to raw materials prices meant that we made greater average use of our syndicated loan. Losses incurred on interest rate hedges also depressed our financial result. As a consequence, earnings before taxes (EBT) fell more sharply than the earnings indicators mentioned above, dropping 26.0% to €54.5 million, compared with €73.6 million in 2010. The consolidated net income after minority interests declined by 26.0% to €38.5 million (previous year: €52.0 million). Earnings per share shrank by 25.9% to €1.29, compared with €1.74 in 2010.

REVENUE AND EARNINGS DEVELOPMENT

€ MILLION	2011	2010	2009	2008	2007
Sales	1,209.5	1,056.8	762.3	1,035.2	797.9
Operating result (EBITDA)	89.1	103.4	65.6	51.2	92.7
EBIT	68.1	82.0	44.7	34.9	79.2
Earning before taxes	54.5	73.6	36.2	23.8	73.0
Net income before minority interests	38.5	52.0	25.1	9.6	51.6
Net income after minority interests	38.5	52.0	25.0	9.5	52.0
Earnings per share (€)	1.29	1.74	0.83	0.32	1.72
Return on equity in %	16.3	25.6	14.4	5.5	32.6
Return on capital employed (ROCE) in %	15.2	21.7	13.0	10.4	27.6

Orders trend

The particularly strong demand for products from our Chemical-Pharmaceutical Division initially continued throughout the first half of 2011. In the third quarter orders then dropped off temporarily, partly due to the fact that many of our customers shut their factories during the holiday period and reduced their order volumes. A number of buyers also hoped that product prices would fall due to raw materials trends and therefore postponed their orders. Orders stabilised again at a higher level at the beginning of the fourth quarter. Bringing our new propane deasphalting plant into service in late 2011 increased our potential sales volume for many crude oil-based speciality products. At the same time the plant reduces the production volume of a low-value by-product, which is sold for a meagre return to the shipping industry as a component of heavy fuel oil.

The Plastics Division was able to report increasing orders in all product groups over the entire reporting period. We have expanded our production capacities in Eastern Europe and Asia to meet increased demand. Orders on hand at the division increased to €34.0 million at the end of 2011 (31 December 2010: €29.0 million).

Development of the main items in the income statement

Inventories of finished and unfinished products rose by €29.0 million in the reporting period. Approximately three quarters of this increase was attributable to higher prices. Larger inventory stocks accounted for the remaining quarter.

Higher raw materials prices prompted the cost of materials to climb by 21.5% to €987.3 million in the 2011 financial year (previous year: €812.8 million). This took the cost of materials ratio to 79.7%, compared with 75.5 % in 2010.

Personnel expenses were also up by 2.3% at €76.2 million (previous year: €74.5 million). This was mainly due to the larger workforce and higher wage levels.

Depreciation and amortisation fell by 1.9% to €21.0 million despite high capital expenditure on property, plant and equipment. Last year's figure was €21.4 million. The decline is largely the result of extending the remaining useful lives for some plants at our refineries. Depreciation of our propane deasphalting plant only began on 1 December 2011, when regular production commenced.

DEVELOPMENT OF THE MAIN ITEMS IN THE INCOME STATEMENT

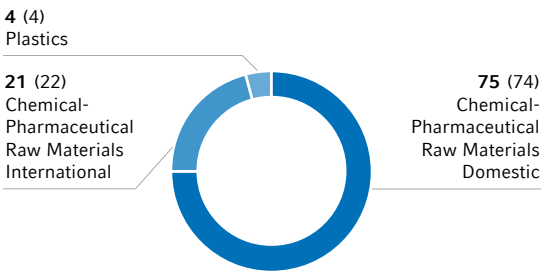
€ MILLION	2011	2010	2009	2008	2007
Sales	1,209.5	1,056.8	762.3	1,035.2	797.9
Other operating income	21.0	21.3	15.6	23.9	32.5
Changes in inventories	29.0	20.3	3.4	5.4	–12.2
Cost of materials	–987.3	–812.8	–557.6	–825.2	–550.3
Personnel expenses	–76.2	–74.5	–67.9	–62.7	–78.0
Depreciation and amortisation	–21.0	–21.4	–20.8	–16.3	–13.6
Other operating expenses	–107.2	–108.1	–90.4	–125.4	–97.2
Income from operations	**67.8**	**81.7**	**44.7**	**34.8**	**79.1**
Financial result	–13.4	–8.1	–8.5	–11.0	–6.1
Earnings before taxes	**54.5**	**73.6**	**36.2**	**23.8**	**73.0**
Taxes on earnings and income	–16.0	–21.6	–11.1	–14.3	–21.4
Net income before minority interests	**38.5**	**52.0**	**25.1**	**9.6**	**51.6**
Net income after minority interests	**38.5**	**52.0**	**25.0**	**9.5**	**52.0**

We had to make greater use of our syndicated loan due to high capital expenditure and elevated net working capital as a result of higher raw materials prices. Earnings were also diminished by losses on interest rate hedges. All in all, net interest fell by 46.4% to €–12.3 million, compared with €–8.4 million in the 2010 financial year.

Our tax expenditure decreased largely in line with earnings before tax (EBT). Expenditure of €16.0 million (previous year: €21.6 million) corresponds to a tax rate of 29.4%, almost unchanged compared with the previous year.

REVENUE BY SEGMENTS IN 2011

IN % (PREVIOUS YEAR'S FIGURES)



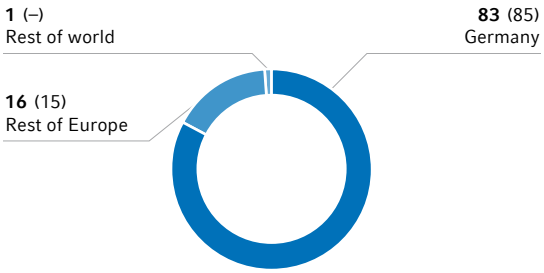
Trends in earnings in the segments

CHEMICAL-PHARMACEUTICAL RAW MATERIALS DOMESTIC SEGMENT. While sales volumes of major products at our Group's largest segment fell slightly vis-à-vis last year, product prices soared in connection with raw materials trends. Overall, segment revenue rose by 16.7% to €943.2 million in the 2011 financial year (previous year: €808.1 million).

By contrast the operating result (EBITDA) for the segment declined by 17.8% to €71.3 million (previous year: €86.7 million), primarily due to slightly lower sales volumes for crude oil-based speciality products and lower margins at the end of the year.

REVENUE BY REGION IN THE CHEMICAL-PHARMACEUTICAL RAW MATERIALS DOMESTIC SEGMENT IN 2011

IN % (PREVIOUS YEAR'S FIGURES)

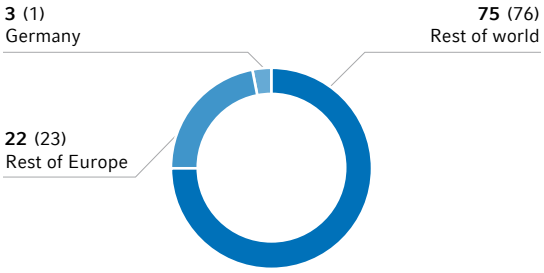


CHEMICAL-PHARMACEUTICAL RAW MATERIALS INTERNATIONAL SEGMENT. Revenue in the international segment also increased – by 8.6% to €249.6 million (previous year: €229.8 million) – on the back of higher prices.

As this product portfolio has a greater share of speciality products with stable margins, the operating result (EBITDA) only fell by 8.2% to €19.0 million (previous year: €20.7 million), less steeply than in the domestic segment.

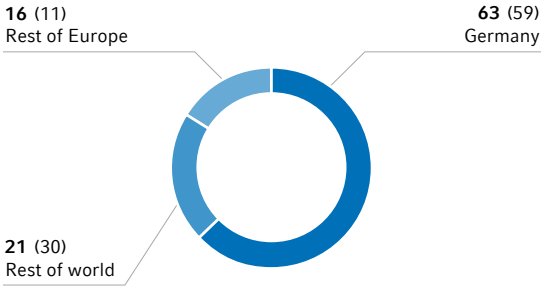
REVENUE BY REGION IN THE CHEMICAL-PHARMACEUTICAL RAW MATERIALS INTERNATIONAL SEGMENT IN 2011

IN % (PREVIOUS YEAR'S FIGURES)



REVENUE BY REGION IN THE PLASTICS SEGMENT IN 2011

IN % (PREVIOUS YEAR'S FIGURES)



PLASTICS. Our Plastics Division profited from an increase in new orders. As a result, the segment's revenue went up sharply by 22.9% to €52.6 million (previous year: €42.8 million). After making a small operating loss of €0.3 million the previous year, the reporting period saw an operating profit (EBITDA) of €2.3 million.

KEY FIGURES FOR THE SEGMENTS (IFRS)

€ MILLION	2011	2010	2009	2008	2007
Sales					
Chemical-Pharmaceutical Raw Materials Domestic	943.2	808.1	583.2	819.8	604.8
Chemical-Pharmaceutical Raw Materials International	249.6	229.8	158.8	174.5	138.6
Plastics	52.6	42.8	38.7	47.6	47.3
Others/consolidation[1]	–35.9	–23.9	–18.4	–6.7	–14.1
Operating income (EBITDA)					
Chemical-Pharmaceutical Raw Materials Domestic	71.3	86.7	51.7	59.6[2]	69.3
Chemical-Pharmaceutical Raw Materials International	19.0	20.7	19.7	12.7	11.5
Plastics	2.3	–0.3	–3.0	2.1	3.9
Sonstige/Konsolidierung[1]	–3.5	–3.7	–2.8	–1.2	–5.8

[1] Key figures for 2007 have been adjusted for the disposal of the explosives division
[2] Figure has been adjusted for the provision for the cartel fine of €22.0 million

Asset and financial position

Financial management principles and objectives

Finances are managed centrally by the holding company H&R AG. The overriding objectives of this function are as follows:

- to supply the company with sufficient liquidity and manage it efficiently
- to finance working capital and capital expenditure
- to hedge against financial risks
- to optimise our capital structure

To make efficient use of our liquidity, we transfer surplus cash within Germany to a cash pool, which supplies the subsidiaries with the necessary liquidity.

In order to secure favourable terms and greater diversity in our Group's funding long term, in November 2011 we replaced our syndicated loan taken out in 2008 for up to €250.0 million with a borrower's note loan and a new syndicated loan. The borrower's note loans for a total of €150.0 million are for periods of five to ten years and serve mainly to refinance investments that have already been made. The syndicated loan has a term of five years and a maximum volume of €150.0 million. We use it principally as a buffer for further capital expenditure and to finance our working capital, which fluctuates widely in line with crude oil prices.

In addition to other conditions, the syndicated loan and the borrower's note loans are subject to two covenants: the ratio of net debt to operating result (EBITDA) and the amount of equity.

In addition to these debt instruments we took out loans of €20.0 million for ten years in May 2009 and €50.0 million in January 2011 via the state-owned promotional bank Kreditanstalt für Wiederaufbau as part of another syndicated loan. These loans are part of a funding scheme which offers financing for environmentally friendly investments at very favourable conditions.

MAIN FINANCING INSTRUMENTS IN THE H&R GROUP

	Sum in million €	Year issued	Maturity
Syndicated loan	up to 150.0	2011	30/11/2016
Borrower's note loan	66.0	2011	30/11/2016
Borrower's note loan	53.0	2011	30/11/2018
Syndicated loan (redeemable loan)	50.0	2011	30/12/2020
Borrower's note loan	31.0	2011	30/11/2021
Redeemable loan	20.0[1]	2009	30/6/2019

[1] Before capital repayments

The interest payable on one €80.0 million tranche of the borrower's note depends on general developments in money market rates. In order to increase the visibility of our future interest payments and to lock in historically low interest rates for the long term, we took out interest rate hedges for this amount. The interest rate hedges for the syndicated loan that was repaid in November 2011 have mostly been unwound, by contrast. We do not expect the financing conditions to change significantly.

In addition to this, we have hedged the price for some of the natural gas we need to generate process heat. We made very little use of derivatives to hedge against the risks inherent in raw materials prices, exchange rates and other risks in the reporting period because, in our view, the cost of these instruments exceeded the potential benefit.

Analysis of the cash flow statement

Despite posting good earnings for the period before minority interests, taxes and interest (€66.7 million), our cash flow from operating activities for 2011 was negative at €–11.8 million (previous year: €52.1 million). A €61.6 million increase in net working capital – driven by higher prices for raw materials and products – had the biggest impact on the operating cash flow. The very good result for the previous year also meant that cash outflows for income tax payments went up to €22.2 million (previous year: €14.1 million).

The cash outflow from investing activities increased to €42.3 million (previous year: €32.8 million). The majority of this expenditure related to the new propane deasphalting plant and to modernisation and maintenance work at our refineries. As a result, the free cash flow (total cash flow from investing and operating activities) was also negative at €–54.2 million.

Financing activities resulted in a cash inflow of €91.3 million (previous year: cash outflow of €26.9 million). The €19.5 million dividend payout for the 2010 financial year and debt repayments of €201.1 million were offset by newly incurred financing liabilities totalling €311.8 million. At the end of the reporting period, cash and cash equivalents amounted to €53.1 million, having totalled €16.2 million one year earlier. The substantial cash flows and the increase in cash and cash equivalents are connected to the successful issue of our borrower's note loans in November 2011. The cash they generated was mostly used to repay the syndicated loan taken out in 2008. Another portion of this extra liquidity is to be used to repay other financing liabilities in the current year.

With this cash and the credit lines granted to us, the H&R Group has safeguarded its liquidity for the long term.

Predetermined payment obligations in the current year come to €0.5 million for finance leases and €2.7 million for operating leases. Total liabilities falling due to banks in 2012 amount to €12.5 million.

FINANCIAL POSITION

€ MILLION	**2011**	2010	2009	2008	2007
Cash flow from operating activities	–11.8	52.1	21.5	16.0	39.6
Cash flow from investing activities	–42.3	–32.8	–23.6	–44.9	6.2
Free Cash flow	–54.2	19.3	–2.1	–28.9	45.8
Cash flow from financing activities	91.3	–26.9	8.3	30.2	–44.3
Financial resources as of 31/12	53.1	16.2	20.9	14.4	14.8

Investments

Our investments increased further to €41.1 million (previous year: €39.3 million) in the reporting period. Property, plant and equipment accounted for €39.5 million of the total (previous year: €37.3 million), while €1.6 million (previous year: €2.0 million) went towards intangible assets.

INVESTMENT IN THE SEGMENTS

€ MILLION	2011	2010	2009	2008	2007
Chemical-Pharmaceutical Raw Materials Domestic	37.9	33.3	22.0	43.9	51.5
Chemical-Pharmaceutical Raw Materials International	1.3	3.5	1.5	1.6	2.5
Plastics	1.4	1.6	0.7	1.5	2.0
Other activities	0.5	0.9	0.2	0.1	4.2
Group	**41.1**	**39.3**	**24.4**	**47.1**	**60.2**

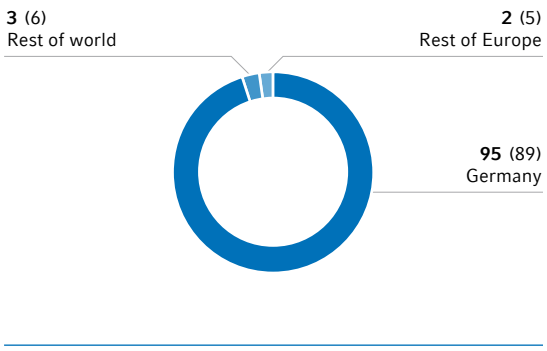
We invested a total of €39.2 million (previous year: €36.8 million) in the Chemical-Pharmaceutical Raw Materials Division in the 2011 financial year. A significant amount of this – €19.8 million – went towards the propane deasphalting plant in Hamburg that was completed in the year under review. Since late 2011 the plant has been converting a residue of the production process into high-quality, crude oil-based speciality products and thereby increasing the value added by the refinery. This will further boost the refinery's value added. Other investments amounting to €19.4 million in the division were mainly for maintenance and modernisation work.

By contrast, capital expenditure in the Plastics Division fell slightly from €1.6 million in 2010 to €1.4 million in the reporting year. We invested the largest part of this in new production plants at our site in Coburg (Germany).

The substantial investment in our refineries meant that the bulk of our capital expenditure again took place in Germany, which accounted for 95% of total spending (previous year: 89%).

INVESTMENT BY REGION IN 2011

IN % (PREVIOUS YEAR'S FIGURES)



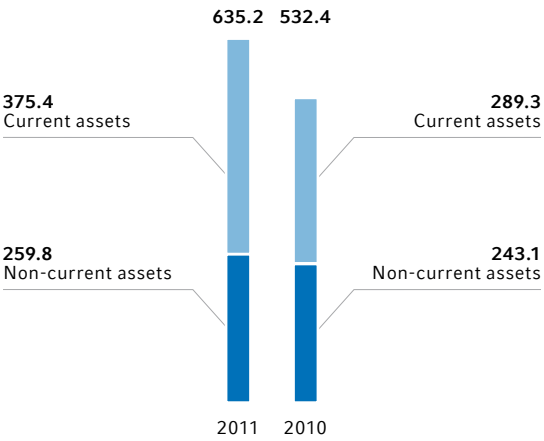
NET INVESTMENT VOLUME

€ MILLION	2011	2010	2009	2008	2007
Investments	41.1	39.3	24.4	47.1	60.2
– Depreciation	21.0	21.4	20.8	16.3	13.6
– Disposal of assets	0.6	0.1	0.3	0.4	–
Net investment volume	**19.5**	**17.8**	**3.3**	**30.4**	**46.6**

Balance sheet analysis

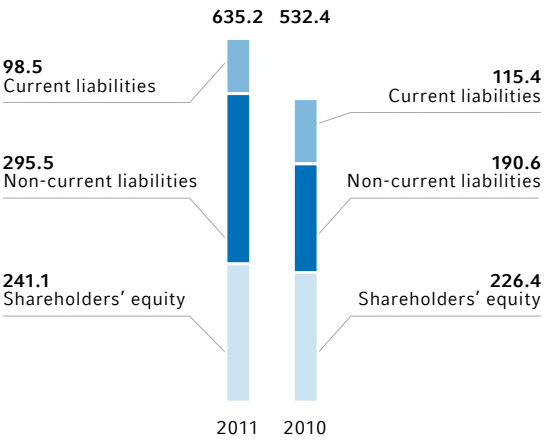
ASSETS

€ MILLION



SHAREHOLDERS' EQUITY AND LIABILITIES

€ MILLION



The balance sheet total grew by 19.3% to €635.2 million at the end of 2011 (31 December 2010: €532.4 million).

Cash and cash equivalents rose sharply to €53.1 million compared with €17.8 million at the end of the previous year. The increase is due to the successful issue of our borrower's note loans in November 2011. Part of this extra liquidity is to be used to repay other financing liabilities in the current year.

Trade accounts receivable went up by 27.3% to €118.6 million at year-end (31 December 2010: €93.2 million). Inventories grew by 15.1% in the same period, from €172.3 million to €198.3 million. The increase in both balance sheet items was due mainly to higher prices for raw materials and products from our Chemical-Pharmaceutical Division.

All in all, current assets gained 29.8%, totalling €375.4 million on 31 December 2011, compared with €289.3 million at the end of the previous year. Their share of the balance sheet total increased to 59.1% (31 December 2010: 54.3%).

Non-current assets went up by 6.9% to €259.8 million at year-end 2011 (31 December 2010: €243.1 million). The main driver of this increase was the 10.2% rise in property, plant and equipment from €187.8 million to €206.9 million. The increase in this item was in turn due to the capitalisation of further components of our propane deasphalting plant, which was brought to completion in the reporting period.

On the liabilities side of the balance sheet, current liabilities grew by 14.6%, which brought them to €115.4 million (previous year: €98.5 million). Their share of the balance sheet total therefore shrank to 15.5% (31 December 2010: 21.7%). Despite higher raw materials prices, trade accounts payable fell by 18.2% to €51.8 million as of the reporting date (31 December 2010: €63.3 million).

Other provisions also declined by 28.0% to €13.1 million (previous year: €18.2 million), due to lower profit-sharing for employees. This was offset by higher liabilities to banks, which rose by 73.6% to €12.5 million (31 December 2010: €7.2 million) as result of reclassifying non-current liabilities.

Non-current liabilities climbed by 55.0% to €295.5 million (31 December 2010: €190.6 million). This increases their share of the balance sheet total from 35.8% to 46.5%. The lion's share of this rise was due to higher liabilities to banks, which went up from €118.6 million to €191.1 million. The cash generated in this way was mainly utilised to fund the sharp increase in net working capital (balance of inventories and trade accounts receivable less trade accounts payable) and for investment. The additional debt results predominantly from the borrower's note loans issued in November 2011.

The portion of these loans not held by banks is shown under other financial liabilities. This item rose accordingly from €3.8 million as of 31 December 2010 to €37.6 million at the end of the reporting period.

Our strong business performance is also reflected in equity, which went up 6.5% to €241.1 million at the end of the year under review (31 December 2010: €226.4 million). The increase would have been greater had it not been for losses on interest rate hedges, which dragged the revaluation reserve down to €–3.8 million (31 December 2010: €–0.6 million). As equity grew at a slower rate than the balance sheet total, the equity ratio decreased. It nevertheless remained sound at 38.0% (31 December 2010: 42.5%). Net gearing (net debt in relation to equity) climbed by 30.2 percentage points from 49.2% to 79.4%.

There were no company acquisitions or disposals in the reporting period.

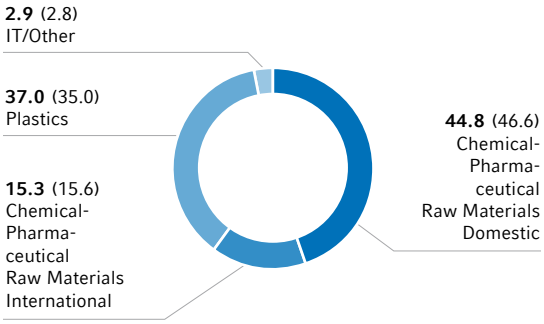
Our off-balance sheet assets are mainly limited to the leased portion of the operating site for our refinery in Hamburg and our fleet of leased vehicles. As of year-end 2011 we no longer used factoring of receivables as an off-balance sheet financial instrument (31 December 2010: €6.9 million).

Non-financial performance indicators

Employees

EMPLOYEES BY SEGMENTS IN 2011

IN % (PREVIOUS YEAR'S FIGURES)



The number of employees at the H&R Group increased as of year-end 2011 by 57 to 1,431 (31 December 2010: 1,374). Most of the new recruitment took place at foreign companies in the Plastics Division.

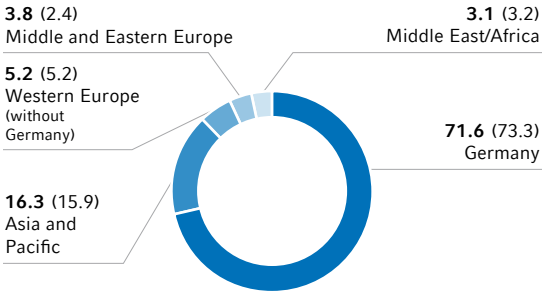
CHEMICAL-PHARMACEUTICAL RAW MATERIALS. At 861, the number of employees in the Chemical-Pharmaceutical Raw Materials Division was nearly unchanged as of year-end 2011 (31 December 2010: 854).

The division's domestic refineries in Hamburg and Salzbergen employed 642 people at the end of the reporting period (31 December 2010: 640). The additional staff required for the new propane deasphalting plant in Hamburg were largely recruited in 2010. They have been fully trained for their new responsibilities.

The number of employees at our international companies only rose marginally as well, to 219 (31 December 2010: 214). The largest foreign sites by headcount were those in the United Kingdom (52), South Africa (44) and Australia (37).

EMPLOYEES BY REGION 2011

IN % (PREVIOUS YEAR'S FIGURES)



PLASTICS. In the Plastics Division we hired 48 new members of staff due to the improving order situation. This took the headcount from 481 at year-end 2010 to 529 as of 31 December 2011.

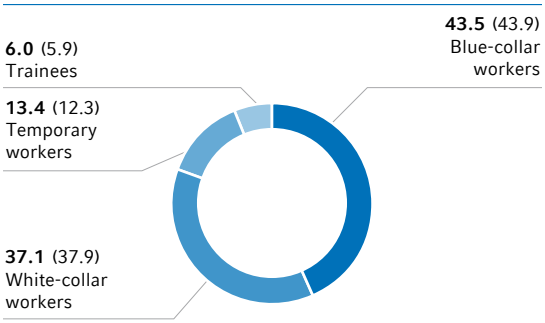
Recruitment was particularly brisk abroad, where 37 new jobs were created. 15 new staff were hired in China and the workforce at our Czech site grew by 22 employees.

PERSONNEL KEY FIGURES

	2011	2010	2009	2008	2007
Employees	1,431	1,374	1,336	1,340	1,227
thereof trainees	85	81	73	78	69
Personnel expenses in € million	76.2	74.5	67.9	62.7	78.0

EMPLOYEES BY TYPE OF CONTRACT IN 2011

IN % (PREVIOUS YEAR'S FIGURES)



Blue-collar workers still make up the largest section of the H&R Group workforce at 43.5% (previous year: 43.9%). White-collar workers made up 37.1% of the total, compared with 37.9% the previous year. The proportion of temporary staff rose by 1.1 percentage points to 13.4% (previous year: 12.3%).

