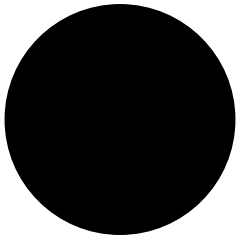


Annual Report 2012 of H&R AG

Our financial year 2012

– Positive revenue growth in all segments
– Operating result (EBITDA) down sharply for the full year

TABLE 01
THE H&R GROUP IN FIGURES

€ MILLION	2012	2011	Change in absolute terms
Revenue	1,228.9	1,209.5	19.4
Operating result (EBITDA)	49.3	89.1	–39.8
EBIT	25.4	68.1	–42.7
Earnings before taxes	1.5	54.5	–53.0
Consolidated net income before minority interests	0.3	38.5	–38.2
Consolidated net income after minority interests	0.4	38.5	–38.1
Consolidated earnings per share (basic, in €)	0.01	1.29	–1.28
Dividend per share (in €)	0.00	0.60	–0.60
Operating cash flow	84.7	–11.8	96.5
Equity ratio (in %)	35.8	38.0	n.a.
Employees (as of 31 December)	1,458	1,431	27

TABLE 02
THE SEGMENTS IN FIGURES

€ MILLION	Revenue 2012	Revenue 2011	EBITDA 2012	EBITDA 2011
Chemical-Pharmaceutical Raw Materials Domestic	**952.2**	**943.2**	**33.0**	**71.3**
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	**254.1**	**249.6**	**19.3**	**19.0**
Our Chemical-Pharmaceutical Raw Materials International Segment comprises the mixing and conversion plants abroad and our international sales activities.				
Plastics	**55.6**	**52.6**	**–0.8**	**2.3**
The Plastics Segment manufactures high-precision plastic parts along with the associated tools and moulds.				
Others/Consolidation	**–33.0**	**–35.9**	**–2.2**	**–3.5**

Sites

The subsidiaries of H&R AG 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

Germany Hamburg/Salzbergen

Australia Laverton
UK Tipton
India Mumbai
Malaysia Port Klang/Batu Caves
New Zealand Auckland
Netherlands Nuth
Singapore Singapore
South Africa Durban
Thailand Bangkok/Si Racha
Czech Republic Prague