Our strong economic performance meant that we could offer additional apprenticeships; at year-end we employed 85 apprentices (31 December 2010: 81) looking to start their careers across the Group.

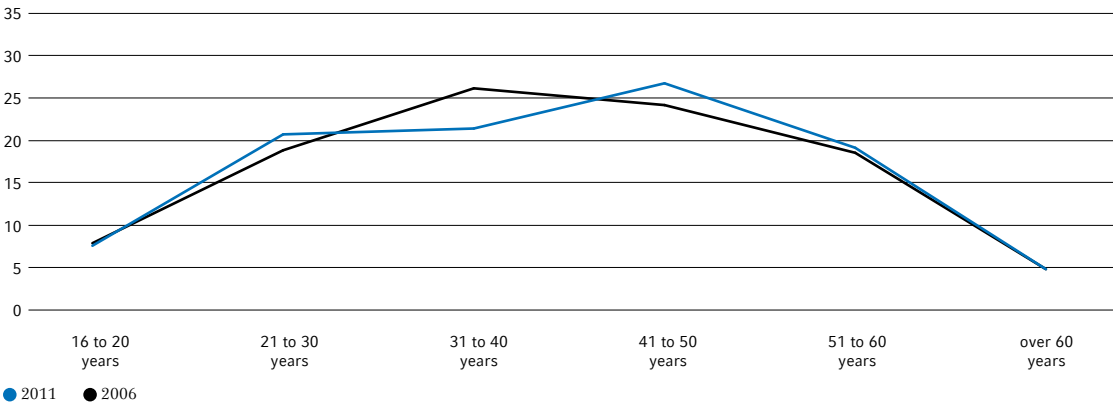
We train young people in a total of seven different occupations to prepare them for the challenges of working life. The success of these efforts can be seen in the fact that 90% of our apprentices are subsequently taken on as full-time employees. We take part in a variety of vocational training fairs in order to encourage school-leavers to get their careers off to an exciting start with us.

Our performance-related pay schemes and flat hierarchies also make us an attractive employer for experienced professionals.

The increasing complexity of our plants and the continuing internationalisation of the H&R Group mean that staff training is becoming more and more important. As we can only compete internationally if we have superbly trained employees on board, we see our spending on professional training as an investment in the future of our company. In the reporting period we spent €386 thousand on training at our domestic production sites alone. When choosing training courses we follow an individual approach, which fosters employees' strengths and helps them to achieve their career goals.

AGE STRUCTURE OF DOMESTIC EMPLOYEES

(IN %)



Our employees' great loyalty to the H&R Group is also expressed in the high average employment duration of 14 years and a fluctuation ratio that is consistently below 5% at sites in Germany.

The age structure of our domestic workforce has remained roughly the same in recent years. In the reporting period the age group of 41 to 50-year-olds was the largest, accounting for 26.8% of the workforce. The age distribution of our employees is thus typical of industrial companies in Germany.

Health and safety

We ensure the safety of our employees, contractors, neighbours and our production facilities by means of comprehensive strategies that cover all sites. This helps us to avert both lost production and damage to the environment.

Staff training is a focal point of our safety strategy; we run regular courses on preventing explosions and plant safety. In addition, all our employees are obliged to complete regular web-based courses using our safety training system UWEB. Contractors working on our factory premises are also included in our safety strategy by means of information meetings and workshops.

If an incident occurs, our safety experts and local management analyse the course of events leading up to the accident together with everyone involved in order to obtain useful information for the further optimisation of our safety measures.

The Executive Board receives a special report with key safety figures on a regular basis. If a serious incident occurs, the Executive Board is notified directly by the local management. The Executive Board also takes an active role in improving plant safety by means of safety inspections and ad-hoc visits.

For the first time in this report the indicator LTIR (lost time incident rate) has been added to accident statistics in line with international standards. This figure shows the number of incidents which have resulted in at least one lost working day for the employee concerned, per million working hours. The standards we apply are therefore much stricter than those called for by the employers' liability insurance associations in Germany, for instance. Although it has improved considerably, we do not consider the LTIR of 6.8 for our refineries (previous year: 9.0) to be satisfactory. This is regardless of the fact that no lasting damage to people or the environment has occurred and phases of major construction work are generally accompanied by a higher accident rate. We will therefore continue to tighten our safety procedures until we have achieved a distinct improvement in the incident rate.

In the field of healthy living and prevention of illnesses we have a wide range of programmes on offer for our staff. At our headquarter in Salzbergen these programmes collectively form the "Life Plus" project. The activities on offer include free exercise sessions to prevent back injury, nutritional advice, exercise training and screening examinations. Similar services are provided for our staff at other H&R Group sites.

HEALTH AND SAFETY AT THE H&R REFINERIES

	2011	2010	2009	2008
Number of occupational accidents with a least one day lost per million working hours (lost time incident rate, LTIR)	6.8	9.0	4.8	10.9
Number of occupational accidents with at least one day lost	11	14	7	17
Number of days lost due to accidents	161	198	81	191
Number of working days lost per occupational accident	14.6	14.1	11.6	11.2
Number of fatal occupational accidents	0	0	0	0

Environmental report

Protecting the environment and conserving resources are important objectives of our company policy. We strive constantly to reduce energy consumption and the amount of environmental pollutants caused by the production process. Not only that, but we also develop eco-friendly products which either offer an alternative to products containing environmental pollutants or contribute to protecting the environment by their use.

ENVIRONMENTALLY SOUND PRODUCTS. Our label-free plasticisers for the tyre industry reduce the environmental impact in two ways. Firstly, they improve the environmental compatibility of the tyre compounds and tyre particles. Furthermore, they lower the rolling resistance of the tyres and thereby make an important contribution to saving fuel. Our label-free plasticisers are also found in many kinds of lagging and insulation material, used to reduce heat loss from buildings.

One of the uses of the white oils produced in our refineries is as components of pesticides to improve the yield of renewable raw materials.

Domestically grown timber can also be weatherproofed by applying our paraffins, so there is no need to use tropical hardwoods to make garden furniture, for example.

The innovative products from our Plastics Division are increasingly being used to substitute parts used in the automotive industry that were previously made of metal. The weight reduction this brings about helps to reduce a car's fuel consumption even further.

ENERGY CONSUMPTION AND CLIMATE PROTECTION. Operating our refineries is energy intensive. In order to stay competitive and contribute to protecting the environment at the same time, the reduction of energy consumption and CO_2 emissions is an important element of our environmental strategy. However, renewable energies will only have a firm place in our energy policy when they are competitive in terms of cost.

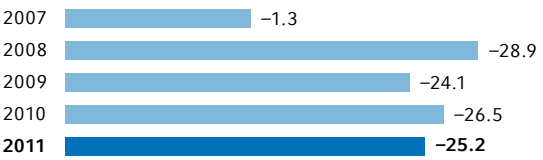
Both refineries are supplied with environmentally friendly process heat generated by incinerators for household refuse. This saves considerable quantities of heating oil, which would otherwise be used as fuel, and averts CO_2 emissions of over 200,000 tonnes a year. Furthermore, where higher temperatures are required, the furnaces are mostly run on climate-friendly natural gas.

Our largest production plant is a member of the Hamburg Environmental Partnership, which has agreed to a voluntary commitment to reduce its annual CO_2 emissions by a total of 500,000 tonnes by 2012 compared with the base year 2007. By year-end 2011 this partnership had already achieved over 90% of its target. We were able to make a significant contribution to this gratifying interim result with annual savings of 39,490 tonnes of carbon dioxide emissions at our refinery in Hamburg.

Taking both refineries together, our steps to increase energy efficiency meant that in the reporting period we were able to cut our specific CO_2 emissions per tonne of production by 25.2% compared with the reference year 2006.

REDUCTION IN SPECIFIC CO_2 EMISSIONS AT THE H&R REFINERIES IN THE PERIOD 2007–2011

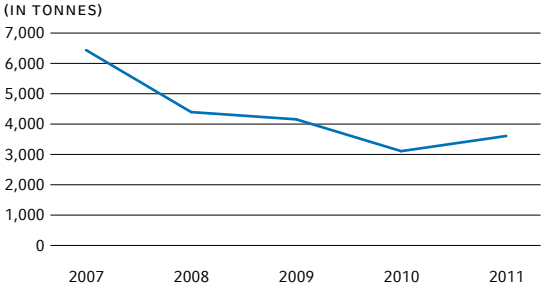
(IN % PER TONNE PRODUCED, BASE YEAR 2006)



WASTE. We try to reduce the amount of waste caused by our production process as far as possible. A large proportion of unavoidable waste is recycled. Only when we have exhausted these means do we dispose of the remaining waste in an environmentally compatible way. The total amount of waste from our refineries went up from 17,271 to 32,541 tonnes due largely to a special project to dispose of contaminated soil. Adjusted for project-specific waste, the total came to 3,021 tonnes (previous year: 3,053 tonnes), which is still low. As project-specific waste was largely recycled, the recycling ratio in relation to total waste was an impressive 82.0%. The proportion of waste classified as hazardous came to 29.7% in the reporting period (previous year: 13.2%). The rise stems primarily from the correct disposal of contaminated soil as part of a remediation project at the refinery in Hamburg.

WASTE GENERATED AT THE H&R REFINERIES[1]

(IN TONNES)

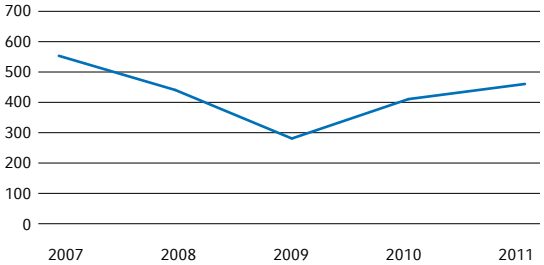


[1] Adjusted for project-specific waste

The Plastics Division's largest production site in Coburg generated 456 tonnes of waste (previous year: 405 tonnes) in the reporting period. The proportion qualified as hazardous fell to 3.7% (previous year: 4.9%). The recycling ratio for waste generated at this plant remained virtually unchanged at 40.4% (previous year: 40.5%).

WASTE GENERATED BY THE PLASTIC DIVISION[1]

(IN TONNES)

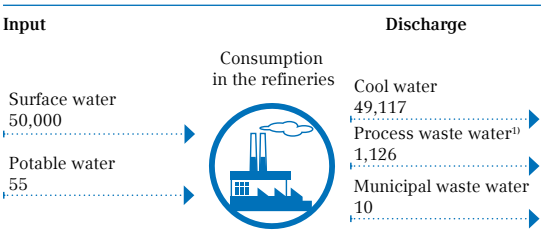


[1] Not including foreign sites

WATER CONSUMPTION. Over 98 % of the water needed in our refineries is used for cooling. This water does not come into contact with our products and can be returned to the environment untreated. Our closed-circuit systems enable us to use our cooling water several times in some cases, thereby reducing our overall water consumption. As large amounts of energy are required to re-cool these systems, however, simply reducing the amount of cooling water would not contribute to protecting the environment.

WATER USE AT THE H&R REFINERIES

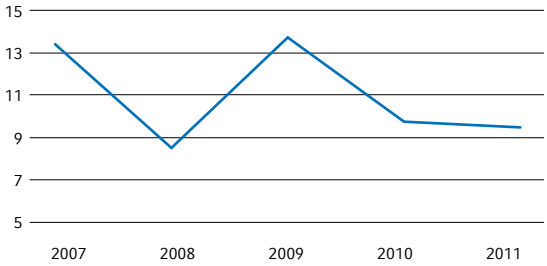
(IN THOUSAND CUBIC METRES PER YEAR)



[1] Total of flush water, precipitation and condensation

NITROGEN CARRIED IN REFINERY WASTEWATER

(IN TONNES)



Rainwater is collected and treated at our refineries so that it can subsequently be piped safely into neighbouring lakes and rivers.

We are particularly careful about how we use valuable drinking water. In 2011 we were able to reduce consumption by 27% compared with the previous year.

A very small proportion of the water is used directly in our refinery processes. We use sophisticated procedures to purify this water so that it can be returned to the environment without any concerns.

Our investment in water purification plants can be seen in the reduced contamination levels of our wastewater; the amount of nitrogen carried in our refinery wastewater fell from 9.74 to 9.47 tonnes in the reporting period.

Product responsibility

At all the sites in the Group we strive to have uniform safety standards that go beyond statutory regulations for our crude oil-based speciality products and plastic parts. We take the entire value chain into consideration: from the delivery of raw materials to the use of our components in our customers' products.

We base our product safety approaches on our system of material safety data sheets. This system gives our employees and customers around the world immediate access to key health, safety and environmental information about our products. Our database currently holds around 2,000 material safety data sheets (MSDS) in 18 languages. The database is in a constant state of flux as data sheets are prepared for new products and up-to-date information is added to existing sheets. This approach ensures that our products do not subject people or the environment to any dangers, provided that they are used appropriately.

We apply the standards laid down in REACH, the new EU regulation for chemicals. We successfully completed the relevant registration phase for substances with an annual production volume of more than 1,000 tonnes in 2010. In the reporting period we incorporated the additional information required by the regulation into our material safety data sheets. In order to keep the costs of complying with REACH to a minimum and realise synergies we have played an active role in the association CONCAWE (CONservation of Clean Air and Water in Europe). At a local level we also joined the REACH Hamburg expert network in the reporting period.

Now that registration has been completed successfully, some of the substances we produce require authorisation. We estimate that this will cost around €400 thousand from 2012 onwards.

Supplier and customer relations

SUPPLIER RELATIONS. The main raw material processed by our refineries in Hamburg and Salzbergen is so-called long residue – a derivative which is produced when crude oil is processed at fuel refineries. The main suppliers of our raw material are therefore the major oil companies. Although our raw material is generally readily available, we sign volume contracts with suppliers from different regions for a period of up to twelve months to reduce the risk of supply shortages. In order to diversify our sourcing even further and to benefit from short-term price movements, we also purchase additional quantities on the spot market. No supply shortages occurred in the reporting period. We are not dependent on individual suppliers.

The Plastics Division uses many types of plastic granulate and various metals as 'inserts'. In many cases our customers determine the materials and the supplier to be used for a given order themselves. We therefore normally bear joint responsibility, together with our customers, for sourcing raw materials. Material price escalation clauses enable us to pass on rising feedstock costs to our customers directly via higher product prices in some cases. In the reporting period extensive restructuring work at some of our suppliers resulted in occasional supply shortages for some raw materials. In comparison with the previous year the supply situation improved, however.

CUSTOMER RELATIONS. Hansen & Rosenthal KG is responsible for the sales of a large part of the products from our Chemical-Pharmaceutical Division. Our sales partner has been trading in crude oil-based speciality products for over 90 years. Thanks to its established presence on the market, Hansen & Rosenthal has excellent market knowledge and close customer contacts. Our more than 800 different products are used in over 100 different industries. Our dependence on individual customers or sectors is therefore low. The most important customer groups include the packaging industry, the building materials industry and the automotive industry.

Our Plastics Division is still very dependent on the automotive industry, despite successful attempts to diversify. The revenue share of customers in this market segment came to 59% in the reporting period, as against 62% the previous year. We were able to increase the share of revenue from the industrial segment from 23% to 28%. This segment mainly comprises products for customers from the electrical, measuring and control technology and mechanical engineering sectors. Although revenue increased again in absolute terms, the revenue share of medical technology customers declined. With the help of intensive R&D and marketing activities we intend to achieve strong growth in this area over the years ahead.

General economic outlook

Assessment of the economic situation by company management

The economic situation for H&R AG was stable in the reporting period. The operating result (EBITDA) of €89.1 million is one of the best in the company's history, even though it falls short of the exceptional year 2010. The result for the previous year was buoyed by particularly high, demand-driven margins for many products in our largest Chemical-Pharmaceutical Raw Materials Division. We were still able to reap the profits of this positive market environment in the first half of the reporting period. The second half began with a pronounced summer slump, however, and steep falls in sales volumes. In the final quarter rising raw material expenses then depressed margins for our crude oil-based speciality products.

In the Plastics Division we achieved a clear earnings increase. On one hand we benefited from the continuing reorganisation in the form of lower fixed costs and additional income from innovative products in the field of medical technology. On the other, orders improved for our customers in the automotive supply industry, which continue to account for the majority of revenue in this division.

Higher raw materials prices again led to a rise in net working capital in the financial year 2011. There were also scheduled cash outflows in connection with our major investment project. As a result we had more debt than at year-end 2010. Our equity ratio fell slightly in consequence, but still comes to a comfortable 38.0%.

Presentation of the influence of financial policies on the economic situation

As in prior years we have been conservative when making discretionary judgements and estimates. For a full description of the assumptions and judgements made with respect to the measurement of assets and liabilities, please refer to the presentation in the notes to the consolidated financial statements starting on page 98 of this annual report.

Earnings, financial and asset position of H&R AG

– Financial statements for H&R AG in accordance with the German Commercial Code (HGB)
– Net income of €25.7 million
– Dividend proposal of €0.60 per share

Earnings position of H&R AG under HGB

INCOME STATEMENT OF H&R AG

€ THOUSAND	2011	2010
Revenue	1,264	1,298
Other operating income	1,208	1,014
Personnel expenses	–3,530	–2,782
Depreciation and amortisation	–7	–14
Other operating expenses	–3,094	–2,863
Income from profit transfer agreements	45,260	58,813
Expenses from loss transfer agreements	–1,398	–3,741
Income from lending financial assets	12	14
Other interest and similar income	8,079	5,854
Amortisation of financial assets	–32	–
Interest and similar expenses	–12,203	–5,433
Result of ordinary operations	**35,560**	**52,160**
Extraordinary result	–53	–53
Taxes	–9,795	–13,859
Net income	**25,711**	**38,248**
Profit carried forward from previous year	–	–
Transfer to retained earnings	7,727	18,765
Distributable profit	17,984	19,483
Dividend	17,984	19,483
Profit carried forward	–	–

We have prepared the financial statements for H&R AG in accordance with the German Commercial Code (HGB). They are published in the electronic Federal Gazette and are permanently available for downloading from the H&R AG section of the company website www.hur.com. We will happily send you a printed copy of the financial statements on request.

For the 2011 financial year we have combined the management report for the H&R Group and the management report for H&R AG.

H&R AG's revenue is generated solely by services rendered to companies in the Group. As in the previous year this came to €1.3 million.

The higher personnel expenses of €3.5 million in the reporting period, as against €2.8 million the previous year, were largely due to the accrual of expenses for service contracts with Executive Board members which end in 2012 and have not been renewed. Income from profit and loss transfer agreements was lower at €45.3 million (previous year: €58.8 million). The decline is principally the result of lower earnings from subsidiaries in the Chemical-Pharmaceutical Segments. By contrast, the Plastics Segment generated an operating profit again after the losses incurred in prior years.

Further success in restructuring the Plastics Division was also the main reason for the reduced losses assumed under profit and loss transfer agreements, which came to €1.4 million in the reporting period, compared with €3.7 million the previous year.

Increased lending to our subsidiaries was prompted by substantial investments in our plants and higher working capital at our refineries due to costlier raw materials. On one hand, other interest and similar income went up sharply from €5.9 million to €8.1 million as a result. On the other hand, this lending also drove up borrowing costs and therefore interest and similar expenses, which totalled €12.2 million (31 December 2010: €5.4 million). Net interest was also reduced by expensed losses on interest rate hedges. Overall, the result of ordinary operations fell to €35.6 million (previous year: €52.2 million).

Taxes went down largely in line with the result of ordinary operations to €9.8 million compared with €13.9 million for the previous year. Net income for H&R AG also declined to €25.7 million (previous year: €38.2 million) as a consequence. We have transferred €7.7 million of the total to retained earnings. The remaining €18.0 million has been reported as distributable profit.

Our strong earnings and the positive outlook again make it possible to distribute a substantial dividend. At the upcoming Annual Shareholders' Meeting to be held on 31 May 2012, the Executive Board and Supervisory Board will table a proposal to pay a dividend of €0.60 per share for the 2011 financial year. Assuming that we hold no treasury shares on the date of the Annual Shareholders' Meeting, this would mean a total distribution of €18.0 million. In the years ahead we plan to keep giving our shareholders an appropriate share of the company's earnings and to pay attractive dividends.

Financial and asset position of H&R AG under HGB

ABRIDGED H&R AG BALANCE SHEET

€ THOUSAND	31/12/2011	31/12/2010
Intangible assets	**–**	**–**
Land, rights equivalent to real property and buildings including buildings on land owned by third parties	9	9
Other equipment, operational and office equipment	17	22
Property, plant and equipment	**26**	**31**
Shares in affiliated companies	85,414	85,389
Loans to affiliated companies	88,923	43,682
Equity interests	1,050	1,050
Loans to entities in which the company has a participating interest	250	300
Financial assets	**175,637**	**130,421**
Non-current assets	**175,663**	**130,452**
Receivables from affiliated companies	219,244	176,535
Other assets	639	1,571
Receivables and other assets	**219,883**	**178,106**
Securities	**245**	**345**
Bank balances	30,637	272
Current assets	**250,765**	**178,723**
Deferred income	**759**	**805**
Assets	**427,188**	**309,980**
Subscribed capital	76,625	76,625
Capital reserve	31,225	31,225
Other retained earnings	29,866	22,138
Distributable profit	17,984	19,483
Equity	**155,699**	**149,471**
Provisions for pensions and similar obligations	3,957	3,875
Tax provisions	542	6,925
Other provisions	2,994	1,850
Provisions	**7,494**	**12,650**
Liabilities to banks	202,125	122,816
Trade accounts payable	93	186
Liabilities to affiliated companies	27,904	19,753
Other liabilities	33,874	5,104
Liabilities	**263,995**	**147,859**
Equity and liabilities	**427,188**	**309,980**

As of 31 December 2011, H&R AG's balance sheet total grew by 37.8% to €427.2 million (31 December 2010: €310.0 million).

Lending to affiliated companies increased sharply from €43.7 million to €88.9 million. The rise is largely in connection with the financing of the propane deasphalting plant at our refinery in Hamburg. Financial assets went up as a result to €175.6 million, compared with €130.4 million at year-end 2010.

Higher raw material costs drove up the funding needed to finance working capital at our subsidiaries in the Chemical-Pharmaceutical Division and were the main reason behind the increase from €176.5 million to €219.2 million in receivables from affiliated companies.

Bank balances rose substantially from €0.3 million to €30.6 million. This particularly high figure arose in connection with the successful issue of our borrower's note loan in November 2011 and is partly to be used in the current year to repay financial liabilities as they fall due. All in all, current assets went up by 40.3% from €178.7 million to €250.8 million.

The distributable profit for H&R AG for the financial year 2010 came to €19.5 million. This amount was distributed in full to our shareholders as a dividend on 1 June 2011. Of the net income generated in the reporting period we have transferred €7.7 million to retained earnings. The remaining €18.0 million has been reported as distributable profit. Altogether, shareholders' equity rose from €149.5 million as of 31 December 2010 to €155.7 million at the end of the reporting period. The equity ratio fell to a still solid 36.4% (31 December 2010: 48.2%).

Provisions for income taxes went down to €0.5 million (31 December 2010: €6.9 million) after tax assessments were received following a tax inspection. This was the sole reason for the fall in total provisions to €7.5 million from €12.7 million at the end of the previous year.

Liabilities climbed by 78.5% to €264.0 million (31 December 2010: €147.9 million). This increases their share of the balance sheet total from 47.7% to 61.8%. The lion's share of this rise was due to higher liabilities to banks, which went up from €122.8 million to €202.1 million. The cash generated in this way was mainly used to fund the sharp increase in net working capital (balance of inventories and trade accounts receivable less trade accounts payable) and capital expenditure by our subsidiaries. The debt results predominantly from the borrower's note loans issued in November 2011. The portion of these loans not held by banks is shown under other liabilities. This item rose accordingly from €5.1 million as of 31 December 2010 to €33.9 million at the end of the reporting period.

Other statutory disclosures

Disclosures in accordance with Art. 289 para. 4 and Art. 315 para. 4 of the German Commercial Code (HGB)

1. COMPOSITION OF ISSUED CAPITAL. The issued capital (share capital) of H&R AG was unchanged as of 31 December 2011 at €76,625,044.11. It is divided into 29,973,112 no-par bearer shares. This corresponds to an accounting value of €2.56 per share. There are no different classes of shares; they are all ordinary shares. Each of these shares entitles the holder to one vote.

2. RESTRICTIONS ON VOTING RIGHTS OR THE TRANSFER OF SHARES. The Executive Board of H&R AG is not aware of any restrictions affecting voting rights or the transfer of shares.

3. DIRECT OR INDIRECT INTERESTS EXCEEDING TEN PER CENT OF VOTING RIGHTS. According to the voting rights disclosure issued by Mr Nils Hansen on 23 December 2010, his share of voting rights exceeded the 50% threshold on 17 December 2010 and came to 50.06% on this date. These voting rights are held by H&R Beteiligung GmbH and are attributable to Mr Nils Hansen via H&R Holding GmbH. According to an informal notification the equity interest attributable to Mr Hansen came to 50.32% on 31 December 2011.

4. HOLDERS OF SHARES WITH SPECIAL RIGHTS GRANTING POWERS OF CONTROL. There are no shares with special rights granting powers of control.

5. CONTROL OVER VOTING RIGHTS OF SHARES HELD BY EMPLOYEES. The voting rights of employees who hold shares in the company's capital are not controlled.