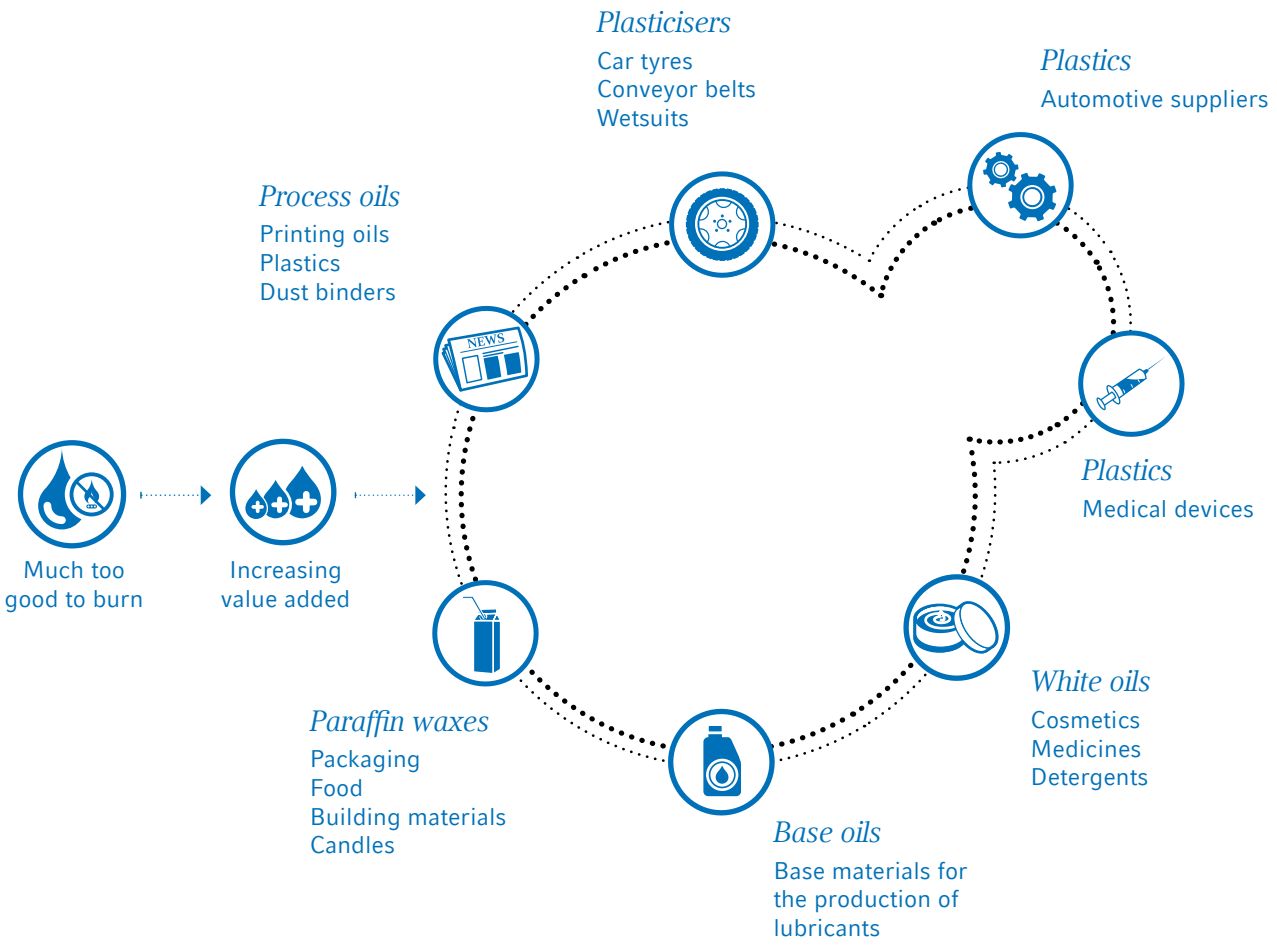
Plastics

Germany Coburg

China Wuxi
Czech Republic Dačice

Business model

H&R AG 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.



Unsatisfactory financial years have their good sides too. They show us even more clearly where we still have work to do. In our case that is: An even stronger presence in growth regions. An even higher-quality product portfolio. Even greater efficiency. And even more sustainable production processes.

There is still plenty to be done. How we are doing it is described in this annual report …

Straight to the point.