6. STATUTORY REGULATIONS AND PROVISIONS OF THE ARTICLES OF ASSOCIATION ON THE APPOINTMENT AND DISMISSAL OF EXECUTIVE BOARD MEMBERS AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION. The Supervisory Board oversees the Executive Board and advises its members on their management of the company. Executive Board members are appointed and dismissed in line with Art. 84 and 85 of the German Companies Act (AktG). Amendments to the Articles of Association are made on the basis of Art. 133 and 179 AktG and Art. 20 para. 2 of the Articles of Association. The Supervisory Board is nevertheless entitled to adopt amendments to the Articles of Association which only affect their wording without the approval of the Annual Shareholders' Meeting. Article 13 of the Articles of Association defines further circumstances where the Supervisory Board's approval is required. Specifically, these are: entering into long-term liabilities, establishing and dissolving branch offices, and establishing, liquidating, merging or converting subsidiaries. The Supervisory Board has also adopted rules of procedure as recommended in Item 5.1.3 of the German Corporate Governance Code.

7. POWERS OF THE EXECUTIVE BOARD, PARTICULARLY REGARDING THE ISSUE OR BUYBACK OF SHARES. The Executive Board has various options for raising new capital. In accordance with Art. 4 para. 4 of the Articles of Association, the Executive Board is authorised – with the Supervisory Board's approval – to increase the company's subscribed capital by 18 July 2012 by a maximum of €34,000,000.00 by issuing ordinary no-par bearer shares. The issue may be effected in one or more tranches in return for cash and/or contributions in kind. Furthermore, with the Supervisory Board's approval, the Executive Board may decide on the conditions of the share issue (Approved Capital 2007). In principle, shareholders

are to be granted subscription rights. However, the Executive Board is authorised – with the Supervisory Board's approval – to preclude shareholders' subscription rights for residual amounts. Furthermore, in the case of capital increases for cash, the Executive Board is authorised to preclude shareholders' subscription rights with the approval of the Supervisory Board if the nominal value of the new shares does not exceed 10% of the existing subscribed capital either at the time the authorisation becomes effective or at the time the new shares are issued and if the amount for which the shares are issued is not substantially lower than the stock market price as stipulated in Art. 186 para. 3 sentence 4 AktG.

In addition, the Executive Board is authorised to preclude shareholders' subscription rights with the Supervisory Board's approval if the capital increase is made for contributions in kind for the purpose of acquiring companies or interests in companies and insofar as it is necessary to preclude subscription rights in order to grant a subscription right to the owners of the company for convertible bonds/loans or warrants still to be issued, to the extent they would be entitled to upon execution of the option or conversion right or upon fulfilment of the conversion obligation.

The Executive Board is also authorised until 30 May 2016, subject to the approval of the Supervisory Board, to increase the company's share capital by up to €1,000,000.00 by issuing no-par bearer shares on one or more occasions for subscription in cash for the purpose of issuing employee shares to staff of the company and its affiliated companies (Approved Capital 2011). Shareholders' subscription rights are precluded in this case.

The resolution passed by the Annual Shareholders' Meeting on 27 May 2010 authorised the company to acquire treasury shares no later than 26 May 2015 corresponding in total to a maximum of 10% of the subscribed capital at the time the resolution was passed. This is in accordance with Art. 71 para. 1 no. 8 AktG. Together with other treasury shares held by the company or attributable to it as per Art. 71a ff. AktG, the treasury shares acquired under this authorisation may not exceed 10% of the company's subscribed capital at any point in time. Shares may not be acquired for the purpose of trading with treasury shares. The authorisation can be exercised in whole or in part, once or several times, for the purpose of pursuing one or several objectives, either by the company, by its consolidated companies or by third parties for the benefit of the company or its consolidated companies.

At the discretion of the Executive Board, the acquisition may be made via the stock exchange or by way of a public purchase offer to all shareholders or by way of a public request to make such an offer. Should the shares be acquired via the stock exchange, the equivalent amount paid per share (excluding ancillary acquisition costs) may not be more than 10% higher or lower than the average closing price of company shares of the same class in Xetra trading (or a comparable successor system) over the last five trading days on the Frankfurt Stock Exchange prior to the purchase obligation being undertaken.

In the case of a public purchase offer or a public request to make such an offer, the purchase price offered or the extremes of the purchase price range per share (excluding ancillary acquisition costs) may not be more than 10% higher or lower than the average closing price of company shares of the same class in Xetra trading (or a comparable successor system) over the last five trading days on the Frankfurt Stock Exchange prior to the offer or the public request to make such an offer being published. If the relevant stock market price deviates significantly following the publication of a purchase offer or a public request to make such an offer, the offer or the public request to make such an offer may be adjusted. In this case, the relevant price is determined using the closing price for company shares of the same class in Xetra trading (or a comparable successor system) on the last trading day on the Frankfurt Stock Exchange prior to the adjustment being published. This price may likewise not be 10% higher or lower. The volume of the

offer or the request to make such an offer may be limited. Should the total acceptance of the offer – or the shareholder offers submitted in the case of a request to make offers – exceed this volume, the acquisition or acceptance must be effected pro rata. The preferential acquisition or acceptance of smaller quantities of up to 100 of the shares offered for sale to the company per shareholder is permissible, as is the use of standard business rounding principles. The offer or request to make such an offer may be subject to further conditions.

The Executive Board is authorised to use treasury shares acquired on the basis of this authorisation for any legally permissible purpose, including in particular those purposes specifically defined in the resolution passed by the Annual Shareholders' Meeting. Furthermore, the treasury shares thus acquired may be cancelled in whole or in part without a further resolution by the Annual Shareholders' Meeting. The Supervisory Board can also stipulate that its approval be required for the Executive Board to implement measures based on the resolution passed by the Annual Shareholders' Meeting. The details of the authorisation can be found in the proposed Executive and Supervisory Board resolution published with reference to item 5 on the agenda for the Annual Shareholders' Meeting held on 27 May 2010. This resolution can be viewed on the H&R AG website. Copies will also be sent on request. There is no share buy-back programme currently in place.

8. IMPORTANT AGREEMENTS CONDITIONAL ON A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID. The banks involved in the syndicated loans and borrower's note loans have the right to call in the loans in the event of a change of control.

9. BENEFIT AGREEMENTS WITH EXECUTIVE BOARD MEMBERS OR EMPLOYEES IN THE EVENT OF A TAKEOVER BID. In the event of a change of control, the Executive Board member Luis Rauch has the right to resign and to receive severance pay equivalent to his basic salary for the remainder of his term of service, up to a maximum of two years.

Subordinate status report

Since late 2010 more than 50% of voting rights have been attributable to Mr Nils Hansen. As less than 80% of the subscribed capital is usually represented at our Annual Shareholders' Meetings, Mr Nils Hansen regularly had a de facto voting majority in prior years. As Mr Nils Hansen is also the owner of our domestic distribution partner, the Hansen & Rosenthal Group, we produce a subordinate status report each year in accordance with Art. 312 of the German Companies Act (AktG). In the report for the 2011 financial year, our Executive Board came to the following conclusion: "As regards the legal transactions and measures described in this report and based on the facts available to us at the time when said transactions were completed and measures were taken or omitted, H&R AG received appropriate consideration for each legal transaction and was not disadvantaged by taking or omitting any such measure. H&R AG did not suffer disadvantages from any relationship with the controlling company or affiliates thereof."

Key events following the balance sheet date

No events have taken place since the reporting date that are expected to have a material effect on the earnings, financial and asset position of the H&R Group.

Risk report

– Quarterly risk reporting to the Executive Board
– High degree of diversification cushions against fluctuations in demand
– New plant counters risk of fluctuating margins

Risk policy

The business policy of H&R AG is aimed at increasing the value of the company over the long term. To achieve this, market opportunities must be seized as they arise, taking into careful consideration the related risks. The goal of our risk policy is to optimise the ratio of risks to rewards while avoiding risks that could jeopardise the company's existence. Systematic risk management is a direct responsibility of the Executive Board. Risks are normally identified and communicated by the local management of the individual operating units. The risks identified are eliminated or otherwise addressed at the local level if possible.

As a manufacturer of crude oil-based speciality products we have a particular responsibility to operate our refineries in a way that does not endanger people or the environment. All our production sites therefore have staff members who are responsible for giving the safety of employees, the security of facilities and environmental protection close consideration.

Risk management system

The risks to H&R AG and its subsidiaries are identified, evaluated, communicated and either limited or eliminated by means of a uniform process for the entire Group. We use different methods to identify risks, such as monitoring sector-specific and macroeconomic risk indicators or analysing purchasing and sales markets. The identification of risks is considered to be the responsibility of all employees. This is encouraged by flat hierarchies and a transparent approach to potential risks, an approach which is exemplified by the local managing directors.

H&R AG uses the COSO model of risk evaluation (COSO: Committee of Sponsoring Organizations of the Treadway Commission), a standard acknowledged by the American SEC (Securities and Exchange Commission) for internal controls. Risk evaluation is carried out every quarter by the risk manager (generally the relevant operational manager) on site using a questionnaire, inventory list, data collection form and an up-to-date calculations document. Risks are classified according to specific criteria and measured using a method in which the nominal extent of a potential risk is multiplied by the probability of its occurrence. All risks measured for an individual company are entered in the "risk inventory" and reported quarterly to the risk controlling department of the parent company H&R AG. The risk controlling department helps the risk managers to establish early warning indicators that enable a swift response if a risk becomes more acute. The early warning indicators are checked regularly to ensure they are appropriate and up to date. Measures are also defined for the purpose of limiting or avoiding risks – provided that these measures can be implemented and are economically expedient.

The risk controlling department sends the compiled risk inventory for the Group to the Executive Board every quarter, and this serves as the basis for general risk management. If new risks arise at short notice or an incident occurs, the Executive Board is notified directly, independently of normal communication channels.

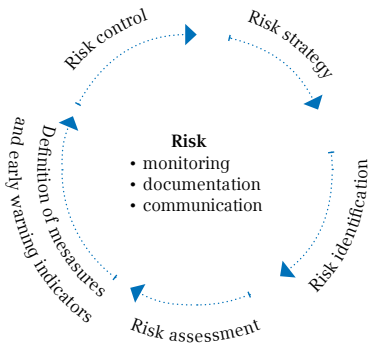
Furthermore a monthly performance report is prepared for all the main individual companies and the Group. This report compares revenue and earnings figures with the relevant targets. Risk controlling analyses any differences between targets and actual figures. These analyses enable the Executive Board to identify anomalies at an early stage so that the necessary preventative steps can be taken promptly.

The regular divisional meetings attended by local managing directors, the Executive Board and a representative of the risk controlling department are a further instrument used for the early recognition of risk. The flow of information created in this way between the operating and administrative levels ensures that operational risks are reflected in the accounting process, by means of provisions for example.

At Supervisory Board meetings the risk strategy and changes in the risk inventory are dealt with at least once a year as part of the reporting on risk management. If the risk position changes significantly, the Supervisory Board is also informed promptly by the Executive Board, between meetings if necessary.

The functionality and effectiveness of the early-warning system for risks is reviewed not only by the Executive Board but also on a regular basis during the audit of the financial statements. The results of these audits are taken into consideration in the ongoing refinement of our risk management system.

RISK MANAGEMENT CONTROL SYSTEM



Description of the main features of the internal control and risk management system with regard to the Group accounting process (Art. 289 para. 5 and Art. 315 para. 2 no. 5 HGB)

H&R AG's accounting guidelines lay down uniform accounting and measurement principles in line with International Financial Reporting Standards (IFRS) for all the companies included in the consolidated financial statements. New accounting regulations are examined straight away to determine if they affect companies in the H&R Group and are implemented in our accounting guidelines as appropriate. The local managing directors are responsible for the application of existing regulations at the level of the individual companies. Consolidated financial statements are prepared and drawn up by Group Accounting at H&R AG. The staff in this department are also available to answer questions on accounting matters from the subsidiaries.

To minimise the risk of incorrect accounting even in complex circumstances, our accounting staff undergo continuous and comprehensive training. The relevant departments have the appropriate manpower, both in terms of numbers and competence. Advice on specific accounting matters is also sought from external experts as necessary. The internal control system at the H&R Group consists of principles, processes and activities to ensure that accounting is effective, economical and correct and complies with the relevant legal regulations.

The H&R Group's internal control system consists of a management and a monitoring system.

Important aspects of the activities that are integrated into operating processes include both manual controls, like the dual-signature policy, and automated IT controls.

The Audit Committee of the H&R AG Supervisory Board is incorporated into the H&R Group's internal monitoring system via its reviews, which are independent of operating processes. In accordance with Art. 107 para. 3 of the German Companies Act (AktG), this body deals principally with monitoring the accounting process, the audit of the financial statements and the effectiveness of the internal control and risk management system.

Extensive access regulations for the relevant IT systems and a strict dual-signature policy in the accounting departments of the individual companies and at Group level ensure that the accounting processes are thorough, exact and secure.

The subsidiaries are obliged to report their figures to Group Accounting every month in a standardised format in accordance with IFRS. This enables off-budget figures to be determined at an early stage and gives us the opportunity to discover the reasons behind these deviations and to take any remedial action as necessary.

Risk management systems relating to financial instruments

H&R AG has very strict rules governing the use of derivative financial instruments. We generally only use standard market instruments from selected banks with good ratings. As a rule, the transactions are carried out by the Group Treasury department after approval by the Executive Board and are monitored continuously thereafter. They are used to hedge transactions that either exist already or are highly likely to take place in future (anticipatory hedging) but not for speculative purposes. The contracts currently in place serve mainly to hedge interest rate risks and gas prices.

Opportunities management

The systematic management of opportunities and that of risks are closely linked at the H&R Group. We take opportunities to mean developments which could have a positive effect on our earnings, financial and asset position.

Operating opportunities are identified and exploited in the various segments, as it is within the segments themselves that the greatest product and market knowledge is to be found.

The management of strategic opportunities – such as acquisitions, joint ventures or major investments – is the responsibility of the Executive Board.

We use a variety of processes to make the best use of both operating and strategic opportunities. As well as carefully analysing our sales and purchasing markets, we also carry out scenario planning and try to identify future market trends by engaging in focussed discussions with customers.

At the Chemical-Pharmaceutical Segments, there is an active dialogue to this end between the production sites, our Research & Development department and our distribution partner Hansen & Rosenthal. The latter uses its close customer contacts to investigate current and future customer needs and provide ideas for new products.

Individual risks

CORPORATE RISKS

	Likelihood of occurrence	Possible financial effects	Risk situation compared to previous year
Macroeconomic and sector risks			
Fluctuations in demand and margins	possible	significant	unchanged
Risks to the supply of raw materials	unlikely	significant	unchanged
Risks from the development of substitute products	unlikely	moderate	unchanged
Changes in the tax and legal environment	possible	moderate	unchanged
Operating and strategic risks			
Production risks	unlikely	significant	unchanged
Investment risks	unlikely	significant	unchanged
Risks from product liability	unlikely	moderate	unchanged
Information technology risks	unlikely	significant	unchanged
Personnel risks	unlikely	moderate	unchanged
Financial risks			
Liquidity risks	unlikely	significant	unchanged
Risks from defaulting customers and banks	unlikely	moderate	unchanged
Exchange rate risks	possible	moderate	unchanged
Interest rate risks	unlikely	moderate	lower
Other risks			
Risks relating to the remediation costs for land in Haltern am See	possible	moderate	unchanged
Claims for damages in connection with the cartel fine	unlikely	significant	unchanged

Macroeconomic and sector risks

FLUCTUATIONS IN DEMAND AND MARGINS. External influences can cause demand for our chemical-pharmaceutical speciality products and plastic parts to decline. These external factors may include periods of economic weakness, temporary price dumping by existing competitors or the emergence of new suppliers in relevant markets.

However, thanks to our high degree of diversification, both at product and customer level, overall demand for our products is more stable than for many other companies in the chemical industry. Risks are also mitigated by the fact that many of our around 800 crude oil-based speciality products are used in several of over 100 customer industries. Our high-quality paraffins are used in the candle, building materials and food industries for instance – sectors with very different economic cycles.

Even though we have expanded our overseas business continuously in recent years, particularly in Asia, we still generate the majority of our revenue in Europe. Economic developments in this region therefore have an important influence on our revenue and earnings.

In the Plastics Division the risk of declining demand is mainly that of lower order volumes from the automotive supplier industry, the division's biggest customer. Possible causes of such a trend may be dwindling sales figures on the part of car manufacturers or increased in-house production of plastic parts by direct suppliers to the automotive industry. To increase our diversification at customer level we are expanding the range of medical technology products as a complement for our products for the automotive sector. Expanding our activities in China and the Czech Republic also furthers our regional diversification and makes us less dependent on developments in our domestic economy.

A close correlate of the risk of weak demand is the risk of low product margins. As the fixed costs of the complex plants in the chemical industry are relatively high, lower margins are often tolerated at times of weaker demand in order to keep up capacity utilisation rates. We counter this risk by continually expanding the proportion of less price-sensitive crude oil-based speciality products in the whole portfolio. An important milestone on this journey was the operational start of our new propane deasphalting plant in Hamburg in late 2011.

Product margins are often also depressed temporarily when raw materials prices go up, as we can only pass these rises on in the form of higher product prices after a delay.

The degree of competition in the plastics industry means that for many product groups there is a risk of having to accept lower margins in order to safeguard or expand market share. We are therefore concentrating on expanding production in segments with a more attractive market environment, such as medical technology. In some cases, the risk of increases in raw materials prices can partly be passed on to our customers by means of material price escalation clauses.

RISKS TO THE SUPPLY OF RAW MATERIALS. At our speciality refineries in Hamburg and Salzbergen the main raw material is a residue left over when fuels are produced from crude oil. To minimise the risk of supply shortages, we purchase this so-called long residue from different sources. To this end, we sign annual volume agreements with several well-known oil companies from different areas of the world. We purchase a further percentage on the spot market in order to benefit from short-term price movements and diversify our sources even further.

In the International Chemical-Pharmaceutical Segment and the Plastics Division our strategy for avoiding supply shortages also revolves around having several suppliers for important raw materials.

RISKS FROM THE DEVELOPMENT OF SUBSTITUTE PRODUCTS. One risk applicable to both divisions is the development of substitutes or alternative production methods for our products. Furthermore, for the Chemical-Pharmaceutical Segments there is a risk that customers may develop manufacturing processes which rely to a lesser extent or not at all on crude oil-based speciality products as feedstock. We counter these risks with extensive research and development work in all the operating segments of the Group. In some product groups this makes us a leading innovator. The high degree of diversification in our product portfolio also reduces the effects individual substitutes would have on Group earnings. Moreover, there are a number of limitations in terms of quality, performance, compatibility with established manufacturing processes, availability, environmental impact and price for potential chemical and renewable raw material substitutes.

CHANGES IN THE TAX AND LEGAL ENVIRONMENT. As an operator of refineries we are subject to strict regulations governing emissions of CO_2, particulates and noise as well as water pollution. A potential tightening of these regulations entails the risk of financial costs resulting from investment in the required modernisation of our plants. We limit these risks by anticipating the introduction of stricter rules, by going beyond the requirements of many current environmental protection standards and by trying to use these aspects for marketing purposes as well. This means that most investments in environmental protection also increase our profitability. For example, modern tank insulation at our refineries not only reduces our carbon dioxide emissions but also cuts our energy costs significantly.

The investment project successfully completed in 2011 – the construction of a propane deasphalting plant in Hamburg – also reconciles environmental and economic objectives. On one hand we have significantly reduced the amount of heavy fuel oil resulting from the production process since late 2011, and on the other we have increased our value added substantially.

Despite extensive investments in energy efficiency, however, operating our refineries remains energy-intensive. The tendency towards reducing energy tax subsidies for the manufacturing industry in Germany therefore creates a further risk of competitive disadvantages.

Operating and strategic risks

PRODUCTION RISKS. The subsidiaries of H&R AG produce crude oil-based speciality products and high-precision plastic parts. Operating the necessary plants to do so gives rise to operating and accident risks. Technical disruptions, flooding, fires or explosions can cause harm to people or the environment and result in lost production. We counter these risks with a wide-ranging safety strategy; comprehensive control and safety measures, coordinated by our IT-based measuring stations, enable us to identify many production risks at an early stage and take suitable remedial action. In the reporting period alone we invested around €2.7 million in environmental protection and safety measures at our refineries. The certification of our production sites in accordance with strict ISO norms contributes significantly to ensuring that production processes are safe.

If an accident occurs despite these precautions, the financial losses are largely covered by insurance, provided that the risk is insurable and coverage is economically expedient.

INVESTMENT RISKS. In the years ahead we intend to keep growing by investing in our existing production sites. We also examine acquisitions as opportunities arise. This creates both opportunities and risks; investment projects can run over budget and delays in construction may arise. There is also the risk that the products manufactured at new plants cannot be sold on the market or fetch lower prices than forecast. To mitigate these risks we set up project teams to plan, coordinate and monitor the construction of new plants in detail. Before a project is approved, the return calculations and the project timetable are subjected to an in-depth cross check. Whenever possible, we build plants based on proven technology. The outstanding market knowledge and close customer contacts of our sales partner Hansen & Rosenthal also lessen the risk of misjudgements concerning future demand and pricing for products.

Acquisitions give rise to risks from the integration of employees, technologies and processes. Earnings and growth rates at the target company can be lower than expected. We therefore carry out extensive due diligence on potential acquisition targets. This process not only entails a valuation of the relevant company but also an analysis of its strengths and weaknesses and the risks involved. We only consider acquisitions in politically stable regions.

RISKS FROM PRODUCT LIABILITY. Our crude oil-based speciality products and plastic parts are incorporated directly into our customers' products. The wrong specifications for our products may result in damages for our customers and give rise to warranty claims. For this reason, all the products in both our Chemical-Pharmaceutical Division and our Plastics Division are subject to intensive quality controls. If we are faced with liability claims despite this, we are largely covered by insurance.

INFORMATION TECHNOLOGY RISKS. The increasingly networked nature of our complex information technology systems carries risks. Vital data can be falsified or deleted by operating errors, faulty programming or unauthorised access from outside. We address this risk by making regular back-ups of our current data with an external provider. To protect ourselves against malicious hackers, we have virus scanners that update themselves continually and complex firewalls in place. An extensive access authorisation system is also in place for sensitive data.

We have taken precautions against a complete breakdown of our data centre by establishing a fallback data centre, which can take over the main IT functions at short notice.

We also counter information technology risks by means of ongoing investments in hardware and software and by continuously enhancing our system expertise. Our IT department is suitably equipped, both in qualitative and quantitative terms, for the size of the H&R Group.

PERSONNEL RISKS. Qualified and committed employees play an important role in our success. In the chemical industry there is a great deal of competition for highly qualified staff to operate plants and refine production processes. Our HR policy includes a number of elements to limit the associated turnover risk; a pleasant working atmosphere, targeted development opportunities for junior staff and practical professional training create an attractive working environment.

Our Research & Development department has a wide range of cooperation programmes with various universities which help establish contact with high-potential recruits at an early stage. Flat hierarchies, good development opportunities and a performance-related pay structure also make us an attractive employer for experienced professionals.

We also boost our employees' motivation with profit-sharing schemes, a programme to encourage suggestions for improvement and intra-Group sports events.

Financial risks

LIQUIDITY RISKS. Prices for the raw materials used in our Chemical-Pharmaceutical Segments are closely correlated with the price of crude oil. The prices for the raw materials that we need are therefore subject to considerable fluctuations. The prices for our finished products are similarly volatile, as changes in raw materials prices are passed on to our customers after a certain period of time. As a result, the balance sheet items "inventories" and "trade accounts receivable" grow when the price of crude oil goes up. In order to cover the higher net working capital requirement (total of inventories and trade accounts receivable less trade accounts payable) that arises from this scenario, a large part of the credit line of up to €150.0 million from our syndicated loan has been earmarked as a risk cushion. In the period between signing the new syndicated loan agreement in November 2011 and going to press with this annual report, we have not drawn down the syndicated loan, apart from payment guarantees for deliveries of raw materials, so we are well prepared for any further rises in crude oil prices. Our Group Treasury department monitors our liquidity status on a daily basis to avoid any cash flow difficulties.

The banks in the lending syndicate attach financial covenants to the credit lines relating to our equity and the ratio of our net debt to operating earnings (EBITDA). If these covenants are broken, the banks are entitled to call in the loan.

RISKS FROM DEFAULTING CUSTOMERS AND BANKS. The risks arising from delays in payment or defaults on the part of our customers are limited by our broadly diversified customer base and the low level of dependence on individual debtors. Strict receivables management by our sales partner Hansen & Rosenthal reduces these risks even further. The default risk for banks with which we have arranged credit lines, hedged transactions or invested funds has increased since the outbreak of the financial crisis. We address this risk by only completing financial transactions with institutions that have exemplary ratings and by spreading larger transactions among several banks.

EXCHANGE RATE RISKS. As an international Group we are exposed to various exchange rate risks, which for cost-benefit reasons we do not generally hedge.

The depreciation of a foreign subsidiary's local currency can diminish the cash flow generated there in terms of the Group currency, the euro. Furthermore, revenue from the sale of products from within the eurozone to a country outside will fall if the foreign currency in question depreciates against the euro. Some of the most important foreign currencies for us are the US dollar, the Australian dollar, the pound sterling, the Thai baht, the Malaysian ringgit and the South African rand. For a sensitivity analysis of exchange rate movements between the US dollar and the euro, our Group currency, please refer to page 147 in the notes to the financial statements. Nonetheless, despite the strong growth in international activities, around 80% of our revenue is still invoiced in euros.

The US dollar/euro exchange rate also affects our raw materials costs, as we purchase our main raw material, the crude oil derivative known as long residue, in US dollars. An increase in the value of the US dollar against the euro therefore increases our raw material expenses. However, as we can normally pass on price rises for raw materials to our customers after a certain time lag, any such dip in our product margins is only temporary (see also "fluctuations in demand and margins" on page 76 of this report).

INTEREST RATE RISKS. In order to secure favourable terms and greater diversity in our Group's funding long term, we replaced our syndicated loan taken out in 2008 for up to €250.0 million in November 2011 with a borrower's note loan for a total of €150.0 million and a new syndicated loan for a maximum of €150.0 million. The interest payable on one €80.0 million tranche of the borrower's note depends on general developments in money market rates. In order to increase the visibility of our future interest payments and to lock in historically low interest rates for the long term, we took out interest rate hedges for this tranche of the borrower's note loan. Apart from a hedged amount of €20.0 million, the hedges for the syndicated loan taken out in 2008, which has now been repaid, have been unwound. The interest rate risk is therefore limited to drawdowns on the credit lines granted under our new syndicated loan in excess of this amount. In the period between signing the new syndicated loan agreement in November 2011 and going to press with this annual report, we have not drawn down the syndicated loan, apart from payment guarantees for deliveries of raw materials, so it is still available as needed to finance higher working capital.

Other risks

RISKS RELATING TO THE REMEDIATION COSTS FOR LAND IN HALTERN AM SEE. The site of our factory in Haltern am See was used by the German Empire and Third Reich respectively during the two World Wars for the production of armaments, contaminating the ground in a number of areas with compounds typical of explosives. The compounds have also been detected in the ground water of the surrounding area. For this reason the Recklinghausen district council issued an order in early 2010 banning the extraction of ground water from domestic wells in the district of Haltern-Lembrake. Even though

we are not the cause of the contamination, there is a financial risk from further investigations or remediation measures. However, the provision of €1,125 thousand for this contingency means that the balance sheet adequately reflects these risks from today's perspective.

CLAIMS FOR DAMAGES IN CONNECTION WITH THE CARTEL FINE. From 2005 onwards the European competition authority carried out investigations into possible collusive behaviour in the paraffin market between 1994 and 2005. In a ruling dated 1 October 2008, the Commission found various European wax manufacturers guilty of breaches of competition law. Companies in the Hansen & Rosenthal Group and H&R AG were fined a total of €36 million. H&R ChemPharm GmbH, which is part of the H&R Group, is jointly liable for €22 million of this amount. After a detailed examination of the grounds for the ruling, the companies lodged an appeal in December 2008, both against the reasoning and the amount of the fine. Notwithstanding the appeal, the sum of €22 million was paid in early 2009 in good time.

The ruling means that customers of H&R ChemPharm GmbH may press claims for damages. On the basis of its supposed involvement in the cartel, H&R ChemPharm GmbH has been included in litigation by three of the defendants in the course of claims for damages brought by candle manufacturers against members of the wax cartel before courts in England and the Netherlands. The amount of the purported damages and the legal basis for the claim have not been sufficiently substantiated to date. In light of the substantiated objections which were lodged in the appeal proceedings against the European Commission's penalty notice dated 1 October 2008, the Executive Board does not currently anticipate that a significant payment will be necessary. The Executive Board continues to monitor the course of the legal proceedings very closely by drawing on the experience and opinions of expert local lawyers.

General statement on the risk situation

Assessment of the risk situation by company management

Our overall risk situation is assessed with the help of our risk management system and the established planning and control systems. As of 31 December 2011 there had been no significant change in the risk situation compared with the previous year. As in the past, the main risks are of unfavourable developments in demand and product margins for chemical-pharmaceutical speciality products.

From a current perspective there are no discernible risks which could cause significant, lasting damage to the financial, asset and earnings position of our Group.

This also applies for multiple simultaneous adverse developments that may reinforce each other mutually. Potential opportunities are not taken into account in this assessment.

We still consider the balance of risks and opportunities to be positive and believe that the continuation of the H&R Group as a going concern is secure.

Our organisational and personnel resources enable us to identify opportunities and risks at an early stage and to react appropriately.

Company rating

The creditworthiness of H&R AG has not been evaluated by a rating agency. Our banking partners review the credit standing of H&R AG on a permanent basis.

Forecast

– Further profitable growth targeted in both operating divisions
– Europe remains largest sales market
– Efficiency improvements are at the heart of the growth strategy

Group strategy in the next two financial years

Planned changes in company policy and non-financial goals

We are not planning any fundamental changes to our company policy in the years ahead, nor are any significant alterations to our legal and organisational structure planned at present. We continue to aim for profitable growth in our Chemical-Pharmaceutical Raw Materials and Plastics Divisions

In the Chemical-Pharmaceutical Division, which accounted for around 96% of Group revenue in the reporting period, we will continue to invest in expanding our refineries in Hamburg and Salzbergen. In the past, the focus of capital expenditure at these sites was on expanding capacities, but since 2010 our investments have increasingly been in plants that enhance value added. In the International Chemical-Pharmaceutical Segment, our strategy of forming production partnerships to supplement our own mixing and conversion plants has proven to be successful. The purchase of additional plants will also be considered given the right opportunities. Furthermore, we will work continuously to optimise the quality and the properties of our products in order to maximise customer satisfaction. To this end we will continue to intensify our research and development activities in the future.

Progress will be made on restructuring the Plastics Division. The goal is to reduce dependency on the automotive industry by expanding the division's activities in the fields of medical, electrical, measurement and control technology.

Future sales markets

In the Chemical-Pharmaceutical Division, Germany and other European countries will remain the markets with the largest shares of revenue. In view of the maturity of these markets, our growth strategy in this region is based less on increasing volumes and more on improving the efficiency of production processes and manufacturing higher-quality products. At the same time, we intend to retain the benefits of our products' broad range of applications in over 100 different industries.

Outside Europe the focus of our operations will remain on Asia.

The proportion of divisional revenue generated outside Europe came to 16.7% in the reporting period (previous year: 17.6%) and the aim is to lift this to at least 30% by 2015. We want to participate in the rapid growth forecast for these regions' economies, not only by expanding our existing activities but also by forming new production partnerships and making smaller acquisitions. In Asia our activities concentrate on the production and sale of wax emulsions for the building materials sector and of label-free plasticisers for the tyre industry.

Future use of new technologies and processes

The permanent improvement of processes to increase efficiency and raise product quality is a core element of our growth strategy.

We have therefore ramped up our research activities in this field. The propane deasphalting plant that started operations in late 2011 converts a residue from the production process at the Hamburg refinery into high-quality crude oil-based speciality products, thereby increasing value added substantially.

In the Plastics Division too we work continuously to improve our production processes.

Future products and services

In future we will continue our successful strategy of developing innovative products closely aligned with customers' needs.

In the Chemical-Pharmaceutical Division our sales partner Hansen & Rosenthal acts as an intermediary between our customers and R&D departments. By constantly testing new product specifications, we aim to have our input materials help to achieve further efficiency gains in our customers' production processes and further increase the quality of their products. Environmentally friendly, label-free plasticisers for the tyre industry are one of the focal points of our research and development activities. We are already developing the next generation of these products in order to maintain our technological lead in this field.

Work is also under way to develop innovative processes for manufacturing white oils and other crude oil-based speciality products. We are looking more and more closely at the use of renewable raw materials.

The launch of the propane deasphalting plant in Hamburg in late 2011 will further increase the share of the division's high-quality, environmentally friendly speciality products. In addition to label-free plasticisers, we will produce larger quantities of lubricants for the shipping industry as well as high-quality waxes for various applications. By contrast, the amount of a low-quality residue currently used as heavy fuel oil will decline considerably.

In the Plastics Division the aim of sharpening the focus on customers in the medical devices sector is reflected in new products. Following the market launch of a sample analysis device in 2010, we are expecting to bring to market an innovative protective cover for surgical tools used in intestinal operations in the current year.

Economic environment in the next two financial years

Future macroeconomic situation

The outlook for the global economy has recently become gloomier.

According to a forecast by the International Monetary Fund (IMF), global gross domestic product will expand at a rate of 3.3% in 2012, below that for the reporting period (+3.8%), before rising to 3.9% in 2013.

The increasing problems in the eurozone are the main reason for the lower forecast. After expanding by 1.6% in the reporting period, the currency area is now predicted to see a decline of 0.5% in economic output in the current year and meagre growth of 0.8% the year after. The economy will come under increasing strain due to higher yields on sovereign debt, tighter capital requirements for banks and growing pressure on many EU member states to consolidate their budgets.

With forecast GDP growth of 0.3% in the current year and 1.5% in 2013, Germany should again be able to pull away from the other countries in the eurozone.

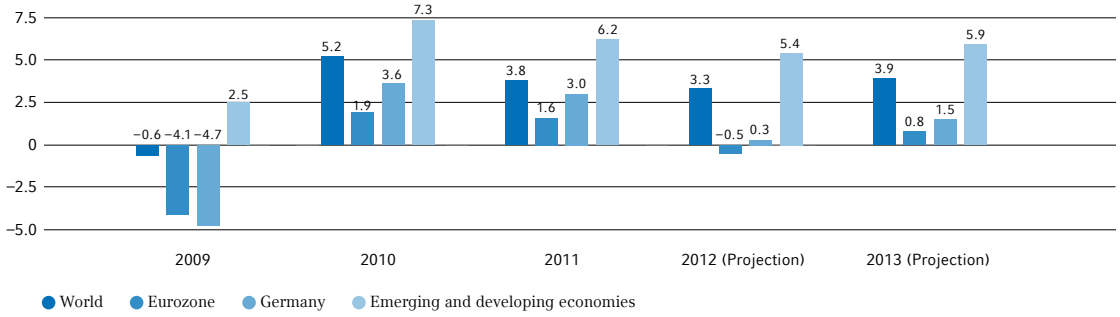
Growth prospects for developing and emerging markets are also lower at 5.4% for the current and 5.9% for the following year, compared with 6.2% in 2011. By contrast, the growth rate for the ASEAN 5 zone, a crucial region for H&R AG, is predicted to rise. This economic region, which comprises Indonesia, Malaysia, the Philippines, Thailand and Vietnam, is expected to see GDP growth of 5.2% and 5.6% in the years 2012 and 2013 respectively, following 4.8% in the reporting period.

Our plans for the next two years are based on an exchange rate of US$1.40 to the euro, in line with predictions by leading currency experts.

For crude oil prices we also rely largely on the estimates published by the economics departments of large banks. For the budget years 2012 and 2013 we are reckoning with a price of US$110.00 per barrel for North Sea Brent.

GLOBAL ECONOMIC GROWTH FORECAST

(IN %), SOURCE: IMF



Future state of the sector

In the chemical-pharmaceutical industry, the continued withdrawal from trading in chemical-pharmaceutical speciality products by the oil majors is noticeable. For these competitors, the focus is on producing base oil. Today's production processes generate much smaller amounts of, for example, paraffins and plasticisers as by-products, which are among our main products.

As a result, we generally expect demand for many of our main products to go up and anticipate that supplies will become scarcer.

The planned introduction of mandatory labelling for car tyres on 1 November 2012 is expected to give an extra boost to our environmentally friendly label-free plasticisers. From this date onwards car tyres throughout Europe will be categorised according to their performance against the criteria wet grip, rolling resistance and noise emissions. The first two of these properties can often be improved by using our label-free plasticisers in the tyre mixtures.

Competition in the plastics industry is intense as the market is highly fragmented with a large number of suppliers. A consolidation of the sector by means of mergers and acquisitions is expected in the years ahead. Only those companies capable of manufacturing high-quality products dependably and efficiently will remain on the market. One of the sector's main customers is the automotive industry. The trend towards substituting heavy car parts made of metal with light plastic components means there is further potential to increase revenue from this customer group.

The medical technology industry is another sector which is gaining in importance as a customer thanks to technological and demographic developments.

Expected earnings position

Forecast earnings development

In the past two years we benefited considerably from the recovery in the global economy following the 2009 crisis. In 2010 and the first half of 2011 in particular, sales volumes and margins were above average for many products in our Chemical-Pharmaceutical Division. The result was record earnings (EBITDA) of €103.4 million in 2010 and a still strong operating result of €89.1 million in the reporting period.

In the current year we made further improvements to our operating position by bringing the propane deasphalting plant in Hamburg into service, expanding the product portfolio in our international segment and continuing the realignment of our Plastics Division. However, it should be borne in mind that after two years of generally favourable operating conditions, early indicators are pointing to a economic downturn in 2012. If this were to happen, the volume of sales of our chemical-pharmaceutical speciality products and plastic components would not go unscathed. From today's perspective – and despite the boost to our earnings potential – we therefore feel that a repeat of the good consolidated operating result (EBITDA) for the reporting period seems ambitious in the current year.

If the currently more optimistic economic forecasts for 2013 should prove correct, we would expect the consolidated operating result (EBITDA) for this period to improve again.

Forecast revenue development

Our revenue is affected considerably by the cost of raw materials for our Chemical-Pharmaceutical Division. We pass these costs on to our customers in the form of higher product prices. The price for our most important raw material, long residue, is closely correlated with the price of crude oil. If our planning assumptions for crude oil prices and the US dollar/euro exchange rate prove correct, we anticipate prices for raw materials and products to remain stable. Although we expect the impending economic downturn to hold back revenue growth, the launch of our propane deasphalting plant and the progress made on implementing our internationalisation strategy and reorganising the Plastics Division should have a positive impact on revenue.

Altogether, we anticipate Group revenue of €1.1 billion to €1.3 billion for the years 2012 and 2013. The Plastics Division should contribute revenue of around €65 million to the total in 2012 and €80 million the year after.

Forecast development of the main items in the income statement

At the time of writing no major structural changes in the income statement were apparent.

Forecast development of dividends

DEVELOPMENT OF DIVIDENDS

IN €	Dividend per share
2007	0.80
2008	0.40
2009	0.45
2010	0.65
2011	**0.60**[1]

[1] Dividend proposal by the Executive Board and Supervisory Board for resolution at the Annual Shareholders' Meeting

The distributable profit for H&R AG for the financial year 2010 came to €19.5 million. This amount was distributed in full to our shareholders as a dividend on 1 June 2011. In the reporting period we generated net income of €25.7 million. We have transferred €7.7 million of the total to retained earnings. The remaining €18.0 million has been reported as distributable profit.

In view of these strong earnings the Executive Board and Supervisory Board propose to pay another high dividend of €0.60 per share for the reporting period. Assuming that we hold no treasury shares on the date of the Annual Shareholders' Meeting, this would mean a total distribution of €18.0 million. In the years ahead we plan to keep giving our shareholders an appropriate share of the company's earnings and to pay attractive dividends.

Forecast financial position

Planned financing activities

Notwithstanding the authorisation from the Annual Shareholders' Meeting (see pages 69 to 71) we are not currently planning to raise any additional equity capital.

In order to secure favourable terms and greater diversity in our Group's funding long term, we replaced our syndicated loan taken out in 2008 for up to €250.0 million in November 2011 with borrower's note loans for a total of €150.0 million and a new syndicated loan for a maximum of €150.0 million.

In addition to these debt instruments we took out long-term loans of €20.0 million in May 2009 and €50.0 million in January 2011 via the state-owned promotional bank Kreditanstalt für Wiederaufbau as part of another syndicated loan. These loans are part of a funding scheme which offers financing for environmentally friendly investments at very favourable conditions. For more information on our main financing instruments, please refer to the section "Financial management principles and objectives" on page 54 of this report.

Forecast liquidity development

Thanks to the free credit lines from our syndicated loan, we have secure access to sufficient liquidity for the years ahead. We therefore consider ourselves to be well prepared, even if rising raw material prices increase our working capital once again.

Planned investment

This year and next we plan to invest an average of around €17.0 million in maintaining and modernising our plants. Together with other activities to increase the efficiency and cost-effectiveness of our production processes this means that our capital expenditure will remain higher than our depreciation and amortisation.

Depending on the operating environment, larger-scale projects to further enhance products in our Chemical-Pharmaceutical Division are also a possibility in the years ahead.

Opportunities

Opportunities from general market developments

The Chemical-Pharmaceutical Segments are profiting from the major oil companies' gradual withdrawal from the crude oil-based speciality product business. Not only does the supply of our products become scarcer when refineries cease production, but we also have an opportunity to make acquisitions that would increase the value of our company.

In recent years we have concentrated on developing environmentally friendly input materials that meet the highest quality standards. Stricter environmental regulations or mandatory disclosures on product properties in our customer industries could also create additional incentives to use our crude oil-based speciality products and plastic parts.

For the Plastics Division, demographic developments will create attractive growth opportunities, especially in medical technology. Further opportunities stem from the trend in the automotive industry towards replacing heavy metal parts with lighter plastic components to reduce the vehicles' weight.

Strategic opportunities

In the Chemical-Pharmaceutical Segments we see considerable opportunities in greater depth of added value and increasing production efficiency by means of innovative manufacturing processes.

Since late 2011 we have been converting a residue generated by our production process into high-quality crude oil-based speciality products using a propane deasphalting plant at our Hamburg refinery. This has created an annual operating earnings potential of €12 million to €14 million. In other production areas, too, there are opportunities to optimise our yield structure by making the appropriate investments.

In the international arena we see opportunities in growth regions such as Eastern Europe and Asia as a result of increasing political stability and reliance on the rule of law. We therefore aim to further develop our successful business model abroad as well as within Germany. To this end, the Chemical-Pharmaceutical Division intends to establish more joint-production agreements with local partners in addition to organic growth and potential acquisitions.

Operating opportunities

In the Chemical-Pharmaceutical Segments we have periods of increased profitability in which we earn what are known as windfall profits. These arise in market situations in which raw materials prices decline and product prices remain stable. We also benefit in the form of higher margins when the supply of our products becomes scarce, such as during shutdowns at our competitors' refineries.

In the Plastics Division, new large-scale orders from the automotive supply or medical technology sectors could lift revenue and earnings above our expectations.

Overall statement on the expected development of the Group

In the past two years we benefited considerably from the recovery in the global economy following the 2009 crisis. The result was record earnings (EBITDA) of €103.4 million in 2010 and a still strong operating result of €89.1 million in the reporting period.

In the year to date we have made further improvements to our operating line-up. However, it should be borne in mind that after two years of generally favourable operating conditions, early indicators are pointing to a economic downturn in 2012. From today's perspective – and despite the boost to our earnings potential – we therefore feel that a repeat of the good consolidated operating result (EBITDA) for the reporting period seems ambitious in the current year.

If the currently more optimistic economic forecasts for 2013 should prove correct, we would expect the consolidated operating result (EBITDA) for this period to improve again.

Consolidated financial statements

Consolidated balance sheet of H&R AG

as of 31 December 2011

ASSETS

€ THOUSAND	Item	31/12/2011	31/12/2010
Current assets			
Cash and cash equivalents	(5)	53,097	17,842
Trade accounts receivables	(6)	118,634	93,246
Income tax claims		89	189
Inventories	(7)	198,257	172,272
Other financial assets	(8)	1,867	3,821
Other assets	(9)	3,416	1,886
Current assets		**375,360**	**289,256**
Non-current assets			
Property, plant and equipment	(10)	206,867	187,792
Goodwill	(11)	35,410	35,382
Other intangible assets	(11)	4,263	4,036
Investment in associates	(12)	777	487
Other financial assets	(8)	5,144	8,337
Other assets	(9)	1,527	1,986
Deferred taxes	(13)	5,812	5,084
Non-current assets		**259,800**	**243,104**
Total assets		**635,160**	**532,360**

EQUITY AND LIABILITIES

€ THOUSAND	Item	31/12/2011	31/12/2010
Current liabilities			
Liabilities to banks	(14)	12,510	7,166
Trade accounts payable	(15)	51,848	63,298
Income tax liabilities	(32)	1,937	8,292
Other provisions	(16)	13,121	18,240
Other financial liabilities	(17)	5,642	10,797
Other liabilities	(18)	13,424	7,547
Current liabilities		**98,482**	**115,340**
Non-current liablities			
Liabilities to banks	(14)	191,096	118,637
Pension provisions	(19)	50,693	49,938
Other provisions	(16)	7,151	7,107
Other financial liabilities	(17)	37,581	3,841
Other liabilities	(18)	132	2,876
Deferred taxes	(13)	8,884	8,183
Non-current liabilities		**295,537**	**190,582**
Shareholders' equity			
Subscribed capital	(20)	76,625	76,625
Capital reserve	(21)	18,599	18,599
Revaluation surplus	(22)	–3,751	–607
Retained earnings incl. net income	(23)	144,564	125,501
Foreign currency translation adjustments		5,150	6,317
Equity of shareholder's of H&R AG		**241,187**	**226,435**
Non-controlling interests	(24)	–46	3
Shareholders' equity		**241,141**	**226,438**
Total shareholders' equity and liabilities		**635,160**	**532,360**

Consolidated income statement of H&R AG

1 January 2011 to 31 December 2011

€ THOUSAND	Item	1/1 – 31/12/2011	1/1 – 31/12/2010
Sales	(26)	1,209,534	1,056,767
Changes in inventories of finished goods and work in progress	(7)	29,002	20,340
Other operating income	(27)	21,039	21,343
Cost of material	(28)	–987,322	–812,815
a) Expenditure on raw materials, supplies and merchandise		–950,153	–778,842
b) Purchased services		–37,169	–33,973
Personnel expenses	(29)	–76,224	–74,451
a) Wages and salaries		–64,850	–63,833
b) Social security payments and expenses for pensions and for support		–11,374	–10,618
Depreciation and amortisation		–21,022	–21,367
Other operating expenses	(30)	–107,177	–108,076
Income from operations		**67,830**	**81,741**
Net interest result	(31)	–12,254	–8,397
a) Interest income		797	930
b) Interest expenses		–13,051	–9,327
Result of at-equity reported shareholdings	(12)	289	260
Other financial expenses		–1,415	0
Earnings before taxes (EBT)		**54,450**	**73,604**
Income taxes	(32)	–15,975	–21,584
Income after taxes		**38,475**	**52,020**
of which attributable to non-controlling interests		–71	0
of which net income to shareholders of H&R AG		**38,546**	**52,020**
Earnings per share (undiluted), €	(33)	1.29	1.74
Earnings per share (diluted), €	(33)	1.29	1.74

Consolidated statement of comprehensive income of H&R AG

1 January 2011 to 31 December 2011

€ THOUSAND	Item	1/1 – 31/12/2011	1/1 – 31/12/2010
Income after tax		**38,475**	**52,020**
of which attributable to non-controlling interests		–71	0
of which attributable to H&R AG shareholders		38,546	52,020
Changes in fair values of derivatives designated as cash flow hedges		–4,863	–472
Recognized in profit or loss		343	–
Income tax		1,376	136
Changes recognized outside profit and loss (cash flow hedges)	**(36)**	**–3,144**	**–336**
Changes in fair values of financial assets available for sale		0	18
Income tax		0	–5
Changes recognized outside profit and loss (financial assets available for sale)	**(36)**	**0**	**13**
Changes of the balancing item due to currency translation		**–1,167**	**7,516**
Total changes recognized outside profit and loss		**–4,311**	**7,193**
of which attributable to non-controlling interests		0	54
of which attributable to H&R AG shareholders		–4,311	7,139
Total comprehensive income		**34,164**	**59,213**
of which attributable to non-controlling interests		–71	54
of which attributable to H&R AG shareholders		34,235	59,159

Consolidated statement of changes in shareholders' equity of H&R AG

as of 31 December 2011

2011

€ THOUSAND	Subscribed capital	Capital reserve	Retained earnings incl. net income	Revaluation surplus	Currency translation adjustments	Equity attributable to H&R AG shareholders	Non controlling interests	**Total**
Status as of 1/1/2011	76,625	18,599	125,501	–607	6,317	226,435	3	226,438
Equity transactions with owners								
Capital increase	–	–	–	–	–	–	–	–
Capital increase of subsidiaries	–	–	–	–	–	–	42	42
Dividends	–	–	–19,483	–	–	–19,483	–20	–19,503
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–
Changes recognized outside profit or loss	–	–	–	**–3,144**	**–1,167**	**–4,311**	0	**–4,311**
Income after tax	–	–	**38,546**	–	–	**38,546**	**–71**	**38,475**
Status as of 31/12/2011	**76,625**	**18,599**	**144,564**	**–3,751**	**5,150**	**241,187**	**–46**	**241,141**

2010

€ THOUSAND	Subscribed capital	Capital reserve	Retained earnings incl. net income	Revaluation surplus	Currency translation adjustments	Equity attributable to H&R AG shareholders	Non controlling interests	Total
Status as of 1/1/2010	76,625	18,599	87,463	–284	–1,145	181,258	421	181,679
Equity transactions with owners								
Capital increase	–	–	–	–	–	–	–	–
Dividends	–		–13,488	–	–	–13,488	–276	–13,764
Acquisition of non-controlling interests	–	–	–494	–	–	–494	–196	–690
Changes recognized outside profit or loss	**–**	**–**	**–**	**–323**	**7,462**	**7,139**	**54**	**7,193**
Income after tax	**–**	**–**	**52,020**	**–**	**–**	**52,020**	**0**	**52,020**
Status as of 31/12/2010	**76,625**	**18,599**	**125,501**	**–607**	**6,317**	**226,435**	**3**	**226,438**

Consolidated cash flow statement of H&R AG

1 January 2011 to 31 December 2011

€ THOUSAND			1/1 – 31/12/2011	1.1 – 31/12/2010
1.		Income before income taxes, minority interests and interest result	66,704	82,001
2.	+/–	Depreciation and amortization	21,022	21,367
3.	+/–	Changes in non-current provisions	–1,981	–217
4.	+	Interest received	797	582
5.	–	Interest paid	–11,415	–5,212
6.	+/–	Income tax received/paid	–22,167	–14,120
7.	+/–	Other non-cash expenses and income	–40	578
8.	+/–	Changes in current provisions	–5,644	408
9.	–/+	Result from disposal of fixed assets	461	55
10.	–/+	Changes in Net Working Capital	–61,638	–38,693
11.	+/–	Changes in other net assets/ other non-cash items	2,090	5,394
12.	**=**	**Cash flow from operating activities (sum of 1 to 11)**	**–11,811**	**52,143**
13.	+	Proceeds from disposal of property, plant and equipment	174	50
14.	–	Capital expenditures for property, plant and equipment	–41,682	–34,030
15.	+	Proceeds from disposal of intangible assets	–	–
16.	–	Capital expenditures for intangible assets	–1,584	–2,023
17.	+	Proceeds from disposal of financial assets	750	3,503
18.	–	Capital expenditures for financial assets	–	–300
19.	**=**	**Cash flow from investing activities (sum of 13 to 18)**	**–42,342**	**–32,800**
20.		**Free cash flow (sum of rows 12 and 19)**	**–54,153**	**19,343**
21.	–	Dividend paid by H&R AG	–19,483	–13,488
22.	+	Proceeds from capital increase of subsidiaries	42	–
23.	–	Payments for purchase of non-controlling interests	–	–690
24.	–	Dividend paid to non-controlling interests	–20	–276
25.	–	Repayment of financial liabilities	–201,075	–79,233
26.	+	Proceeds from financial liabilities	311,795	66,784
27.	**=**	**Cash flow from financing activities (sum of 21 to 26)**	**91,259**	**–26,903**
28.	+/–	Net change in financial resources (sum of rows 12, 19, 27)	37,106	–7,560
29.	+	Financial resources at the beginning of year	16,151	20,893
30.	+/–	Changes due to currency conversion	–160	2,818
31.	+	Change to cash and equivalents due to scope of consolidation	–	–
32.	**=**	**Financial resources at the end of year**	**53,097**	**16,151**
		Cash and cash equivalents	53,097	17,842
		Overdraft	–	–1,691
		Financial resources	**53,097**	**16,151**

Notes

as of 31 December 2010 (IFRS)

(1) Basic information

The listed company, H&R AG with its head office at 48499 Salzbergen, Neuenkirchener Strasse 8 (Germany), operates through its subsidiaries in various specialty 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.