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

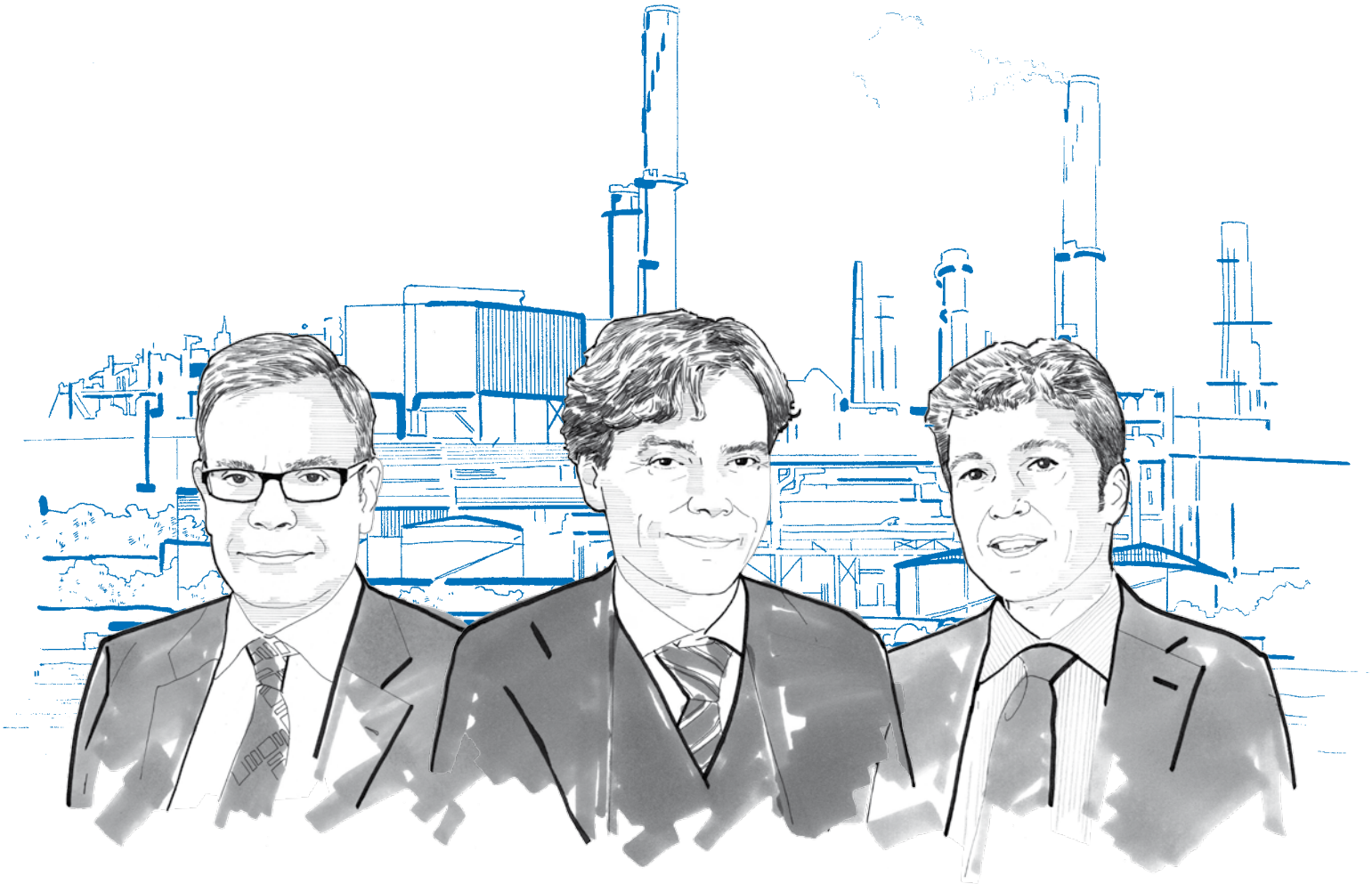
Dear Shareholders,

The course of business was mixed for your H&R AG in the 2012 financial year. In terms of revenue the company continued along the impressive growth path that it has laid down in recent years: income of more than €1.2 billion again exceeded the record set in the previous year. However, the operating result of €49.3 million was considerably down on the previous year, and in particular, well below our own expectations.

One of the main reasons for this earnings performance was the overall macroeconomic climate. The environment in which H&R AG had to operate in 2012 was defined by weak global growth overall, plus the ongoing debt crisis in the euro area and a marked economic downturn in the main Asian markets. It became clear over the course of the year that the very favourable economic environment in 2011 and therefore the exceptionally high level of earnings could not be reproduced on a 1:1 basis in 2012.

The company's business itself also presented a number of challenges: Compared with recent years, H&R AG was harder hit by pressure from higher raw material costs, fluctuating base oil prices and more volatile margins in the 2012 financial year. On top of this, the pressure from competition was much higher in a number of product categories, which we were only partly able to offset with higher revenue from other speciality products. Overall, we closed the year 2012 with a result that was unsatisfactory for everyone concerned.

Towards the middle of the year the Executive Board therefore responded to the unsatisfactory earnings situation and the looming challenges with the internal efficiency programme "KAT10+". Opportunities to increase efficiency were identified not just in the refineries' production processes, but also in other areas of the company. We set about realising this potential single-mindedly, consistently and with no preconceptions, and in the third quarter of 2012 were able to report some initial successes. In the course of our extensive, in-depth planning for the years ahead, every last opportunity has been identified and no stone left unturned, and this could contribute to stabilising our company's earnings. Let us be perfectly clear about this: in the course of our endeavours the search for improvement potential will spare no area of our network or our business model and steps to optimise operations and processes will be taken promptly.



Luis Rauch
Chief Financial Officer

Niels H. Hansen
Chief Executive Officer

Detlev Wösten
Deputy Member of the Executive Board
for Refineries

Our ambitious target is to achieve a sustainable annual increase in earnings potential while at the same time reducing potential risks to a minimum.

The Chemical-Pharmaceutical Raw Materials Division is particularly important in terms of efficiency. We have carried out modernisation work at our two refinery sites in Salzbergen and Hamburg in order to alleviate bottlenecks in certain installations. We are tackling increasing cost pressure from power and heat generation by means of innovative energy concepts. At the same time we are working to optimise value creation and increase the proportion of high-grade – and therefore high-margin – speciality products. Our existing product portfolio is being extended to include new products, such as medical-grade paraffin, which makes it even more attractive for our customers.

Overseas, we are concentrating on expanding our sales structures. Our new offices in Singapore and India have boosted our presence and our activity in the region. As soon as growth picks up again in these regions, which leading economic experts predict will happen, we intend to serve the markets there from these strong bridgeheads and benefit from the dynamism of these emerging economies. Business with customers from outside Europe currently accounts for 19 % of our revenue from chemical-pharmaceutical products, but in the next two to three years alone this figure is set to rise to around 30 %.