In May 2011 a resolution was passed at the Annual Shareholders' Meeting in Hamburg to change the name of the company from H&R WASAG Aktiengesellschaft to H&R Aktiengesellschaft. This change was entered in the Commercial Register on 1 August 2011.

As a publicly listed parent company H&R AG is obliged by Section 315a of the German Commercial Code (HGB) to prepare consolidated financial statements according to international accounting standards and rules. H&R AG is majoritarily owned by H&R Beteiligung GmbH, Hamburg, and is therefore included in the consolidated financial statements of H&R Holding GmbH as the ultimate parent company.

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

Basics of accounting

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

Revised or new standards issued by the International Accounting Standards Board (IASB) and compulsory from 1 January 2011 were not voluntarily applied in advance.

The consolidated financial statements were prepared by H&R AG and is based on historical cost except from positions that were measured at fair value like financial instruments or assets available for sale.

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

The consolidated financial statements for 2011 were prepared in euros (€). All values shown are in thousands of euros (€ thousand) unless otherwise specified.

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

Group of consolidated companies

The consolidated financial statements of H&R AG cover all significant German and foreign companies controlled by H&R AG. A controlling interest exists where H&R 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 AG directly or indirectly holds the majority of voting rights in its subsidiaries.

H&R AG holds shares in some companies via trusts. These direct shareholdings are also consolidated in full as long as a controlling relationship exists. The shareholding relationships are set out in the list of shareholdings in the Appendix to the Notes on the Accounts.

In addition to the financial statements for the parent company, the consolidated financial statements cover the financial statements of 15 (previous year: 14) German and 12 (previous year: 14) foreign subsidiaries drawn up as of the same reporting date.

The reduction in the number of consolidated foreign subsidiaries was due to the liquidation of the companies concerned and did not result in the disposal of assets or liabilities. The increase in Germany stems from the establishment of GAUDLITZ Grundstücksverwaltungsgesellschaft mbH.

Consolidation methods

Companies being consolidated for the first time are included in the consolidated financial statements from the date on which H&R AG gained control. When this control relationship ceases to exist, the relevant entities are removed from the group of consolidated companies.

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 consistent 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.

Capital consolidation

Corporate mergers are reported in accordance with IFRS 3.4, depending on the method of acquisition. The acquirer is considered to be the party that has gained control over the acquired company in such a way that it can benefit from that company.

The acquisition costs are equivalent to the fair value of the assets acquired, the equity instruments issued and liabilities created or assumed as of the transaction date. They also include the fair values of all recognised assets or liabilities resulting from a contingent consideration agreement. Incidental acquisition costs are recognised in profit or loss for the period.

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 mergers 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 offsetting 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.

Non-controlling interests of consolidated companies are recognized at fair value of their net assets. Transactions with non-controlling interests are treated the same way as transactions with capital owners of the group. The part of the purchase amount exceeding the pro-rata equity of non-controlling interests is recognized as reduction of equity.

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.

Joint ventures are accounted for using the equity method. The Group's share of these companies' profits and losses is recognised in the income statement from the acquisition date. Changes in reserves are recognised pro rata in Group reserves. Aggregate changes after acquisition are offset against the carrying amount of the equity interest. As of 31 December 2011 two companies were accounted for using this method. In accordance with IAS 39, other equity interests are recognised at fair value or at the cost of acquisition if fair 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 the parent company ceases to have control of the subsidiary. 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.

Currency conversion

The financial statements for the foreign subsidiaries are converted to euros according to the functional currency concept. As all companies are regarded by H&R AG as operating 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 into the reporting currency at the mean rate of exchange on the reporting date; items in the income statement, and therefore 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.

Foreign currencies transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

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

(2) General reporting and valuation methods

Presentation of the balance sheet

The balance sheet is presented according to maturity and in line with 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 are expected to be realised within a period of 12 months following the reporting date. Liabilities are classified as current in the same way.

Financial instruments

Financial instruments are contractual rights or obligations that will lead to an inflow or outflow of financial assets or the issue of rights. They also comprise derivative rights or obligations derived from primary financial instruments.

In accordance with IAS 39, financial instruments are broken down into financial assets or liabilities to be measured at fair value through profit and loss, loans and receivables, financial assets available for sale, financial assets held to maturity and other liabilities. In financial year 2011 and in the previous year, no reclassifications were effected within the individual measurement categories.

FOREIGN CURRENCY PER €1

	Rate on reporting date 31/12/2011	Rate on reporting date 31/12/2010	**Average rate 2011**	Average rate 2010
US dollar	1.2939	1.3362	1.3917	1.3268
British pound	0.8353	0.8608	0.86777	0.8582
Australian dollar	1.2723	1.3136	1.3482	1.4442
South African rand	10.483	8.8625	10.093	9.7135
Thai baht	40.991	40.170	42.425	41.937
Chinese yuan	8.1588	8.8220	8.9961	8.9805
Czech koruna	25.787	25.061	24.589	25.294
Malaysian ringgit	4.1055	4.0950	4.2553	4.2733

Financial assets

Financial assets are recognised at the value as of the trading day on which the Group commits to buy the asset. Primary financial assets are classified as loans and receivables or as financial assets held for sale when recognised for the first time. Loans and receivables as well as financial assets available for sale are initially recognised at fair value plus transaction costs.

Loans and receivables are non-derivative financial assets with fixed or fixable contractual payments not listed in an activemarket. They are shown under trade receivables and other assets in the consolidated balance sheet. In the framework of subsequent measurement, loans and receivables are measured at amortised cost based on the effective interest method. Value adjustments are made for identifiable individual risks.

Financial assets available for sale are non-derivative financial assets either individually expressly allocated to this category or not allocable to any other category of financial assets.

Financial assets available for sale are measured at their fair value in the framework of initial measurement. Changes in fair values are carried in equity outside profit and loss until the disposal of the assets. A permanent reduction in fair value gives rise to impairments recognised through profit and loss. In the event of subsequent reversal of the impairment, the impairment carried through profit and loss is not reversed for equity instruments but eliminated against equity outside profit and loss. Where a listed market price in an active market is not available for shares held and other methods to determine an objective market value are not applicable, the shares are measured at amortised costs.

Derecognition of assets is carried out as at the date on which the rights for payments from the assets expire or are transferred and therefore as at the date on which essentially all risks and rewards of ownership are transferred.

Derivative financial instruments

The first-time recognition of derivative financial instruments takes place at fair value on the transaction date. Thereafter they are also measured at fair value. Insofar as practicable, derivative financial instruments that meet the criteria of IAS 39 for hedge accounting are either designated as fair value hedges or as a cash flow hedges. If derivative financial instruments are not part of a hedging relationship they are classified in line with IAS 39 as held for trading.

Upon conclusion of the transaction, the Group documents the hedge relationship between the hedge and the underlying item, the risk management goal and the underlying strategy. In addition, an assessment is made and documented both at the beginning of the hedge relationship and on a continual basis as to whether the derivatives used for the hedge compensate for the changes in the fair values or cash flows of the underlying transactions in a highly effective manner.

The changes in the fair values of a derivative financial instrument designated to hedge against exposure to changes in fair values (fair value hedge) are carried in the income statement alongside the changes in the fair values of the hedged assets or liabilities allocable to the hedged risk. If the conditions for hedge accounting are no longer met and the previously designated underlying item is measured by means of the effective interest method, the carrying amount of the underlying transaction has to be adjusted over its remaining term. The present annual financial statements did not include any fair value hedges of assets and liabilities.

The effective portion of changes in the fair value of derivatives forming cash flow hedges is recognised in equity. The ineffective portion of such changes in the fair value, in contrast, is recognised immediately in the income statement, depending on the nature of the transaction. Amounts taken to equity are reclassified to the income statement and carried as income or expenses in the period in which the hedged item had an effect on results.

If a hedge expires, is sold or no longer meets the criteria for hedge accounting, the cumulative gain or loss remains in the equity and is only carried in the income statement when the originally hedged future transaction occurs. If the future transaction is no longer expected to take place, the cumulative gain or loss recognised directly in equity immediately has to be recognised through profit and loss.

Changes in the fair values of derivative financial instruments not meeting the criteria for hedge accounting are immediately carried in the income statement with an effect on results.

Inventories

In accordance with IAS 2, inventories encompass assets held for sale during the normal course of business (finished goods and merchandise), in the process of production for sale (unfinished goods) or used as part of the production of products 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.

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.

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.

If 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 division.

Fixed assets

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

Acquisition costs include the purchase price as well as any expenses required for the planned commissioning.

Expenses for regular maintenance and repair of fixed assets are recorded in 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.

Expenses for regular shut-downs of large plants are recognised individually at the costs of the measure as part of the plant in question and amortised on a straight-line basis over the period until the next planned shut-down.

Investment subsidiaries 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 fixed assets is performed using the linear method on the basis of useful economic lives standardised throughout the Group.

The useful economic lives are checked on every reporting date and adjusted if required.

The useful lives applied are summarised as follows:

	Useful economic life
Buildings	10 to 36 years
Tank installations	25 years
Technical equipment and machinery	10 to 20 years
Other equipment	3 to 6 years
Office and operating equipment	3 to 13 years

Impairment of non-monetary items

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 is 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 if 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 cashgenerating unit) is reduced to the recoverable amount. The impairment costs are recorded directly in 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 fixed assets are sold or reach the end of their useful life, the profit or loss resulting from the disposal of assets is reported in other operating income or other operating expenditure.

Borrowing costs

Borrowing costs are usually booked through expenses in the period in which the borrowing expenditure arises. Borrowing costs directly relating to the construction, acquisition or manufacture of a qualified asset are capitalised in line with IAS 23.27 if the project began on 1 January 2009 or later. No borrowing interest was capitalised in the 2011 financial year.

Leasing

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

Leasing agreements exist for certain fixed assets as well as other intangible assets (leasing objects). Leases are classified as finance leases if the Group bears significant risks and benefits arising from the ownership of the leasing object exist. 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

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). Goodwill arising after 31 March 2004 and other intangible assets are entered at cost in the balance sheet.

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 scheduled write-downs:

INTANGIBLE ASSETS

	Useful life
Software	3 to 5 years
Licences	3 to 5 years
Concessions and industrial property rights	3 to 10 years

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. If events occur or circumstances change that may indicate a potential value impairment, the value impairment test is also performed more regularly (please also see the remarks contained in Note 11). Value impairments to goodwill arising from impairment tests are reported immediately in the income statement under "Depreciation". According to IAS 36, such write-downs may not be reversed at a later point.

In connection with the launch of emissions trading throughout the European Union, H&R AG has received free-ofcharge CO_2 emission rights, which have been assigned an acquisition cost of zero. The group committed itself by a SWAP transaction to deliver EUAs ("European Union Allowances") in exchange for CERs ("Certified Emissions Reductions").

Research expenses are recognised as expenses in the period in which they are incurred. Development expenses are only capitalised if they meet the criteria of IAS 38. This stipulates that capitalisation is always required if the development activities are sufficiently likely to result in future cash flows that cover the corresponding development costs. As internal developments are subject to various uncertainties, the conditions for capitalising the cost of marketing a product are not generally satisfied.

Expenses incurred in connection with the registration of products under the EU chemicals regulation REACH are capitalised as other intangible assets and amortised over an estimated useful life of ten years.

Long-lasting value impairments on other intangible assets 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.

Equity interests accounted for using the equity method

Equity interests in associated companies and joint ventures are accounted for using the equity method. Initial recognition is at acquisition cost and thereafter the carrying amount reflects changes in the pro rata share of net assets. This involves increasing or decreasing the carrying amounts by pro rata earnings, dividends and other changes in equity on an annual basis. If the Group's share of the losses of an associated company or joint venture is equal to or greater than the Group's interest in this company, including other unsecured receivables, the Group does not recognise any further losses unless it has given commitments or made payments on behalf of the company in question.

The Group's interest in joint ventures includes the goodwill arising on acquisition. Goodwill is not amortised. Impairment losses are recognised for companies accounted for under the equity method if the recoverable amount is lower than the carrying amount.

Liabilities

Liabilities comprise liabilities to banks, trade payables, provisions as well as other financial and non-financial liabilities.

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 and pension provisions, 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.

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 outfl ow 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 anticipated 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, as long as a reliable estimate of the cost is possible and the related resources of commercial value are likely to be utilised.

Restructuring provisions are created in accordance with IAS 37.70ff as soon as a detailed, formal restructuring plan has been produced and has given rise to the justified expectation among the affected parties that the restructuring measures will be carried out with respect to those affected by 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

Retirement benefits in the H&R Group include both defined-contribution and defined-benefit plans depending on the legal, tax and economic framework in the individual countries.

In line with IAS 19, pension provisions for defined-benefit retirement plans are accounted for using the projected unit credit method, taking future salary trends into account and using the corridor method. Plan assets that meet the criteria for offsetting against pension provisions are deducted at fair value. All assets arising as a result of this calculation method are capped at the amount of unrecognised actuarial gains and losses and past service cost, plus the present value of available reimbursements and assets for future contributions to the plan. If at the beginning of the financial year the actuarial gains and losses resulting from changes in actuarial parameters exceed 10% of the pension obligations or the fair value of the plan assets, the amount in excess of 10% is recognised in profit or loss over the average remaining working lives of the active employees.

The interest portion of additions to pension provisions is recognised in interest expenses.

For defined-contribution plans the Group makes contributions to public or private pension insurance schemes on a statutory, contractual or voluntary basis. The Group has no further payment obligations in addition to paying the contributions. Contributions are recognised in personnel expenses as they fall due.

Presentation of the income statement

The income statement is 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. Internal exchanges of goods and services are handled on normal terms for the market.

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 in other liabilities.

Private subsidies are reported under other short-term and 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 calculated 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 consolidated income statement in that it excludes expenses and revenues that are tax-deductible in later years and/or never taxable. Tax liabilities 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 at in the future. Deferred taxes are not reported insofar as the temporary differences in question arise from goodwill or from the first-time disclosure 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 28.31% (previous year: 28.31%) was used to calculate deferred taxes for the German companies and the consolidated bookings. 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.

Deferred tax liabilities arising from temporary differences in connection with equity interests in subsidiaries and associated companies are recognised, unless the time at which the temporary differences are likely to reverse can be determined by the Group and it is probable that the temporary differences will not reverse as a result of this in the foreseeable future.

Deferred tax assets and liabilities are netted if they relate to income taxes collected by the same tax authority either for the same taxable entity or for different taxable entities that intend to equalise the difference on a net basis.

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 on 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.

(3) Discretionary decisions and accounting 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 values or actual cash values. These specifically include estimates of future payment streams, applicable discount factors, expected useful lives and residual values.

Sensitivity analysis in general is based on a 10%-corridor since changes within this corridor are reasonably possible, especially in the long term. Sensitivity analysis is especially necessary for the impairment test of the goodwill on the basis of cash generating units, which did not give indication for a possible impairment.

Other basic estimates are made with regard to the discount factors and mortality tables that govern provisions for pensions and similar obligations and with regard to the expenses associated with other types of provisions. This also implies the possibility of a cash outflow due to an obligation to remove buildings and operating facilities, which is described in more detail under explanation (38).

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 accordingly.

The annual review of estimated useful lives of items of property, plant and equipment carried out in 2011 resulted in useful lives being restated. The pooling of property, plant and equipment at the refineries into component groups to be depreciated separately was revised, which resulted in changes to the useful lives of individual assets. The effect for the 2011 financial year and the following three financial years is a reduction of €1,379 thousand in Group depreciation per year.

At the time of preparing 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.

(4) 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 2011 financial year. They were not applied prematurely by H&R Group.

Published standards and interpretations that are not yet applied

Although the following interpretations had already been published as of the reporting date, their application was not yet mandatory:

Standard/ Interpretation		Applicable according to IASB/ EU-regulation	Adopted by the European Commission	Anticipated material impact on H&R AG
IAS 1	Amendment: presentation of single positions of comprehensive income	1/7/2012	expected in Q1/2012	None
IAS 12	Amendment: income taxes	1/1/2012	expected in Q3/2012	None
IAS 19	Amendment: employee benefits	1/1/2013	expected in Q1/2012	more detailed notes
IAS 27	Amendment: consolidated and separate financial statements	1/1/2013	expected in Q4/2012	None
IAS 28	Amendment: investments in associates	1/1/2013	expected in Q4/2012	None
IAS 32	Amendment: financial instruments: presentation	1/1/2014	expected in Q4/2012	None
IFRS 7	Amendment: financial instruments: disclosures	1/1/2013	expected in Q4/2012	None
IFRS 9	Financial instruments	1/1/2015	postponed	Unclear
IFRS 10	Consolidated financial statements	1/1/2013	expected in Q4/2012	Unclear
IFRS 11	Joint arrangements	1/1/2013	expected in Q4/2012	None
IFRS 12	Disclosures of interests in other entities	1/1/2013	expected in Q4/2012	None
IFRS 13	Fair value measurement	1/1/2013	expected in Q3/2012	Unclear
IFRIC 20	Stripping costs in the production phase of a surface mine	1/1/2013	expected in Q3/2012	None

Standards and interpretations to be applied in the current year

The International Financial Reporting Interpretations Committee (IFRIC) has published the following standards to be applied in the current financial year:

- IAS 32 Financial Instruments: Presentation: Classification of Rights Issues
- IAS 24 Related Party Disclosure

The amendments from the yearly improvement project from May 2010 for several standards that had to be considered in the current year for the first time had no material effect on the consolidated financial statement of the current period. Same applies for Amendments of IAS 24 and IAS 32.

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

- IFRIC 14 Prepayments of a Minimum Funding Requirement
- IIFRIC 19 Extinguishing Financial Liabilities with Entity Instruments

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

(5) Cash and cash equivalents

€ THOUSAND	31/12/2011	31/12/2010
Cash in hand	137	126
Cheques	–	116
Bank balances	52,960	17,600
Total	**53,097**	**17,842**

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

(6) Trade account receivables

€ THOUSAND	31/12/2011	31/12/2010
Gross amount of trade accounts receivables	119,385	94,109
Impairment	–751	–863
Total	**118,634**	**93,246**

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

Receivables from related parties are disclosed under Note (41).

The H&R Group sold trade receivables with short-term maturities to credit institutions on a revolving basis as part of a factoring agreement. Transferred receivables amounted to €7.0 million as of 31 December 2010. In the current year no trade receivables have been sold.

TRADE ACCOUNT RECEIVABLES

			Of which not value-impaired on the accounting cut-off date but overdue as follows					
THOUSAND €	Book value	Of which neither value-impaired nor overdue on the accounting cut-off	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Between 91 and 120 days	Between 181 and 360 days	More than 360 days
31/12/2011	118,634	108,685	6,202	994	348	486	631	17
31/12/2010	93,246	82,177	5,917	814	531	377	57	403

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	2011	2010
Status as of 1/1	863	1,011
Additions	311	573
Used	–75	–327
Redemptions	–356	–455
Currency fluctuations	8	61
Status as of 31/12	**751**	**863**

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 120 days	Between 181 and 360 days	More than 360 days
31/12/2011	1,818	66	33	66	4	35
31/12/2010	1,457	1,932	75	17	–	348

(7) Inventories

€ THOUSAND	**31/12/2011**	31/12/2010
Raw materials and supplies	61,082	63,246
Work in progress	48,055	34,631
Finished goods and merchandise	87,110	71,049
Advance payments on inventories	2,010	3,346
Total	**198,257**	**172,272**

Individual revaluations have been applied to all inventories where the proceeds likely to be realised from selling them areless 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 increase in finished goods, merchandise and unfinished goods results mainly from price rises for raw materials, which track changes in the oil price.

The book value of inventories reported at actual cash value minus sales expenses amounted to €12,386 thousand in the reporting year (previous year: €4,166 thousand).

Value impairments of €1,844 thousand (previous year: €1,099 thousand) were reported as expenditure in the reporting period in accordance with IAS 2.34. They concern the segments plastic and Chemical-Pharmaceutical Raw Materials National.

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

(8) Other financial assets

€ THOUSAND	31/12/2011 Total	31/12/2011 of which long-term	31/12/2010 Total	31/12/2010 of which long-term
Loans	748	298	1,703	298
Deverred investment subsidy	–	–	2,777	2,583
Receivable due from BP	2,033	1,633	2,280	2,280
Receivable due from SRS EcoTherm GmbH	1,391	1,247	1,359	1,211
other securities	1,152	907	1,252	907
other investments	1,055	1,055	1,055	1,055
Derivates	–	–	864	–
other financial assets	662	4	868	3
Total	**7,011**	**5,144**	**12,158**	**8,337**

LOANS

The decrease of loans was due to a repayment of a loan granted to a company associated with a member of the Supervisory Board of €750 thousands.

The remaining amount is mainly related to a loan of €450 thousands granted to a joint venture and is further described under Note (41).

RECEIVABLE DUE FROM BP

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. In line with 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 (€2,003 thousand) according to IAS 1.33.

The reimbursement claims developed as follows:

€ THOUSAND	2011	2010
Status as of 1/1	10,174	9,376
Expected income	471	519
Actuarial gains and losses	–350	857
Benefits paid	–537	–578
Status as of 31/12	**9,758**	**10,174**

The anticipated income is accompanied by the following realised values:

€ THOUSAND	2011	2010
Expected income	471	519
Realised income	121	1,376
Actuarial gains and losses	350	–857

The experience-related adjustments for the reimbursement claims in 2011 amounted to €–350 thousand (2010: €857 thousand, 2009: €–24 thousand, 2008: €120 thousand).

OTHERS INVESTMENTS

The shareholdings in SRS EcoTherm GmbH, Salzbergen, (€1,050 thousand) and the operating company Silbersee II Haltern am See, Essen, (€2 thousand) 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.

OTHER SECURITIES

"Other securities" primarily covers units in the funds Correntafonds I and II. These assets are valued at their market value on the reporting date. Changes are recognized outside profit and loss.

In addition, this item contains marketable securities, which came to €245 thousand (previous year: €345 thousand) on the reporting date.

DERIVATIVES

In the previous year, derivatives contained financial instruments to cover risks arising from the change of gas prices.

Of the other financial assets, €7 thousand had been individually value-adjusted as of 31 December 2011 (previous year: €11 thousand).

(9) Other assets

	31/12/2011		31/12/2010	
€ THOUSAND	**Total**	**of which long-term**	Total	of which long-term
Reinsurance	1,382	1,382	1,632	1,632
Receivables due to other tax	1,892	–	368	–
Deferred expenses	696	8	726	21
Other assets	973	137	1,146	333
Total	**4,943**	**1,527**	**3,872**	**1,986**

The short-term prepaid expenses and deferred charges item contains prepaid 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.