The Plastics Segment of H&R AG impresses its customers in the automotive and medical devices sectors with its quality and precision. At the same time the development and production of complex multi-component parts require long-term thinking and a close partnership with our clients. The crises that affect our customers in these sectors, prompting short-term adjustments to demand, therefore have an impact on our earnings performance as well. The key to a successful future for this division is primarily greater diversification in terms of customer industries. At the same time the Plastics Division, just like our other business lines, has to come up to the higher standards of efficiency, productivity and profitability and must make improvements wherever possible and necessary.

We are certain that our activities to increase efficiency and improve our level of value creation will pay off. As soon as they display their full effect, they will by enhanced by competitive advantages which have always been a source of strength for H&R AG. There are no other players in the market that can be compared with us. H&R AG has the experience and expertise to operate refineries with Group 1 technology and at the same time has one of the most extensive product portfolios in the market. Our speciality products are used in all industries and meet the highest specifications for a wide range of applications, from label-free plasticisers for tyre manufacturers, to engines and food, right through to cosmetics and medical preparations.

The fundamental cornerstones of our business model are in the right place. The opportunities and the potential for a significant improvement in earnings are there too and will be seized more effectively this year and next. The Executive Board is unreservedly committed to these objectives and has established them as a binding strategy for the company.

Looking at the forecasts for future business performance, a number of factors need to be taken into account. Our operational set-up has improved further over recent years thanks to the modernisation of our plants in Salzbergen and Hamburg. We are also expecting positive effects from our "KAT10+" programme to increase efficiency. The global economic environment is beyond our control, however. On the basis of leading indicators for 2013 the economic outlook is now a little more positive again, but if these expectations should fail to materialise it would certainly impact the course of business for H&R AG. We are nonetheless convinced that the entire package of activities described in the management report puts us in a stronger position than in prior years and will therefore enable us to tackle the market-driven factors successfully and with greater earnings stability. For 2013 we are therefore anticipating that revenue and earnings will be at a similar level to 2012. We believe a significant earnings improvement is only realistic for the following year.

Special thanks go to our customers, supplies, lenders and investors for their confidence in our company, by which they have laid the foundations for our stability and for further growth.

We would also like to express our sincere gratitude to our employees, who contributed greatly to the implementation of our internal optimisation process last year. Their outstanding dedication ensures that we are in a strong position to face the challenges ahead: our company is an established global player in the market for crude oil-based speciality products and high-precision plastic parts and will continue its successful and stable operations from this base.

In particular we thank you, our shareholders, for your trust and your support. This is what motivates us to pursue our strategy consistently and to achieve sustainable increases in the value of H&R AG.

Best regards,

Salzbergen, April 2013

The Executive Board

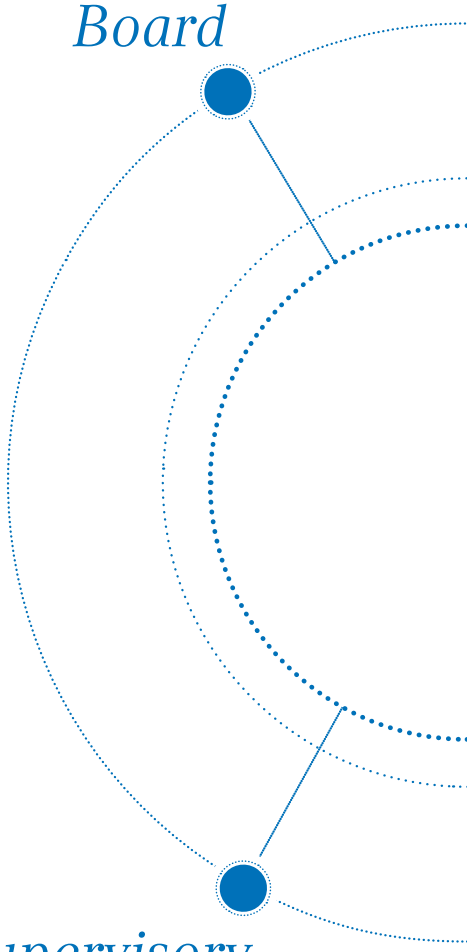
N. H. Hansen L. Rauch D. Wösten

Company representative bodies

The representative bodies of H&R AG comprise a group of individuals whose professional skills and different areas of expertise complement one another and who are all committed to common corporate goals.