(10) Property, plant and equipment

DEVELOPMENTS 2011

€ THOUSAND	Land and buildings	Technical equipment/ machinery Maschinen	Other facilities/office equipment	Advance payments and plant under construction	**Total**
Acquisition and production costs					
Status as of 1/1/2011	46,610	260,272	17,397	26,005	350,284
Currency fluctuations	57	40	–4	–102	–9
Additions	577	30,698	1,528	6,744	39,547
Disposals	–2	–1,334	–258	–51	–1,645
Transfers	358	22,225	186	–22,959	–190
Status as of 31/12/2011	**47,600**	**311,901**	**18,849**	**9,637**	**387,987**
Cumulative depreciation					
Status as of 1/1/2011	19,878	128,959	12,713	942	162,492
Currency fluctuations	–10	161	7	–	158
Additions	1,957	15,947	1,576	–	19,480
Disposals	–	–761	–249	–	–1,010
Transfers	–	–	–	–	–
Status as of 31/12/2011	**21,825**	**144,306**	**14,047**	**942**	**181,120**
Carrying amounts					
Status as of 31/12/2011	25,775	167,595	4,802	8,695	206,867
Status as of 31/12/2010	26,732	131,313	4,684	25,063	187,792

DEVELOPMENTS 2010

€ THOUSAND	Land and buildings	Technical equipment/ machinery Maschinen	Other facilities/office equipment	Advance payments and plant under construction	Total
Acquisition and production costs					
Status as of 1/1/2010	43,906	233,392	20,836	16,640	312,774
Currency fluctuations	709	2,047	178	25	2,959
Additions	915	10,950	1,773	23,656	37,294
Disposals	–	–350	–117	–2,296	–2,763
Transfers	1,080	14,233	–5,273	–10,020	20
Status as of 31/12/2010	**46,610**	**260,272**	**17,397**	**26,005**	**350,284**
Cumulative depreciation					
Status as of 1/1/2010	17,786	108,201	15,618	2,226	143,831
Currency fluctuations	151	980	114	–	1,245
Additions	1,877	15,998	1,290	942	20,107
Disposals	–	–350	–114	–2,226	–2,690
Transfers	64	4,130	–4,194	–	–
Status as of 31/12/2010	**19,878**	**128,959**	**12,713**	**942**	**162,492**
Carrying amounts					
Status as of 31/12/2010	26,732	131,313	4,684	25,063	187,792
Status as of 31/12.2009	26,120	125,191	5,218	12,414	168,943

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 approx. 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. However, these approvals were granted in 2009. Upon receipt offurther outstanding necessary approvals the possible utilisation options will be discussed and negotiations with potential cooperation partners will be resumed.

The additions in 2011 mainly relate to the refinery sites in Salzbergen and Hamburg. In Salzbergen investments were made in a power plant and in refurbishment work. At the Hamburg site the additions principally concern the investment in the propane deasphalting plant, which went into operation in the fourth quarter of 2011. In addition, expenses in connection with planned shutdowns were capitalised at both sites.

The majority of additions to advance payments and plant under construction relate to investment in tanks and various minor pieces of technical equipment and apparatus.

Reclassifications mainly pertain to the Hamburg refinery site. In the previous year the investment there in the propane deasphalting plant was reclassified as technical plant.

LEASING

The H&R 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.

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

	2011				2010		
€ THOUSAND	**Technical equipment/ machinery**	**Office and operating equipment**	**Intangible assets**	**Total**	Technical equipment/ machinery	Intangible assets	Total
Acquisition costs							
Status as of 1/1	13,614	–	3,696	17,310	13,329	3,696	17,025
Additions	969	26	–	995	290	–	290
Disposals	–137	–	–	–137	–5	–	–5
Status as of 31/12	**14,446**	**26**	**3,696**	**18,168**	**13,614**	**3,696**	**17,310**
Cumulative depreciation							
Status as of 1/1	4,670	–	2,773	7,443	3,690	2,034	5,724
Additions	878	3	739	1,620	985	739	1,724
Disposals	–124	–	–	–124	–5	–	–5
Status as of 31/12	**5,424**	**3**	**3,512**	**8,939**	**4,670**	**2,773**	**7,443**
Carrying amounts							
Status as of 31/12	**9,022**	**23**	**184**	**9,229**	**8,944**	**923**	**9,867**
Status as of 1/1	8,944	–	923	9,867	9,639	1,662	11,301

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	**31/12/2011**	31/12/2010	**31/12/2011**	31/12/2010	**31/12/2011**	31/12/2010
Minimum lease instalments	533	803	1,869	2,032	–	345
Future financing costs from finance leases	88	107	154	231	–	8
Present value of finance lease liability	445	696	1,715	1,801	–	337

The major part of these payments is related to a contract to supply energy and water, which is treated as finance lease since it meets the criteria of IFRIC 4.

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 generally between two and five 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		Total	
€ THOUSAND	**31/12/2011**	31/12/2010	**31/12/2011**	31/12/2010	**31/12/2011**	31/12/2010	**31/12/2011**	31/12/2010
Land and buildings	473	552	632	1,404	578	672	1,683	2,628
Technical equipment/machinery	577	587	374	295	–	3	951	885
Office and operating equipment	1,643	1,932	3,420	3,797	9	29	5,072	5,758
Total	**2,693**	**3,071**	**4,426**	**5,496**	**587**	**704**	**7,706**	**9,271**

(11) Goodwill and other intangible assets

Intangible assets developed as follows during the 2011 financial year:

DEVELOPMENTS 2011

		Other intangible assets						
€ THOUSAND	Goodwill	Concessions, industrial property rights, etc.	Software	Licences/ franchises	Patents, copyrights	Advance payments/in development	Subtotal	**Total**
Acquisition and production costs								
Status as of 1/1/2011	47,664	1,005	7,287	3,324	263	211	12,090	59,754
Currency fluctuations	28	–	6	2	–1	–	7	35
Additions	–	138	977	256	–	211	1,582	1,582
Disposals	–	–	–	–	–	–	–	–
Transfers	–	–	218	23	–	–51	190	190
Status as of 31/12/2011	**47,692**	**1,143**	**8,488**	**3,605**	**262**	**371**	**13,869**	**61,561**
Cumulative depreciation								
Status as of 1/1/2011	12,282	955	5,182	1,639	263	15	8,054	20,336
Currency fluctuations	–	–	6	5	–1	–	10	10
Additions	–	52	1,314	169	–	7	1,542	1,542
Disposals	–	–	–	–	–	–	–	–
Status as of 31/12/2011	**12,282**	**1,007**	**6,502**	**1,813**	**262**	**22**	**9,606**	**21,888**
Carrying amounts								
Status as of 31/12/2011	35,410	136	1,986	1,792	–	349	4,263	39,673
Status as of 31/12/2010	35,382	50	2,105	1,685	–	196	4,036	39,418

Intangible assets developed as follows during the 2010 financial year:

DEVELOPMENTS 2010

		Other intangible assets						
€ THOUSAND	Goodwill	Concessions, industrial property rights, etc.	Software	Licences/ franchises	Patents, copyrights	Advance payments/in development	Subtotal	Total
Acquisition and production costs								
Status as of 1/1/2010	47,431	1,030	6,435	2,131	218	180	9,994	57,425
Currency fluctuations	233	–	–	93	45	–	147	380
Additions	–	29	841	1,097	–	56	2,023	2,023
Disposals	–	–54	–	–	–	–	–54	–54
Transfers	–	–	2	3	–	–25	–20	–20
Status as of 31/12/2010	**47,664**	**1,005**	**7,287**	**3,324**	**263**	**211**	**12,090**	**59,754**
Cumulative depreciation								
Status as of 1/1/2010	12,282	895	4,119	1,520	218	8	6,760	19,042
Currency fluctuations	–	–	6	4	45	–	55	55
Additions	–	82	1,057	115	–	7	1,261	1,261
Disposals	–	–22	–	–	–	–	–22	–22
Status as of 31/12/2010	**12,282**	**955**	**5,182**	**1,639**	**263**	**15**	**8,054**	**20,336**
Carrying amounts								
Status as of 31/12/2010	35,382	50	2,105	1,685	–	196	4,036	39,418
Status as of 31/12/2009	35,149	135	2,316	611	–	172	3,234	38,383

GOODWILL

The goodwill item is composed as follows:

€ THOUSAND			
Reporting segment	**Cash generating unit (CGU)**	**31/12/2011**	31/12/2010
Chemical-Pharmaceutical Raw Materials Domestic	CGU Salzbergen	16,738	16,738
Chemical-Pharmaceutical Raw Materials Domestic	CGU H&R Ölwerke Schindler GmbH	3,077	3,077
Chemical-Pharmaceutical Raw Materials International	CGU H&R ChemPharm (UK)	282	282
Chemical-Pharmaceutical Raw Materials International	CGU Asien	428	429
Chemical-Pharmaceutical Raw Materials International	CGU Australien	921	892
Chemical-Pharmaceutical Raw Materials International	CGU Südafrika	13,964	13,964
Total		**35,410**	**35,382**

As a result of foreign exchange rate effects, there was a €28 thousand increase in the carrying amount of goodwill.

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 Group. This plan covers a three-year horizon. For the subsequent time frames, the cash flow has been extrapolated using aprojected 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.

A crude oil price of US$110 per barrel (Brent) was used for planning purposes. In addition, we assumed that the price delta for a large number of end products will remain stable during all three planning years.

The average cost of capital, which is calculated based on market data, is used to discount the cash flows. The discount interest rates applied after tax are 5.8% (previous year: 6.9%) for the Chemical-Pharmaceutical Raw Materials Domestic Segment, and between 5.7% and 9.9% (previous year: 7.6% and 12.3%) for the Chemical-Pharmaceutical Raw Materials International Segment. These correspond to pre-tax discount interest rates of 7.7% (previous year: 9.3%) for the Chemical-Pharmaceutical Raw Materials Domestic Segment and 7.6% to 13.5% (previous year: 10.7% to 16.7%) for the Chemical-Pharmaceutical Raw Materials International Segment. Differences in the cost of capital of the individual cash-generating units particularly result from differing assumptions and estimates when it comes to country-specific risks, credit risks as well as price infl ation in the countries where cash-generating units are based.

As the recoverable amount was already higher than the book value, there was no impairment on goodwill at any of the cash-generating units.

OTHER INTANGIBLE ASSETS

Other intangible assets largely consist of production and application software as well as production, control and processing licences. Furthermore, expenses incurred in connection with the registration of products under the EU chemical regulation REACH were capitalised as intangible assets.

Additions in 2011 relate mainly to the purchase of production and control software for the propane deasphalting plant (PDP) that went into production at the Hamburg site in 2011.

(12) Investments in associates

The reported shares represent the 50% share of the joint venture Westfalen Chemie GmbH & Co. KG with its partner company Westfalen Chemie Verwaltungsgesellschaft mbH. Westfalen operates a hydrogen production and filling plant at the Salzbergen facility.

The following financial information represents the 50%-share of the Group of the joint venture:

€ THOUSAND	31/12/2011	31/12/2010
Assets		
Non-current assets	58	68
Current assets	228	244
Liabilities		
Non-current liabilities	–	–
Current liabilities	572	757
Net assets	**–286**	**–445**
Income	1,100	1,192
Expenses	–811	–932
Income after tax	**289**	**260**

(13) Deferred taxes

The composition of the deferred tax assets formed for value differences in the balance sheets is portrayed in Note (32) "Income taxes".

(14) Liabilities to banks

Liabilities to bank are composed as follows:

€ THOUSAND	Book value 31/12/2011	Residual term up to 1 year	Residual term 2013 to 2016	after 2017
Borrower's note loan	117,371	–	64,714	52,657
Other loans	86,235	12,510	42,542	31,183
Total	**203,606**	**12,510**	**107,256**	**83,840**
of which secured	15,183			

€ THOUSAND	Book value 31/12/2010	Residual term up to 1 year	Residual term 2012 to 2015	after 2016
Syndicated loan	86,023	1,398	84,625	–
Other loans	39,685	5,673	23,875	10,137
Other financial liabilities to banks	95	95	–	–
Total	**125,803**	**7,166**	**108,500**	**10,137**
of which secured	354			

NEW FINANCE STRUCTURE

H&R AG had taken out a syndicated loan for €300.0 million with a syndicate of eleven banks, lead managed by DZ BANK AG, HSH Nordbank AG and WestLB AG.

In November 2011 the financing of H&R AG was rearranged and the aforementioned syndicated loan was replaced by a borrower's note loan with a total volume of €150.0 million and a syndicated loan of up to €150.00 million.

BORROWER'S NOTE LOANS

The company has taken out borrower's note loans which each have two tranches with terms of five and seven years respectively and one of ten years. One tranche of €45.0 million with a term of five years and one of €35.0 million with a term of seven years are at floating interest rates based on six-month EURIBOR plus a lending margin, whereas the other tranches are at fixed interest rates of 3.64% to 5%. The interest rate risk on the floating rate tranches of €80.0 million in total has been hedged by means

of an interest rate swap. The terms and termination rights depend on certain conditions being met and on financial covenants relating to gearing and equity ratio. The holders of the borrower's note loans have a termination right in the event of a change of control. One tranche of €31.0 million is shown under other financial liabilities as it is not held by banks but by other institutional investors.

SYNDICATED LOAN

The syndicated loan of €150.0 million taken out as part of the new financing structure has a term of five years and can be drawn down as a revolving credit facility depending on various conditions being met. The company has the option to increase the total facility by €30.0 million. The lenders have a termination right in the event of a change of control.

Availability and terms are subject to various financial covenants. If one of the covenants are broken, the banks are entitled to call in the syndicated loan.

The syndicated loan is at a floating rate of interest (EURIBOR + margin). How high the margin is depends on certain financial covenants (net debt/EBITDA). The rate is adjusted after each quarterly and annual report has been submitted.

Apart from payment guarantees for deliveries of raw materials the syndicated loan had not been drawn down as of the reporting date.

OTHER LOANS

The other loans bear interest at fixed or variable rates depending on EURIBOR and LIBOR. The fixed interest rates are between 3.50% and 5.77% p. a.

CURRENCY

The majority of these loans were made in €.

COLLATERAL

One loan within the Plastics Division with a carrying amount of €183 thousand (previous year: €354 thousand) was secured as of 31 December 2011 by a land charge. The non-current portion of this loan is €0 thousand (previous year: €174 thousand). The land charge is for €2.6 million and the carrying amount of the assets subject to the land charge is €2.3 million as of 31 December 2011 (previous year: €2.5 million).

Items of property, plant and equipment held at €15 million have been assigned as collateral for loans under the KfW environmental programme originally totalling €20 million.

No collateral has been provided for the syndicated loan agreement or the borrower's note loans.

(15) Trade accounts payable

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

(16) Provisions

€ THOUSAND	Personnel provisions	Environmental protection	Restructuring	Other provisions	Total
Status as of 1/1/2011	17,232	3,815	139	4,161	25,347
of which long-term	3,955	3,152	–	–	7,107
Compoundings	46	36	–	–	82
Currency fluctuations	12	–	–	–4	8
Used	–11,832	–683	–44	–2,017	–14,576
Released	–1,229	–36	–65	–992	–2,322
Additions	9,832	–	–	1,901	11,733
Status as of 31/12/2011	**14,061**	**3,132**	**30**	**3,049**	20,272
of which long-term	4,091	2,008	–	1,052	7,151

(16.1) Personnel provisions

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

Long-term personnel provisions encompass part-time working regulations for older employees and anniversaries.

(16.2) Environmental protection

Subsoil contaminated with harmful substances used in explosives production was already discovered 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. The development of the concentration of pollutants in the surface water and the groundwater is measured regularly in coordination with local authorities. The Explosives Division was sold in 2007, while the land has not been transferred to the party acquiring the division, but has been leased for use by the explosives company operating there within the framework of a lease agreement.

SYTHENGRUND commissioned further investigations of the contamination status. This investigation found that the pollutants were unable to be removed by current technology. The company is therefore focusing its ongoing measures on monitoring and securing the pollutants and supporting research projects into developing more advanced chemical/physical treatment methods. The planned sand extraction project has no infl uence on the brownfield site as this would not change the direction of propagation of the pollutants in the groundwater.

The anticipated expenses for carrying out the necessary activities were calculated based on the calculations of an expert and amounted to €1.1 million. This effect was recognised in the annual report.

The remaining amount is due to legal obligations arising from the directive concerning systems for handling substances harmful to the water supply and specialised plants (VAwS).

(16.3) Provisions for restructuring

The management of GAUDLITZ GmbH, which is encompassed in H&R Group's plastics activities, has agreed with the Works Council in 1st quarter 2010 upon a reconciliation of interests and a social plan, that contains severance payments and costs of a transfer company in particular. The transfer company was closed on 30 April 2011.

(16.4) Other provisions

Other provisions mainly include provisions for complaints and guarantees, price reductions and rebates and provisions for waste disposal.

(17) Other financial liabilities

	31/12/2011		31/12/2010	
€ THOUSAND	**Total**	**of which long-term**	Total	of which long-term
Borrower's note loan	31,000	31,000	–	–
Liabilities due to leasing	2,160	1,715	2,833	2,138
Liabilities against suppliers due to import turnover tax	–	–	5,605	–
Liabilities from financial derivatives	7,922	4,839	1,877	1,440
Other financial liabilities	2,081	27	4,323	263
Total	**43,223**	**37,581**	**14,638**	**3,841**

Leasing liabilities stem from finance lease agreements. Further information on finance leases is available in Note (10) Fixed assets.

Other financial assets include derivatives, which are explained separately under Note (36) "Reporting of financial instruments".

Liabilities due to borrower's loan notes were accepted within the new concept of financing in November 2011. Further details can be found under Note (14).

(18) Other liabilities

€ THOUSAND	31/12/2011 Total	31/12/2011 of which long-term	31/12/2010 Total	31/12/2010 of which long-term
Deferred investment subsidy	–	–	2,688	2,538
Liabilities due to other taxes	12,464	–	6,436	–
Deferred income	171	132	207	169
Other liabilities	921	–	1,092	169
Total	**13,556**	**132**	**10,423**	**2,876**

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.

Tax liabilities relate mainly to current VAT, wage tax liabilities and liabilities on turnover tax on imports.

The item prepaid expenses and deferred charges contains 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 is taken on a pro rata basis over time in accordance with the particular useful life of the subsidised assets.

(19) 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	31/12/2011	31/12/2010
H&R Ölwerke Schindler GmbH, Hamburg	28,759	27,875
SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH, Haltern	6,090	6,441
H&R ChemPharm GmbH, Salzbergen	4,344	4,424
GAUDLITZ GmbH, Coburg	4,446	4,534
H&R AG, Salzbergen	4,175	3,842
Other companies	2,879	2,822
Total	**50,693**	**49,938**

The present H&R AG was formed from the merger of Schmierstoffraffinerie Salzbergen GmbH (SRS GmbH) and H&R 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 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 effective 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 2011:

€ THOUSAND	31/12/2011	31/12/2010
Group 1	19,001	17,701
Group 3	9,758	10,174

H&R Ölwerke Schindler has not only assumed pension obligations for employees of the company with entitlements (so-called 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, so-called 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 (so-called 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 €7,755 thousand. 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 €9,758 thousand, which also arose as part of the takeover of the specialty products business [see Note (8)]. The balancing receivable of €2,003 thousand 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% 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	2011	2010
Status as of 1/1	49,938	48,844
Additions	3,591	2,866
Released/used	–2,958	–3,148
Neutral addition	437	1,376
Offsetted plan assets	–315	–
Status as of 31/12	**50,693**	**49,938**
of which not financed via a fund	50,693	49,938

Payments totalling €3,301 thousand (previous year: €3,133 thousand) are anticipated for this financial year.

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

€ THOUSAND	2011	2010	2009	2008	2007
Present value	56,862	56,458	49,995	50,438	47,458
Unrealised actuarial gains and losses	–6,348	–6,505	1,129	–2,192	856
Past service cost	494	–15	–22	–29	–36
Offsetted plan assets	–315	–	–	–	–
Provision	**50,693**	**49,938**	**48,844**	**48,217**	**48,278**

The offsetted plan assets are related to a reassurance police for a guaranteed pension of a member of the board, that is recognized at fair value.

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

€ THOUSAND	31/12/2011	31/12/2010
Current service cost	769	660
Past service cost	508	7
Acturial gains/losses	147	–35
Interest cost	2,638	2,753
Changes in reimbursement rights	–471	–519
Addition (total)	**3,591**	**2,866**

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:

	31/12/2011	31/12/2010
Interest rate	4.90 %	4.80 %
Payment trend	0.0%/0.6% 4.0%	0.0%/0.6% 4.0%
Pensions trend	0.0 %/ 2.0 %	0.0%/ 2.0%
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	2011	2010
Present value of the obligation as of 1/1	56,458	49,995
Current service cost	769	660
Increase/decrease of staff	–	–383
Interest expense relating to the obligation	2,639	2,753
Current pension payments	–2,958	–2,792
Actuarial gains/losses	–46	6,225
Present value of the obligation as of 31/12	**56,862**	**56,458**

An experience-related adjustment to the present value of the pension obligations amounting to €846 thousand was undertaken in the reporting year (2010: €283 thousand, 2009: €–601 thousand, 2008: €–605 thousand, 2007: €–711 thousand).

(20) Subscribed capital

Subscribed capital of H&R AG is set up as follows:

	T€	Shares	For issue by
Subscribed capital			
Ordinary shares	76,625	29,973,112	
Approved capital			
Approved capital 2007	34,000	13,299,644	18/7/2012
Approved capital 2011	1,000	391,166	30/5/2016

CONDITIONAL CAPITAL

The authorised issued share capital has been conditionally increased by up to €7,500 thousand 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 convertible bonds and/or option bonds were issued by the deadline in June 2011, so the contingent capital increase was not carried out.

APPROVED CAPITAL

By a decision of the Annual Shareholders' Meeting of 31 May 2011, 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 30 May 2016, may total up to €1,000 thousand in volume, and must be for purposes of distributing employee shares to the personnel of the Group and/or its affiliated companies (approved capital 2011). 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.

AUTHORISATION TO PURCHASE OWN SHARES

The company's Annual Shareholders' Meeting on 27 May 2010 authorised the purchase of the company's own shares up to a total of 10% of the current share capital in the period up to 26 May 2015. Purchasing own shares with the intention of trading these is not permitted. The purchase amount for these shares must not be 10% higher or lower than the average share price closing price of H&R AG share on the Frankfurt Stock Exchange) on the last five days of trading before the sharesare purchased.

The company did not purchase any own shares in 2011.

(21) Capital reserve

The capital reserve of €2,823 thousand results from the merger of Schmierstoffraffinerie Salzbergen GmbH with WASAG-CHEMIE AG in 2001. The amount is composed of a sum of €21,972 thousand (Article 272 Paragraph 2 Number 1 HGB) minus withdrawals of €19,149 thousand (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 on 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 contained the right of a minimum dividend, which was reported as liability in accordance with IAS 32. This liability of €2.2 million was derecognised in 2008 without effect on profit and loss. So the issue of preference shares amounted to an addition to capital reserves of €12,305 thousand.

(22) Revaluation surplus

Revaluation surplus contains reserves for securities with a market value of €70 thousand (previous year: €70 thousand) and for cash flow hedges totalling €–3,821 thousand (previous year: €–677 thousand). Expenses after tax recognized outside profit and loss are related to reserves from cash flow hedges of €3,144 thousand (previous year: €344 thousand) and to the reserve for fair value measurement of securities of €0,0 thousand (previous year: income of €13 thousand).

(23) Retained earnings incl. net income

Retained earnings incl. net income amounted at reporting date to €144,564 thousand (previous year: €125,501 thousand). The most significant part thereof belongs to cumulated retained eanings of €142,081 thousand (previous year: €123,018 thousand).

The Annual Shareholders' Meeting of 31 May 2011 decided to allocate retained earnings from financial year 2010 to a dividend distribution of €0.65 per ordinary share. For a total of 29,973,112 dividend-bearing ordinary shares, this resulted in a payment of €19,483 thousand.

PROPOSAL FOR THE APPROPRIATION OF EARNINGS

The Executive Board and the Supervisory Board of H&R AG are proposing to the Annual Shareholders' Meeting that €17,984 thousand of the total retained earnings of H&R AG which results from the withdrawal from reserves should be distributed in the form of a dividend. This corresponds to a dividend of €0.60 per share.

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

(24) Non-controlling interests

Non-controlling interests include shares of earnings and capital held by third-party shareholders.

€ THOUSAND	**2011**	2010
Status as of 1/1	3	421
Capital increase of subsidiaries	42	–
Acquisition of non-controlling interests	–	–196
Currency conversion	0	54
Dividends	–20	–276
Share of results	–71	0
Status as of 31/12	**–46**	**3**

Explanatory notes on the consolidated income statement

(25) Research and development costs

In 2011, research and development activities in the Chemical-Pharmaceuticals Division focused on optimising 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 relating to the increased implementation of plastic components in various sectors.

Expenses incurred in 2011 for research and development amounted to €2,117 thousand (2010: €1,783 thousand). For further information regarding costs for research and development we refer to the chapter in the management report.

(26) 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 (34)].

(27) Other operating income

€ THOUSAND	2011	2010
Exchange rate gains from foreign currency items	10,007	10,823
Income from passing on costs	2,533	2,934
Income from services	2,766	2,289
Internally produced and capitalised assets	706	998
Income from release of provisions	1,676	444
Income from rents and leases	520	578
Income from commissions	516	473
Others	2,315	2,804
Total	**21,039**	**21,343**

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.

(28) Material costs

€ THOUSAND	2011	2010
Raw materials	862,066	673,778
Supplies	18,775	19,012
Trade goods	69,312	86,052
Expenditure for raw, auxiliary and operating materials and for purchased goods	**950,153**	**778,842**
Energy costs	36,247	33,352
Other outside services	922	621
Total expenditure on purchased services	**37,169**	**33,973**
Total	**987,322**	**812,815**

(29) Personnel expenses

€ THOUSAND	2011	2010
Wages and salaries	64,850	63,833
Social security payments	9,473	9,176
Defined benefit plan expenses	991	596
Defined contribution plan expenses	834	440
Other social expenses	76	406
Total	**76,224**	**74,451**

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

€ THOUSAND	2011	2010
Commercial personnel	621	605
Salaried employees	529	506
Employees on fixed-term contracts	189	164
Trainees	78	74
Total	**1,417**	**1,349**

(30) Other operating expenses

€ THOUSAND	2011	2010
Freight costs, dispatch systems and other distribution costs	21,591	22,655
Third-party repairs and maintenance	15,074	15,331
Third-party goods and services	16,465	15,272
Loss from foreign currency translation	10,433	10,500
Rents and leases	7,576	6,867
Insurance premiums, fees and contributions	5,580	5,386
Commissions	4,427	4,388
Other personnel costs	4,872	4,520
Legal and consultancy costs, costs for year-end accounts and shareholders' meeting	3,274	3,725
Costs passed on	2,455	3,001
IT costs	2,528	2,574
Leasing costs	2,436	2,182
Travel expenses	1,562	1,538
Waste disposal	1,335	1,050
Slop volumes	712	937
Others	6,858	8,150
Total	**107,177**	**108,076**

(31) Net interest result

€ THOUSAND	2011	2010
Interest income from short-term bank deposits	310	361
Income from loans	76	60
Income from compounding non-interest-bearing long-term loans	370	352
Other interest and similar income	41	157
Interest income	**797**	**930**
Interest expense relating to loan interest	–5,556	–3,395
Interest expense from the compounding of pension provisions	–2,639	–2,753
Interest expense from compounding arising from long-term liabilities	–141	–921
Interest expenses due to factoring	–154	–208
Interest expenses from derivatives	–2,830	–1,238
Other interest and similar income	–1,731	–812
Interest expense	**–13,051**	**–9,327**
Net interest result	**–12,254**	**–8,397**

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

€ THOUSAND	2011	2010
Loans and Receivables (LaR)	423	897
Held-to-Maturity Investments (HtM)	–	–
Financial Assets Available for Sale (AfS)	–	–
Financial Instruments Held for Trading (FAHfT und FLHfT)	–2,827	–
Financial Liabilities Measured at Amortised Costs (FLAC)	–6,918	–4,416

(32) 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	2011	2010
Income tax expense for the current year	17,296	19,289
Income tax expenses for the previous years	45	–4
Deferred taxes	1,276	2,299
Total	**15,975**	**21,584**

Since 1 January 2009, 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 12.48%, this amounts to a combined income tax rate in Germany of 28.31% for the Group (2010 28.31%).

Income tax rates for companies abroad are between 15% and 30%.

The decrease of income tax espenses is reflected by the decrease of income tax liabilities of €6,355 thousand.

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 €5,248 thousand (previous year: €5,426 thousand) and trade tax losses carried forward of €93 thousand (previous year: €76 thousand), 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.

Deferred tax liabilites were not recognized for temporary differences on €3,172 thousand (previous year: €2,791 thousand)of retained earnings of subsidiaries and associates because the H&R Group is able to control the timing of the difference reversal and the temporary differences will not reverse in the forseeable future. Deferred tax liabilites were not recognized for planned dividends because the amounts are not material.

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

€ THOUSAND	2011	2010
Pre-tax earnings	**54,450**	**73,604**
Expected tax expenditure 28.31% (2010: 28.31%)	**15,414**	**20,837**
Effects from tax rate differences of German and foreign sovereignties	104	70
Adjustment of deferred taxes due to tax rate changes in Germany	–	–35
Previous years' taxes	45	–4
Reduction in tax due to netting off with tax loss carry forwards	–	–30
Non-capitalised deferred taxes on losses	–	253
Non-deductible operating expenses	1,092	578
Tax-free income	–664	–81
Catch-up on previous years' deferred taxes	–1	108
Tax expenditure from allocation of income from partnerships to joint-stock company	–	–
Other	–15	–112
Actual tax expenditure	**15,975**	**21,584**

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

	31/12/2011		31/12/2010	
€ THOUSAND	**Deferred tax assets**	**Deferred tax liabilities**	Deferred tax assets	Deferred tax liabilities
Intangible assets	1,857	3,636	2,397	3,744
Fixed assets	441	6,215	459	5,674
Financial assets	53	49	66	253
Inventories	1,230	582	872	89
Receivables and other assets	307	674	324	925
Pension provisions	922	1	2,215	–
Other provisions	1,788	68	809	63
Liabilities	2,264	748	307	189
Carried forward tax losses	39	–	389	–
Balancing	**8,901**	**11,973**	**7,838**	**10,937**
of which long-term	6,810	10,582	4,271	9,300
Netting	–3,089	–3,089	–2,754	–2,754
Total	**5,812**	**8,884**	**5,084**	**8,183**

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 1/1/2011	5,084	8,183
Release/addition	–411	1,000
Neutral expense in equity	1,131	–245
Currency conversion	8	–54
Status as of 31/12/2011	**5,812**	**8,884**

(33) Earnings per share

€ THOUSAND	**2011**	2010
Net profit/loss to shareholders in thousand €	38,546	52,020
Ordinary shares	29,973,112	29,973,112
Earnings per share undiluted in €	1.29	1.74
Earnings per share diluted in €	1.29	1.74

Potential diluting effects could arise from the conditional and approved capital reported under Note (20) “Subscribed capital”. The total amount of earnings per share is related to the continuing business.

Additional notes

(34) Segment reporting

Pursuant to IFRS 8, the operating segments were determined by identifying the individual divisions whose performance is monitored in the context of internal reporting as a basis for management decisions.

The summary listing of the operating segments subject to separate, internal reporting is performed in accordance with IFRS 8.12, which stipulates that all of the following must be comparable within each segment (division): the nature of products and services; the types of production processes; the class or category of customers for products and services; the methods used to market products and services.

The Chemical-Pharmaceutical Raw Materials Domestic Division includes both chemical production locations in Germany, where lubricant refining takes place and where the production processes as well as the organisational and distribution structures are closely interlinked. This segment's main products are paraffins, white oils, plasticisers, base oils, lubricants and other crude oil-based specialty products.

The Chemical-Pharmaceutical Raw Materials International Division meanwhile comprises foreign companies involved in the processing of chemical-pharmaceutical raw materials and in the distribution of related products and merchandise. This mainly relates to paraffins, plasticisers, wax emulsions and other crude oil-based specialty products.

The Plastic Division comprises the development, production and sales of highly precise parts of plastics using the injection moulding method.

"Other activities" are those associated with non-operating companies as well as divisions exempt from mandatory reporting. This includes H&R AG, which as a holding company is responsible for the strategic leadership of the Group companies organised in the various segments and decides on the efficient distribution of funds within the Group. In addition, the Other Activities segment generates income from IT services and renting land and buildings.

The list of shareholdings shows which division each group company belongs to.

The operating development of the segments is described in the management report as is further information on their products.

REMARKS CONCERNING SEGMENTAL DATA

Intercompany sales report the level of sales between the segments. 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 figure.

The consolidation column contains eliminations of all intercompany transactions as well as intra-divisional receivables and liabilities.

The valuation principles for H&R AG's segmental reporting are based on the IFRS guidelines applied in the consolidated financial statements.

The geographical distribution of external sales is calculated according to the locations of the respective customers. The assets and investments are assigned on the basis of the domicile of the company in the regions.

€ THOUSAND	Chemical-Pharmaceutical Raw Materials Domestic 2011	2010	Chemical-Pharmaceutical Raw Materials International 2011	2010
External sales	907,323	784,228	249,583	229,784
Intercompany sales	35,852	23,843	40	7
Sales by segment	943,175	808,071	249,623	229,791
Depreciation	–15,934	–16,515	–1,749	–1,509
of which unscheduled	–	–942	–	–
Interest income	135	384	688	710
Interest expenses	–9,304	–6,819	–1,835	–1,560
Result of at-equity reported shareholdings	289	260	–	–
Pre-tax earnings	46,152	63,731	16,140	18,322
EBIT	55,321	70,166	17,287	19,172
EBITDA	71,255	86,681	19,036	20,681
Assets	442,518	382,112	94,757	93,419
Debts	60,906	75,287	24,940	27,825
Investments	37,910	33,339	1,349	3,473
Shares in associated companies	777	487	–	–

H&R AG generated sales of €388.3 million with one customer in the Chemical-Pharmaceutical Raw Materials Domestic Segment (previous year: €337.6 million).

GEOGRAPHICAL INFORMATION

€ THOUSAND	Assets long-term 31/12/2011	31/12/2010	External sales 2011	2010
Germany	210,865	190,641	795,366	687,999
Rest of Europe	8,470	8,469	209,571	177,744
Rest of world	27,205	28,100	204,597	191,024
Total	**246,540**	**227,210**	**1,209,534**	**1,056,767**

RECONCILIATION FROM OPERATING RESULT OF SEGMENTS TO INCOME AFTER TAX

€ THOUSAND	31/12/2011	31/12/2010
Operating result of segments (EBITDA)	88,793	104,492
Reconciliation	348	–1,124
Operating result of H&R AG (EBITDA)	**89,141**	**103,368**
Depreciation	–21,022	–21,367
Financial result	–13,669	–8,397
Income tax	–15,975	–21,584
Income after tax	**38,475**	**52,020**

	Plastics		Other activities		Reconciliation		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	52,628	42,755	–	–	–	–	1,209,534	1,056,767
	–	–	–	–	–35,892	–23,850	–	–
	52,628	42,755	–	–	–35,892	–23,850	1,209,534	1,056,767
	–1,990	–2,202	–1,349	–1,141	–	–	–21,022	–21,367
	–	–	–	–	–	–	–	–942
	14	6	8,414	5,972	–8,454	–6,142	797	930
	–859	–710	–9,508	–6,378	8,455	6,140	–13,051	–9,327
	–	–	–	–	–	–	289	260
	–469	–3,234	–7,722	–4,089	349	–1,126	54,450	73,604
	349	–2,530	–5,186	–3,683	348	–1,124	68,119	82,001
	2,339	–328	–3,837	–2,542	348	–1,124	89,141	103,368
	35,253	28,946	13,191	13,848	49,440	14,035	635,160	532,360
	8,022	7,555	45,663	19,795	254,488	175,460	394,019	305,992
	1,418	1,575	452	930	–	–	41,129	39,317
	–	–	–	–	–	–	777	487

(35) 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, 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. Cash flow from operating activities is calculated using 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.

(36) Reporting of financial instruments

The financial instruments include both original and derivative financial instruments.

The original financial instruments primarily comprise other financial investments, receivables, short-term securities and cash and cash equivalents on the assets side. 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 mainly contain 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. If 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 fair value as of the reporting date. The reported market value was €905 thousand (previous year: €905 thousand)

As an international company, H&R Group is exposed in the course of its ordinary business activities to risks from raw material prices, currency fl uctuations and interest rate changes. These risks are limited through systematic risk management and are offset by measures such 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 are 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 interestrate risks from long-term liabilities.

These derivatives are recognised when the related contracts are concluded. They are reported on the balance sheet in “Other assets”. Derivative financial instruments are reported at fair value irrespective of their purpose. The calculation is based on information from banks on the fair value of the derivatives as of the reporting date.

If the derivative serves effective hedging purposes, a fair value modification of these cash fl ow hedges is reported in equity without any impact on earnings 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 2011 and 31 December 2010. They are distinguished according to whether or not they are part of an effective hedging relationship as per IAS 39 (fair-value hedge, cash flow hedge or net investment hedge).

2011

	Nominal value		Currency	Maturity	Book values 31/12/2011 thousand €
Cash flow Hedges					
Interest rate swap	thousand US$	233	US$	to 2012	–5
Interest rate swap	thousand €	40,000	€	to 2016	–2,865
Interest rate swap	thousand €	40,000	€	to 2018	–2,979

2011

	Nominal value		Currency	Maturity	Book values 31/12/2011 thousand €
Freistehende Derivate					
Gas price swap	kWH	150 Mio.	€	to 2012	–591
Gas price swap	kWH	150 Mio.	€	to 2012	–591
Currency forward	TMYR	2,500	MYR	to 2013	–19
Interest rate swap	thousand €	10,000	€	to 2014	–433
Interest rate swap	thousand €	5,000	€	to 2014	–219
Interest rate swap	thousand €	5,000	€	to 2014	–222

2010

	Nominal value		Currency	Maturity	Book values amounts 31/12/2010 thousand €
Cash flow Hedges					
Gas price swap	kWH	240 million	€	to 2011	864
Interest rate swap	thousand US$	470	US$	to 2012	–17
Interest rate swap	thousand €	10,000	€	to 2014	–336
Interest rate swap	thousand €	10,000	€	to 2014	–333
Interest rate swap	thousand €	10,000	€	to 2014	–325
Interest rate swap	thousand €	10,000	€	to 2014	–332
Interest rate swap	thousand €	10,000	€	to 2014	–230
Interest rate swap	thousand €	5,000	€	to 2014	–125
Interest rate swap	thousand €	5,000	€	to 2014	–123

In the 2011 financial year the reorganisation of the financing structure of the H&R Group meant that the hedging relationship for interest rate swaps previously held as cash flow hedges no longer existed. Some of the transactions were therefore unwound, which resulted in expenses of €2,019 thousand. Three remaining swaps were recognised as of the reporting date as stand-alone derivatives at fair value through profit or loss. Expenses of €478 were incurred when transactions still recognised in the statement of comprehensive income were reclassified to the income statement. Similarly, the corresponding deferred taxes of €135 thousand were recognised as tax income and no longer in the statement of comprehensive income. Interest rate swaps maturing in 2016 and 2018 were purchased for the floating rate tranches of the borrower's note loan. The effective portion of these is accounted for without effect on income as a cash flow hedge.

In the 2011 financial year the net loss on financial instruments held at fair value through profit or loss came to €2,075 thousand. The ineffective portion of cash flow hedges recognised in the income statement came to €–530 thousand. In the previous year no financial instruments measured at fair value through profit or loss were used. No reclassifications were made from equity to a non-financial asset or non-financial liability.

MATURITY ANALYSIS

The H&R 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:

2011

€ THOUSAND	Carrying amount	Cash flows 2012		Cash flows 2013	
		Interests	Redemption	Interests	Redemption
Trade accounts payable	51,848	–	51,848	–	–
Bank borrowing	203,606	7,833	12,510	7,283	14,804
Finance lease liabilities	2,160	3	445	2	458
Liabilities from derivatives that do not qualify for hedge accounting	2,451	–	1,744	–	450
Liabilities from derivatives that do qualify for hedge accounting	5,471	–	1,339	–	1,502
Other liabilities	33,141	1,550	2,114	1,551	12

2011

€ THOUSAND	Cash flows 2014–2016		Cash flows 2017–2021		Cash flows 2022f.	
	Interests	Redemption	Interests	Redemption	Interests	Redemption
Trade accounts payable	–	–	–	–	–	–
Bank borrowing	18,830	92,229	6,554	84,063	–	–
Finance lease liabilities	2	1,257	–	–	–	–
Liabilities from derivatives that do not qualify for hedge accounting	–	257	–	–	–	–
Liabilities from derivatives that do qualify for hedge accounting	–	2,530	–	100	–	–
Other liabilities	4,651	13	7,621	31,002	–	–

2010

€ THOUSAND	Carrying amount	Cash flows 2011		Cash flows 2012	
		Interests	Redemption	Interests	Redemption
Trade accounts payable	63,298	–	63,298	–	–
Bank borrowing	125,803	3,002	7,166	3,177	9,167
Finance lease liabilities	2,833	122	695	97	450
Liabilities from derivatives that do qualify for hedge accounting	1,877	28	437	19	453
Other liabilities	9,928	–	9,665	–	261

2010

€ THOUSAND	Cash flows 2013–2015		Cash flows 2016–2020		Cash flows 2021f.	
	Interests	Redemption	Interests	Redemption	Interests	Redemption
Trade accounts payable	–	–	–	–	–	–
Bank borrowing	2,482	100,442	729	9,028	–	–
Finance lease liabilities	159	1,350	8	338	–	–
Liabilities from derivatives that do qualify for hedge accounting	13	987	–	–	–	–
Other liabilities	–	–	–	2	–	–

NET RESULTS BY VALUATION CATEGORY

The expenses, income, profits and losses arising from financial instruments can be broken down as follows.

€ THOUSAND	2011	2010
Loans and Receivables (LaR)	214	308
Held-to-Maturity Investments (HtM)	–	–
Financial Assets Available for Sale (AfS)	–	18
Financial Instruments Held for Trading (FAHfT und FLHfT)	–3,054	–36
Financial Liabilities Measured at Amortised Costs (FLAC)	–399	–43
Total	**–3,239**	**247**

For the presentation of market risks, IFRS 7 demands sensitivity analyses showing the impact of hypothetical changes in relevant risk variables on earnings 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 reporting date are documented below.

31/12/2011

		TUS$	TGBP	TZAR	TAUD	TTHB
Cash and cash equivalents	+	11,083	359	32,276	2,382	297,976
Trade accounts receivable	+	23,286	2,356	136,224	4,449	208,925
of which currency hedged	–	9,986	–	–	–	–
Trade accounts payable	–	11,142	2,527	61,575	990	217,741
Net exposure	**=**	**13,241**	**188**	**106,925**	**5,841**	**289,160**

31/12/2010

		TUS$	TGBP	TZAR	TAUD	TTHB
Cash and cash equivalents	+	2,830	1	19,915	3,978	193,803
Trade accounts receivable	+	15,196	10	79,802	4,246	182,383
of which currency hedged	–	–	–	–	–	–
Trade accounts payable	–	25,574	–	49,268	772	80,427
Net exposure	**=**	**–7,548**	**11**	**50,449**	**7,452**	**295,759**

For the currency risk, a sensitivity analysis is carried out using the US dollar as an example, as this is the most important foreign currency for the Group. The indirect quotation for the US dollar against the Euro stood at US$1.29/€ as of 31 December 2011, as against US$1.34/€ as of 31 December 2010. Assuming a realistic range of fl uctuation of +/–10% in the exchange rate on the reporting date, the impact in terms of profit (+) or loss (–) would be as follows:

	2011		2010	
€ THOUSAND	**US$ 1.18/€**	**US$ 1.44/€**	US$ 1.21/€	US$ 1.48/€
Impact (before taxes)	1,023	–1,023	–938	938

With regard to interest rate risk, a sensitivity analysis has been carried out for the variable interest loan (syndicated loan agreement). At the reporting date all loans based on variable interest are hedged against risk arising from changes in interest rates. Based on an outstanding balance of €25.0 million as of 31 December 2010 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 reporting date would led to a loss of €250 thousand or a profit of €250 thousand.

For the hedged loan amount, an increase of the EURIBOR of 100 basis points would have a positive effect on the revaluation surplus of €1,553 thousand (previous year: €128 thousand), whereas a decrease of the EURIBOR of 100 basis points would have a negative effect on the revaluation surplus of €1,553 thousand (previous year: €128 thousand).

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.

2011

			Balance sheet valuation acc. to IAS 39				
€ THOUSAND	Valuation category acc. to IAS 39	Book value	Historical acquisition and production costs	Fair value not affecting net income	Fair value affecting net income	Balance sheet valuation acc. to IAS 17	Fair value (for information)
Assets							
Cash and cash equivalent	LaR	53,097	53,097	–	–	–	53,097
Trade account receivables	LaR	118,634	118,634	–	–	–	118,634
Other financial assets							
Marketable securities	FAHfT	245	–	–	245	–	
Derivatives without hedging relationship	FAHfT	–	–	–	–	–	
Derivatives with hedging relationship		–	–	–	–	–	
Financial assets available for sale	AfS	906		906	–	–	
Other financial assets	LaR	5,860	5,860		–	–	5,860
Liabilities							
Trade accounts payable	FLAC	51,848	51,848	–	–	–	51,848
Bank borrowing	FLAC	203,606	203,606	–	–	–	207,859
Other financial liabilities							
Finance lease liabilities		2,160	–	–	–	2,160	
Derivative liabilities with hedging relationship		5,471	–	5,471	–	–	
Derivative liabilities without hedging relationship	FLHfT	2,451	–	–	2,451	–	
Other financial liabilities	FLAC	33,141	33,141	–	–	–	34,490
Loans and Receivables	LaR	177,591	177,591	–	–	–	
Held-to-Maturity Investments	HtM	–	–	–	–	–	
Financial Assets Available for Sale	AfS	906	–	906	–	–	
Financial Assets Held for Trading	FAHfT	245	–	–	245	–	
Financial Liabilities Measured at Amortised Costs	FLAC	288,595	288,595	–	–	–	
Financial Liabilities Held for Trading	FLHfT	2,451	–	–	2,451	–	

2010

			Balance sheet valuation acc. to IAS 39				
€ THOUSAND	Valuation category acc. to IAS 39	Book value	Historical acquisition and production costs	Fair value not affecting net income	Fair value affecting net income	Balance sheet valuation acc. to IAS 17	Fair value (for information)
Assets							
Cash and cash equivalent	LaR	17,842	17,842	–	–	–	17,842
Trade account receivables	LaR	93,246	93,246	–	–	–	93,246
Other financial assets							
Marketable securities	FAHfT	345	–	–	345	–	
Derivatives without hedging relationship	FAHfT	–	–	–	–	–	
Derivatives with hedging relationship		864	–	864	–	–	
Financial assets available for sale	AfS	906	–	906	–	–	
Other financial assets	LaR	10,043	10,043	–	–	–	10,043
Liabilities							
Trade accounts payable	FLAC	63,298	63,298	–	–	–	63,298
Bank borrowing	FLAC	125,803	125,803	–	–	–	125,803
Other financial liabilities					–	–	
Finance lease liabilities		2,834	–	–	–	2,834	
Derivative liabilities with hedging relationship		1,877	–	1,877	–	–	
Other financial liabilities	FLAC	9,927	9,927	–	–	–	9,927
Loans and Receivables	LaR	121,131	121,131	–	–	–	
Held-to-Maturity Investments	HtM	–	–	–	–	–	
Financial Assets Available for Sale	AfS	906	–	906	–	–	
Financial Assets Held for Trading	FAHfT	345	–	–	345	–	
Financial Liabilities Measured at Amortised Costs	FLAC	199,028	199,028	–	–	–	
Financial Liabilities Held for Trading	FLHfT	–	–	–	–	–	

The measurement of fair values on first level is based on quoted (non-adjusted) prices in active markets for similar assets or liabilities. If this is not applicable, second level measurement is based on comparable market transactions directly or indirectly observable in the market. The third level uses models to measure fair values by using parameters for measurement of assets and liabilities that are directly or indirectly observable in the market.

Financial instruments of H&R AG recognised at fair value are allocated to the levels as described before as follows:

	31/12/2011		
€ THOUSAND	Level 1	Level 2	Level 3
Assets			
Financial Assets Available for Sale	906	–	–
Financial Assets Held for Trading	245	–	–
Total	**1,151**	**–**	**–**
Liabilities			
Derivative liabilities with hedging relationship	–	5,471	–
Total	**–**	**5,471**	**–**

	31/12/2010		
€ THOUSAND	Level 1	Level 2	Level 3
Assets			
Financial Assets Available for Sale	906	–	–
Financial Assets Held for Trading	345	–	–
Derivative liabilities with hedging relationship	–	864	–
Total	**1,251**	**864**	**–**
Liabilities			
Derivative liabilities with hedging relationship	–	1,877	–
Total	**–**	**1,877**	**–**

Since trade account receivables and trade account payables, other financial assets and other financial liabilities as well as cash and cash equivalents generally have short-term maturities, their fair value will not deviate significantly from their carrying amount as of the reporting 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.

(37) Open commitments

Investment expenses for which contractual obligations exist on the reporting date but which have not yet been incurred amount to:

€ THOUSAND	31/12/2011	31/12/2010
Fixed assets	7,714	18,075
Intangible assets	80	57
Total	**7,794**	**18,132**

(38) Contingent liabilities

As of the balance sheet reporting date, the following contingent liabilities existed:

€ THOUSAND	31/12/2011	31/12/2010
Deposits for guarantees	1,187	1,187
Joint liability for pensions	110	160
Other contingent liabilities	2	2
Total	**1,299**	**1,349**

The outstanding liability contributions concern Westfalen Chemie GmbH & Co. KG.

Subsoil contaminated with harmful substances used in connection with explosives production was already discovered some time ago on a piece of land belonging to a Group company, which was used to produce explosive materials. Investigations found that the pollutants were unable to be removed using current technology. The company is therefore focusing its ongoing measures on monitoring and securing the pollutants and supporting research projects into developing more advanced chemical/physical treatment methods. Based on the estimations of an expert with regard to the necessary measures and their costs, a provision of €1.1 million is recognised. It is currently unclear if new methods will be developed in the future that allow a clean-up to take place and therefore cause further necessary expenses.

Part of the operating premises is rented. Clean-up obligations are required when the rental agreement is completed. Sinceclaims for compensation will arise vis-à-vis lessors if they give extraordinary notice of termination or if the long-term rental agreement is not extended, no outfl ow of resources is assumed and thus no provision has been provided for reinstatement commitments. This circumstance is monitored by the management regularly.

Claims for damages in connection with the fine under competition law. From 2005 onwards the European competition authority carried out investigations into possible collusive behaviour in the paraffin market between 1994 and 2005. In a ruling dated 1 October 2008, the Commission found various European wax manufacturers guilty of breaches of competition law. Companies in the Hansen & Rosenthal Group and H&R AG were fined a total of €36 million. H&R ChemPharm GmbH, which is part of the H&R Group, is jointly liable for €22 million of this amount. After a detailed examination of the grounds for the ruling, the companies lodged an appeal in December 2008, both against the reasoning and the amount of the fine. Notwithstanding the appeal, the sum of €22 million was paid in early 2009 in good time.