Executive Board

Niels H. Hansen	Chief Executive Officer
Luis Rauch	Chief Financial Officer
Detlev Wösten	Deputy Member of the Executive Board for Refineries



Supervisory Board

Dr Joachim Girg	Managing Director of H&R Beteiligung GmbH
Roland Chmiel	Auditor and partner in the law and accountancy firm Weiss Walter Fischer-Zernin
Nils Hansen	Personally liable partner of the H&R Group
Anja Krusel	CFO of Microsoft Deutschland GmbH
Dr Rolf Schwedhelm	Tax lawyer and partner in the law firm Streck Mack Schwedhelm
Reinhold Grothus	Chairman of Works Council at H&R ChemPharm GmbH
Harald Januszewski	Thermoplastic Process Planning at GAUDLITZ GmbH
Rainer Metzner	Medical Sales Manager at GAUDLITZ GmbH

Advisory Board

Eckbert von Bohlen und Halbach	Managing Director of Bohlen Industrie GmbH
Dr Erwin Grandinger	Businessman
Dr Bernd Pfaffenbach	Former State Secretary in the German Federal Ministry of Economics and Technology
Wilhelm Scholten	Managing Director of Ölfabrik Wilhelm Scholten GmbH
Dr Gertrud R. Traud	Chief Economist at Helaba Landesbank Hessen-Thüringen

Refined

Products are our speciality.

In our specialised German refineries we turn long residue, a crude oil derivative, into more than 800 different products. Customers from a wide range of industries value our high quality standards, our reliability and our flexibility when it comes to realising individual requests.

Uniquely variable

Our Chemical-Pharmaceutical Raw Materials Division

We take what is known as long residue, a waste product of the crude oil distilled in fuel refineries, and by means of a sophisticated dual process turn it into more than 800 high-grade speciality products – the ultimate proof that oil is much too good to burn.

IN DEMAND IN ALL INDUSTRIES. The Chemical-Pharmaceutical Raw Materials Division is divided into two operating segments.

Our largest, the Chemical-Pharmaceutical Raw Materials Domestic Segment, operates two specialised refineries in Hamburg-Neuhof and Salzbergen, where we process long residue into crude oil-based speciality products such as plasticisers, paraffins, white oils and base oils. In the course of this process no fewer than 800 different products are created – a level of diversity that is unmatched by any of our competitors.

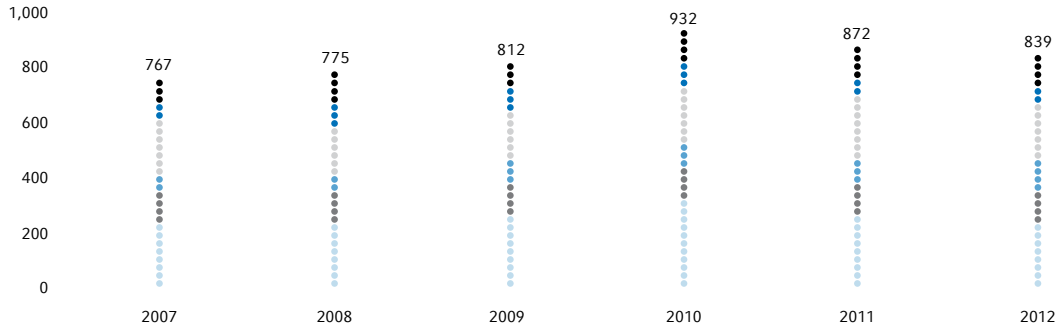
In our second segment, Chemical-Pharmaceutical Raw Materials International, we have pooled numerous blending and conversion facilities – in which we also refine crude oil-based feedstock – as well as our distribution offices in Europe and overseas. The main products in this segment are label-free plasticisers and wax emulsions.

H&R products in everyday life

Our customer base is as diverse as our product portfolio and is spread across more than 100 different industries. There is virtually no manufacturing sector that does not use products from H&R. This gives us a considerable degree of independence. Our sales partner, Hansen & Rosenthal KG, plays a vital role in marketing our products. As a result of the company's long-term contacts, Hansen & Rosenthal has an excellent feel for clients' needs. It therefore provides crucial input for the process of product innovation.