The ruling means that customers of H&R ChemPharm GmbH may press claims for damages. On the basis of its supposed involvement in the cartel, H&R ChemPharm GmbH has been included in litigation by three of the defendants in the course of claims for damages brought by candle manufacturers against members of the wax cartel before courts in England and the Netherlands. The amount of the purported damages and the legal basis for the claim have not been sufficiently substantiated to date. In light of the substantiated objections which were lodged in the appeal proceedings against the European Commission's penalty notice dated 1 October 2008, the Executive Board does not currently anticipate that a significant payment will be necessary. The Executive Board continues to monitor the course of the legal proceedings very closely by drawing on the experience and opinions of expert local lawyers.

(39) 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 (nominal amount):

€ THOUSAND	31/12/2011	31/12/2010
due within one year	15,804	11,447
due > 1 year and < 5 years	11,522	7,575
due > 5 years	25,235	743
Total	**52,561**	**19,765**

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, 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.

(40) Governance bodies of H&R AG

EXECUTIVE BOARD	Membership of supervisory or advisory boards
Niels H. Hansen Vorstand Vertrieb (until 31/12/2011) Chairman of the Executive Board (since 1/1/2012) Hamburg	Advisory board of H&R ChemPharm GmbH, Salzbergen (until 12/1/2012)
Gert Wendroth Chairman of the Executive Board (until 31/12/2011) Großhansdorf	Advisory board of WestLB, Düsseldorf
Luis Rauch Chief Financial Officer (since 1/1/2012) Hamburg	
Andreas Keil Chief Financial Officer (until 31/12/2011) Ahrensburg	Advisory board of HSH Nordbank AG, Hamburg
Detlev Wösten Deputy Chairman of the Executive Board (since 1/8/2011) Buchholz	

SUPERVISORY BOARD	Membership of supervisory or advisory boards
Bernd Günther Chairman of the Supervisory Board Chief Executive of Hamburger Getreide-Lagerhaus AG, Hamburg	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 Chairman of the Supervisory Board of MATERNUS-Kliniken AG, Berlin Member of the Supervisory Board of Real AG, Kelkheim Member of the Supervisory Board of Patrio Plus AG, Hamburg Member of the Supervisory Board of WCM Beteiligungs- und Grundbesitz AG, Frankfurt am Main
Roland Chmiel Deputy Chairman Board (until 31/5/2011) Auditor, Partner of Partnership Weiss-Walter-Fischer-Zernin, Munich	Member of the Supervisory Board of Togal Werk AG, Munich
Dr Rolf Schwedhelm Deputy Chairman (from 31/5/ to 1/11/2011) Tax lawyer and Partner of Partnership Streck Mack Schwedhelm, Cologne	Chairman of the Supervisory Board of German Lawyer Academy Society for Education and Training and Services mbH, Berlin
Nils Hansen Personally liable partner of the H&R Group, Hamburg	Member of the Supervisory Board of Otto M. Schröder Bank Aktiengesellschaft, Hamburg Advisory board of H&R ChemPharm GmbH, Salzbergen (until 12/1/2012)
Dr Joachim Girg (since 16/9/2011, Deputy Chairman since 1/11/2011) Managing director of H&R Beteiligung GmbH, Hamburg	Advisory board of H&R ChemPharm GmbH, Salzbergen (until 12/1/2012)
Volker Woyke (since 16/9/2011) Chartered engineer, Hamburg	

SUPERVISORY BOARD (EMPLOYEE REPRESENTATIVES)	
Reinhold Grothus Chairman of the Works Council H&R ChemPharm GmbH, Salzbergen	
Rainer Metzner Sales Manager – Medical Devices, Chairman of the Works Council, GAUDLITZ GmbH, Coburg	
Holger Hoff (since 16/9/2011) Chairman of the Works Council H&R Ölwerke Schindler GmbH, Hamburg	

(41) 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:

GOODS AND SERVICES	Provided to Hansen & Rosenthal		Received from Hansen & Rosenthal	
€ THOUSAND	**2011**	2010	**2011**	2010
Supplies of chemical pharmaceutical	388,349	337,562	9,093	12,079
of which Salzbergen	254,333	218,451	–	–
of which Hamburg	122,119	116,572	–	–
Incidental expenses from the supply relationship (freight costs, toll charges etc.)	170	173	7,122	7,350
Commission fees	621	600	2,796	2,537
Other services and third party costs (IT services, personnel costs etc.)	1,612	1,477	873	1,004

All companies of the majority shareholder Nils Hansen, including H&R Beteilungungs GmbH as the controlling company, are pooled under Hansen & Rosenthal (H&R).

Product deliveries for chemical-pharmaceutical products from the Salzbergen site are carried out in line with long-term distribution and delivery contracts after the relevant Hansen & Rosenthal company purchases the products and sells them to customers under their own names and for own account.

In addition, Hansen & Rosenthal receive a commission fee for deliveries from the Hamburg site included in a long-termcommission contract for marketing of certain products.

Hansen & Rosenthal Group also receives IT services as well as staff provision from H&R Group subsidiaries.

The following receivables and liabilities existed as of 31 December 2011:

	Receivables from Hansen & Rosenthal		Liabilities to Hansen & Rosenthal	
€ THOUSAND	**31/12/2011**	31/12/2010	**31/12/2011**	31/12/2010
Goods and services	28,894	23,149	929	1,474
Other services	5,575	6,376	23	36
Total	**34,469**	**29,525**	**952**	**1,510**

Trade account receivables from Hansen & Rosenthal are sold to banks as part of factoring agreements without recourse, meaning that the amount due is transferred shortly after the reporting date.

Other receivables mainly concern receivables from the commission business (€5,564 thousand, previous year: €6,369 thousand), where Hansen & Rosenthal, as commission agent, receives payments from customers and forwards them to H&R AG.

The following services were rendered for joint ventures, or utilised by them:

SERVICES	Provided to joint ventures		Received from joint ventures	
€ THOUSAND	**2011**	2010	**2011**	2010
Purchase of hydrogen and steam	–	–	1,539	1,483
Interest income	20	24	–	–
Rental income	41	41	–	–
Services	228	219	–	–
Total	**289**	**284**	**1,539**	**1,483**

The following receivables and liabilities existed as of 31 December 2011:

	Receivables from joint ventures		Liabilities to joint ventures	
€ THOUSAND	**31/12/2011**	31/12/2010	**31/12/2011**	31/12/2010
Goods and services	180	169	156	169
Other services	455	656	–	–
Total	**635**	**825**	**156**	**169**

The following services were rendered for members of management bodies, or utilised by them:

In 2011, the fees invoiced as part of consultancy contracts and for sales activities to BOWAS Group and BOHLEN Handel GmbH totalled €251 thousand (previous year: €153 thousand). The fees paid in 2010 and third party costs invoiced as part of the consultancy contract with Idunahall Verwaltungs-Gesellschaft m. b. H. totalled €84 thousand (previous year: €87 thousand).

SUPERVISORY BOARD AND EXECUTIVE BOARD

For fulfilling their tasks, the members of the Supervisory Board received a total of €2,043 thousand (previous year: €1,575 thousand). Of this sum, the performance-related element of the remuneration accounted for €813 thousand (previous year: €575 thousand). The required value for pension commitments to a member of the Executive Board totalled €790 thousand (previous year: €258 thousand). Former members of the Executive Board and their surviving dependants received a total remuneration of €273 thousand (previous year: €271 thousand). For former members of the Executive Board and their surviving dependants, the required value for pension commitments totalled €2,433 thousand (previous year: €2,634 thousand).

In the financial year, members of the Supervisory Board received a total of €366 thousand (previous year: €348 thousand).

The remuneration of the individual members of the Executive Board and the Supervisory Board of H&R AG is composed as follows:

EXECUTIVE BOARD REMUNERATION	Fixed remuneration		Variable remuneration		Total	
	2011 IN €	2010 THOUSAND €	**2011 IN €**	2010 THOUSAND €	**2011 IN €**	2010 THOUSAND €
Gert Wendroth (until December 31/2011)	475,739	423	400,000	250	875,739	673
Niels H. Hansen	296,000	246	–	–	296,000	246
Andreas Keil (until December, 31/2011)	374,897	331	350,000	325	724,897	656
Detlev Wösten (since August, 1/2011)	83,771	–	62,500	–	146,271	–
Total	**1,230,407**	**1,000**	**812,500**	**575**	**2,042,907**	**1,575**

The former Chief Executive Officer Gert Wendroth and the Chief Financial Officer Andreas Keil informed the Supervisory Board in September 2011 that they were not prepared to renew their contracts. In the course of the succession process completed in December 2011 they both resigned their seats on the company's Executive Board and on other boards of Group companies with effect from 31 December 2011. Mr Keil is still employed by the company until 31 March 2012. Both of them have been released from their duties for the last six months of their contracts.

When he joined the Executive Board, Mr Wendroth was granted a benefit commitment vesting immediately, which provides for a monthly early retirement pension of €9,400 from the age of 60, a monthly retirement pension of €5,050 and a widow's and orphan's pension if he left the company before reaching the pensionable age of 65. This pension obligation was covered by a reinsurance policy. The guaranteed capital for this commitment amounts to €1,833 thousand as of the reporting date. In 2011 an addition of €532 thousand was made to the pension provision for this pension obligation.

The following payments were made in connection with the termination of the Executive Board contracts:

€ THOUSAND	Gert Wendroth	Andreas Keil
Bonus for financial year 2011	400	350
Remuneration for notice period in 2012	225	175
Bonus for financial year 2012	163	225
Total	**788**	**750**

The 2011 bonus was paid in December 2011 in accordance with the agreement.

All holiday entitlements are included in the voluntary agreements.

Mr Wendroth's bonus for 2012 is reduced by 1/6 if Mr Wendroth terminates his contract of employment before 30 June 2012.

Concerning the reinsurance policy taken out for Mr Wendroth's pension commitment, it was agreed in the exit contract that in the years 2012 to 2016 the company would pay additional contributions of €238 thousand p. a. to the reinsurance company in order to achieve a capital sum for the guaranteed retirement pension of €5,050 as well as expected increases in line with the cost-of-living index. The reinsurance policy was pledged to Mr Wendroth, his wife and his children.

SUPERVISORY BOARD REMUNERATION[1)]

	Fixed remuneration		Remuneration for Super visory Board activities		Variable remuneration		Total	
	2011 IN €	2010 IN T€	**2011 IN €**	2010 IN T€	**2011 IN €**	2010 IN T€	**2011 IN €**	2010 IN T€
Bernd Günther (Chairman)	60,000	60	17,500	10	17,800	27	95,300	97
Roland Chmiel[2)] (since 28/10/2010)	24,137	5	12,500	1	17,800	5	54,437	11
Dr. Rolf Schwedhelm[3)] (since 28/10/2010)	24,192	4	5,000	1	17,800	5	46,992	10
Dr. Joachim Girg[4)] (since 6/9/2011)	8,082	–	740	–	5,706	–	14,528	–
Nils Hansen	20,000	20	15,740	6	17,800	27	53,540	53
Eckbert von Bohlen (until 9/10/2010)	–	23	–	4	–	21	–	48
Günter Papenburg (until 1/10/2010)	–	15	–	–	–	20	–	35
Volker Woyke (since 6/9/2011)	6,411	–	1,479	–	5,706	–	13,596	–
Reinhold Grothus	20,000	20	–	–	17,800	27	37,800	47
Holger Hoff (since 6/9/2011)	6,411	–	–	–	5,706	–	12,117	–
Rainer Metzner	20,000	20	–	–	17,800	27	37,800	47
Total	**189,233**	**167**	**52,959**	**22**	**123,918**	**159**	**366,110**	**348**

[1)] Amounts without attendence fees
[2)] Vice-chairman until 31/5/2011
[3)] Vice-chairman from 31/5 to 1/11/2011
[4)] Vice-chairman since 1/11/2011

The employee representatives on the Supervisory Board receive remuneration which is not related to their work for the Supervisory Board in addition to their Supervisory Board remuneration.

This remuneration came to a total of €197 thousand in the 2011 financial year (previous year: €185 thousand).

Further details are provided in the remuneration report, which forms part of the management report.

The following receivables and liabilities existed as of 31 December 2011:

SERVICES	Receivables from members of management bodies		Liabilities towards members of management bodies	
€ THOUSAND	**31/12/2011**	31/12/2010	**31/12/2011**	31/12/2010
Goods and services	–	–	–	–
Liabilities from Executive Board bonuses	–	–	–	600
Other services	2	754	392	370
Total	**2**	**754**	**392**	**970**

The other receivable involves a property-secured loan which H&R AG had granted to a company associated with a Supervisory Board member until 22 December 2011. Meanwhile, the loan has been extended until 30 September 2011. The loan was repaid in December 2011. In 2011, the interest income from the loan amounted to €39 thousand.

(42) 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 2010. It is published on the Internet at www.hur.com and is included in this annual report.

(43) Group audit expenses recorded as expenditure in the financial year

The following fees for services of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft were recognized as expenses:

€ THOUSAND	2011	2010
Audits	338	358
Other certification or evaluation services	13	16
Tax consultancy services	5	–
Other services provided for the parent company or subsidiaries	–	13
Total	**356**	**387**

(44) 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 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

(45) Risk management policy, capital management and safeguards

However, the operating business as well as the financing transactions of the H&R Group, as an internationally active company, 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 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 context. 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. H&R Group tries to achieve a capital structure that optimizes costs of capital of outside creditors as well as those of investors. Another important gearing ratio regarding the capital structure of H&R Group is the net gearing, which describes the ratio between net debt and equity. These ratios are subject to permanent surveillance by the Executive board.

Due to the borrower's note loan and the syndicated loan, H&R AG is obliged to met financial covenants that are connected to the relation of net debt to operational result (EBITDA) and the financial equity ratio. These financial covenants were met at the reporting date.

CAPITAL STRUCTURE

€ MILLION	2011	2010	2009	2008	2007
Net debt/ EBITDA	2.15	1.08	1.79	2.00	0.61
Equity ratio in %	38.0	42.5	39.3	38.2	43.5
Net gearing in %	79.4	49.2	64.7	62.0	32.4

LIQUIDITY RISKS

H&R Group ensures sufficient liquidity through the daily monitoring of its liquidity status and unutilised financing facilities.

DEFAULT RISKS

H&R Group supplies predominantly to customers with first-class credit quality, which results in extremely few instances of receivables default.

In addition, revolving trade account receivables with were assigned until October 2011 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 MATERIALS PRICE RISK

H&R Group is exposed to price fluctuation risks 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 specialty products manufactured by the Chemical-Pharmaceutical Raw Materials Division's specialty refineries incorporate prices fixed for a period of three months at the most. A specialty 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.

Moreover, H&R AG faces risks arising from changes of gas prices, which were covered in 2011 by using hedging instruments.

FOREIGN CURRENCY RISKS

The international alignment of H&R Group means that its operating activities give rise to currency risks, among other things, 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. 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

H&R Group employs variable interest-rate facilities, among other things, as part of its financing activities. 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 H&R Group but require the prior approval of the Executive Board.

Further information concerning financial instruments can be found in Note (38).

(46) Equity holdings

	Division	Shareholder's equity thousand €	Holding %	Net profit/loss thousand €
Consolidated companies				
H&R Chemisch-Pharmazeutische Spezialitäten GmbH, Salzbergen	a	26,013	100	PLTA[2]
H&R Lube Blending GmbH, Salzbergen	a	1,927	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	b	25	100	PLTA[2]
H&R Ölwerke Schindler GmbH, Hamburg	a	22,986	100	PLTA[2]
H&R InfoTech GmbH, Hamburg	d	25	100	PLTA[2]
H&R Benelux B.V., Nuth, The Netherlands	b	4,314	100	149
H&R ChemPharm (UK) Ltd., Tipton, UK	b	9,319	100	1,220
H&R Czechia s.r.o., Prag, Czech Republic	b	229	90	243
H&R ANZ Pty Ltd., Victoria, Australia	b	14,048	100	888
H&R Global Special Products Co. Ltd., Bangkok, Thailand	b	77	100[1]	713
H&R Malaysia Sdn. Bhd., Port Klang, Malaysia	b	4,491	100[1]	797
H&R ChemPharm (Thailand) Ltd., Bangkok, Thailand	b	24,372	100	6,870
H&R WAX Malaysia Sdn. Bhd., Batu Caves, Malaysia	b	975	100	–231
H&R South Africa (Pty) Limited, Durban, South Africa	b	8,941	100	1,183
H&R South Africa GmbH, Hamburg	b	14,025	100	PLTA[2]
H&R South Africa Sales (Pty) Limited, Durban, South Africa	b	2,310	100	308
H&R Grundstücksverwaltungs GmbH, Salzbergen	a	7,590	98.68	–7
H&R Grundstücksverwaltungs-Beteiligungsgesellschaft mbH, Salzbergen	a	–87	74.04	–17
GAUDLITZ GmbH, Coburg	c	4,583	100	PLTA[2]
GAUDLITZ Precision Technology (Wuxi) Co., Ltd., Wuxi, China	c	2,316	100	423
GAUDLITZ Precision s.r.o., Dačice, Czech Republic	c	–324	83.64	–558
GAUDLITZ Grundstücksverwaltungs-Beteiligungsgesellschaft mbH, Coburg	c	24	100	–1
WANO Entertainment GmbH, Liebenburg	d	4,828	100	188
SYTHENGRUND Wasagchemie Grundstücks-verwertungsges. Haltern mbH, Haltern	d	3,833	100	PLTA[2]
B.-H. Beteiligungs- und Handelsges. mbH, Salzbergen	d	4,262	100	144

Divisions:
a) Chemical-Pharmaceutical Raw Materials Domestic
b) Chemical-Pharmaceutical Raw Materials International
c) Precision Plastics
d) Other activities

[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 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 wholly-owned by H&R 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., Port Klang, 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 2011.

	Division	Shareholder's equity thousand €	Holding %	Net profit/loss thousand €
Financial assets shown by the equity method				
Westfalen Chemie GmbH & Co. KG, Salzbergen	a	–523	50	524
Westfalen Chemie Verwaltungsgesellschaft mbH, Salzbergen	a	64	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]
Participating interests				
SRS EcoTherm GmbH, Salzbergen		7,274	10	1,171
Surgic Tools GmbH, Coburg		[3]	10	[3]
Betreibergesellschaft Silbersee II Haltern am See mit beschränkter Haftung, Essen		[3]	8	[3]

Divisions:
a) Chemical-Pharmaceutical Raw Materials Domestic
b) Chemical-Pharmaceutical Raw Materials International
c) Precision Plastics
d) Other activities

[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 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 wholly-owned by H&R 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., Port Klang, 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 2011.

(47) Events after the reporting date

There were no significant events after the balance sheet date.

(48) Approval of the financial statements

The financial statements were approved by the Executive Board on 27 March 2012, and released for publication.

Salzbergen, 27 March 2012

The Executive Board

N. H. Hansen L. Rauch D. Wösten

(49) Attestation by the legal representatives

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 combined 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, 27 March 2012

The Executive Board

N. H. Hansen L. Rauch D. Wösten

Auditcertificate

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report, which is combined with the group management report of the H&R Aktiengesellschaft, Salzbergen, for the business year from 1st January to 31st December 2011. The maintenance of the books and records and the preparation of the annual financial statements and the combined management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The combined management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Hamburg, 27 March 2012

PRICEWATERHOUSECOOPERS
AKTIENGESELLSCHAFT
Wirtschaftsprüfungsgesellschaft (Auditing company)

Niklas Wilke	ppa. Christoph Fehling
(German Public Auditor)	(German Public Auditor)

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 outfl ow 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.

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, 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).

FREE CASH FLOW
Key performance indicator: the sum of cash flow from operating activities and cash flow from investing activities; provides information about the liquid funds held after capital expenditure has been deducted.

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.

NET FINANCE DEBT
Financial indicator: financial liabilities less liquid funds, current financial assets and derivative financial instruments measured at fair value; provides information on the amount of debt remaining if all liquid funds were used to repay existing liabilities.

NET GEARING RATIO
Key performance indicator: the ratio of net financial debt to equity; provides an insight into the financing structure.

NET WORKING CAPITAL
Key performance indicator: net working capital is defined as trade receivables plus inventories less trade payables.

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.

PROPANE DEASPHALTING UNIT (PDU)
Extraction unit which produces deasphalted oil and asphalt from vacuum residue using propane as solvent.

RETURN ON CAPITAL EMPLOYED (ROCE)
Key performance indicator: the ratio of EBIT to average capital employed (equity plus net financial debt, pension provisions and other non-current provisions); crucial for value-based corporate management at H&R AG.

RETURN ON EQUITY
Key performance indicator: the ratio of profit (consolidated net profit before minority interests) to average equity; provides information about the amount of interest paid on capital from equity providers.

SPECIAL REFINERY ACTIVITIES
Production of highly refined raw materials for the chemical and pharmaceutical industries using oil-based materials.

SYNDICATED LOAN
Granting of a fixed credit line for a specified period of time by a consortium of several banks.

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.

6-year overview H&R Group key figures (IFRS)

		2011	2010	2009	2008	2007	2006
Sales volume (main products)[1]	kt	872	932	812	775	767	747
Sales	€ Mio.	1,209.5	1,056.8	762.3	1,035.2	797.9	816.8
EBITDA	€ Mio.	89.1	103.4	65.6	51.2	92.7	100.9
EBIT	€ Mio.	68.1	82.0	44.7	34.9	79.2	84.0
Earnings before taxes (EBT)	€ Mio.	54.5	73.6	36.2	23.8	73.0	75.0
Net income before minority interests	€ Mio.	38.5	52.0	25.1	9.6	51.6	45.6
Net income after minority interests	€ Mio.	38.5	52.0	25.0	9.5	52.0	43.3
Consolidated earnings per ordinary share (basic)	€	1.29	1.74	0.83	0.32	1.72	1.54
Dividend per ordinary share	€	0,60[2]	0.65	0.45	0.40	0.80	0.70
Market capitalisation as at 31 December[3]	€ Mio.	496.1	630.9	449.0	326.7	553.0	1,048.7
Balance sheet total	€ Mio.	635.2	532.4	462.4	432.5	398.3	410.1
Net working capital	€ Mio.	265.0	202.2	161.9	141.1	133.4	132.6
Shareholders' equity	€ Mio.	241.1	226.4	181.7	165.4	173.3	118.4
Equity ratio	%	38.0	42.5	39.3	38.2	43.5	28.9
Net financial liabilities	€ Mio.	191.3	111.5	117.6	102.5	56.1	108.0
Net gearing	%	79.4	49.2	64.7	62.0	32.4	91.1
Operating cash flow	€ Mio.	–11.8	52.1	21.5	16.0	39.6	59.2
Free cash flow	€ Mio.	–54.2	19.3	–2.1	–28.9	45.8	33.2
Return on capital employed (ROCE)	%	15.2	21.7	13.0	10.4	27.6	28.9

[1] Chemical-Pharmaceutical Raw Materials Division
[2] Dividend proposal from the Executive and Supervisory Boards for the resolution submitted to the Annual Shareholders' Meeting
[3] Based on year-end price of ordinary shares

Adjusted key figures[1] (IFRS)

		2011	2010	2009	2008	2007	2006
Adjusted operating income (EBITDA)	€ Mio.	89.1	103.4	65.6	73.2	78.9	94.1
Adjusted EBIT	€ Mio.	68.1	82.0	44.7	56.9	65.4	81.2
Adjusted pre-tax earnings	€ Mio.	54.5	73.6	36.2	45.8	59.8	73.7
Adjusted EBITDA margin	%	7.4	9.8	8.6	7.1	9.9	11.5
Adjusted return on equity	%	16.3	25.6	14.4	17.4	24.8	43.7
Adjusted return on assets	%	11.5	15.9	10.0	12.7	16.2	20.4
Adjusted return on capital employed (ROCE)	%	15.2	21.7	13.0	16.7	22.8	27.9

[1] Key figures for 2006–2007 are adjusted for the sold-off Explosives Division, 2008 key figures are adjusted for the provision relating to the anti-trust fine

Financial calendar

Our Financial calendar is updated continuously. Please visit our website www.hur.com in the Investor Relations section for the latest events.

14 Feburary 2012	**Publication of Preliminary Figures 2011** **Press and Analysts' Conference**
30 March 2012	**Publication of Final Figures 2011**
26 + 27 April 2012	Equity-Market-Conference Baden-Baden, Bankhaus Lampe
14 May 2012	**Publication of Q1 Report 2012**
31 May 2012	**Shareholders' Meeting Hamburg**
12 June 2012	Capital Markets Day Frankfurt, Solventis Wertpapierhandelsbank GmbH
14 August 2012	**Publication of Q2 Report 2012**
28 August 2012	Chemicals & Life Sciences Conference Frankfurt, Commerzbank
25 September 2012	German Investment Conference München, UniCredit
14 November 2012	**Publication of Q3 Report 2012**
14 November 2012	Deutsches Eigenkapitalforum Frankfurt

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:

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Disclaimer

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that reflect management's current views with respect to future events. Such statements are subject to risks and uncertainties that are beyond H&R's ability to control or estimate precisely, such as future market and economic conditions, the behavior of other market participants, the ability to successfully integrate acquired businesses and achieve anticipated synergies and the actions of government regulators. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. H&R does not intend or assume any obligation to update any forward-looking statements to reflect events or circumstances after the date of these materials.

VARIANCES FOR TECHNICAL REASONS

For technical reasons (e. g. conversion of electronic formats) there may be variances between the accounting documents contained in this annual report and those submitted to the electronic Federal Gazette (Bundesanzeiger). In this case, the version submitted to the electronic Federal Gazette shall be binding.

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

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