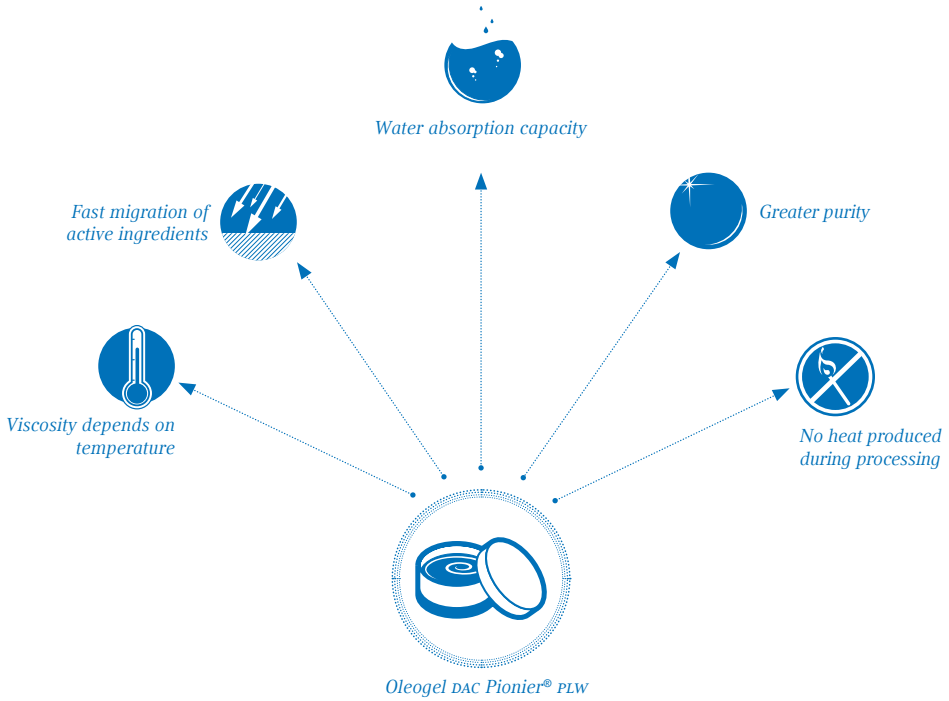
SALES OF MAIN PRODUCTS

IN TONNES



Plasticisers *Paraffins* *White oils* *Base oils* *Lubricants* *Other speciality products*

AN OLEOGEL FOR USE IN COSMETICS



VALUE CREATION IS A SUCCESS FACTOR. The crude oil price has a major influence on our business. Not only our purchasing costs depend on it, but also the sales prices for our products, which are relatively close in the value chain. The more we process and refine our products, the weaker the correlation with the crude oil price becomes and the more stable our earnings. This relationship also explains the comparatively good performance of our Chemical-Pharmaceutical Raw Materials International Segment in 2012: as high-grade speciality products account for a larger share of the portfolio here, the impact of higher raw materials prices was lessened.

For this reason we have always been interested in increasing the value added by our production process. Our knowledge of production technology, derived from our intensive research and development activities, represents an important success factor and distinguishes us from our competitors. The same applies to the outstanding, and above all consistent quality of our products, which we safeguard with a comprehensive quality management system.

Another key factor behind our success is the research and development work we carry out for specific customer requirements. We perform our own tyre tests, for instance, to analyse the effect of our plasticisers on the tyre's rolling properties. We also run a laboratory where we examine the interactions between our medical white oils and the main components of our customers' final products. Our intention is not to duplicate our customers' R&D work but to gain a better understanding of their challenges and needs – in order to put this knowledge into practice in the form of tailor-made speciality products.

- *More than 800 crude oil-based speciality products for over 100 customer industries*
- *Increasing value creation reduces dependence on crude oil price*
- *Expertise in production technology and application-focused R&D are success factors*

The art of using every

material to make something great.

With complex components made of innovative composite materials we increase the potential of the automotive industry in terms of cost efficiency and sustainability. Precision and superlative quality are also required in the medical devices sector – a market we intend to continue developing.

Quality wins

Our Plastics Division

To date, our ultra-precise plastic parts have achieved their main successes in the automotive industry. Building on this exceptional quality we want to diversify our customer base even further in future, by expanding our position in the attractive medical devices market, for example.

THE MORE COMPLEX THE BETTER. In the Plastics Segment we produce high-precision plastic parts and the tools needed to manufacture them. In addition to the headquarters in Coburg, we also operate production sites in Dačice (Czech Republic) and Wuxi (China). Our skills really come into play when we have to make complex plastic parts using different types of material at the same time. Although the plastics are also petrochemical products, our Plastics Segment operates completely independently of the Chemical-Pharmaceutical Raw Materials Segment.

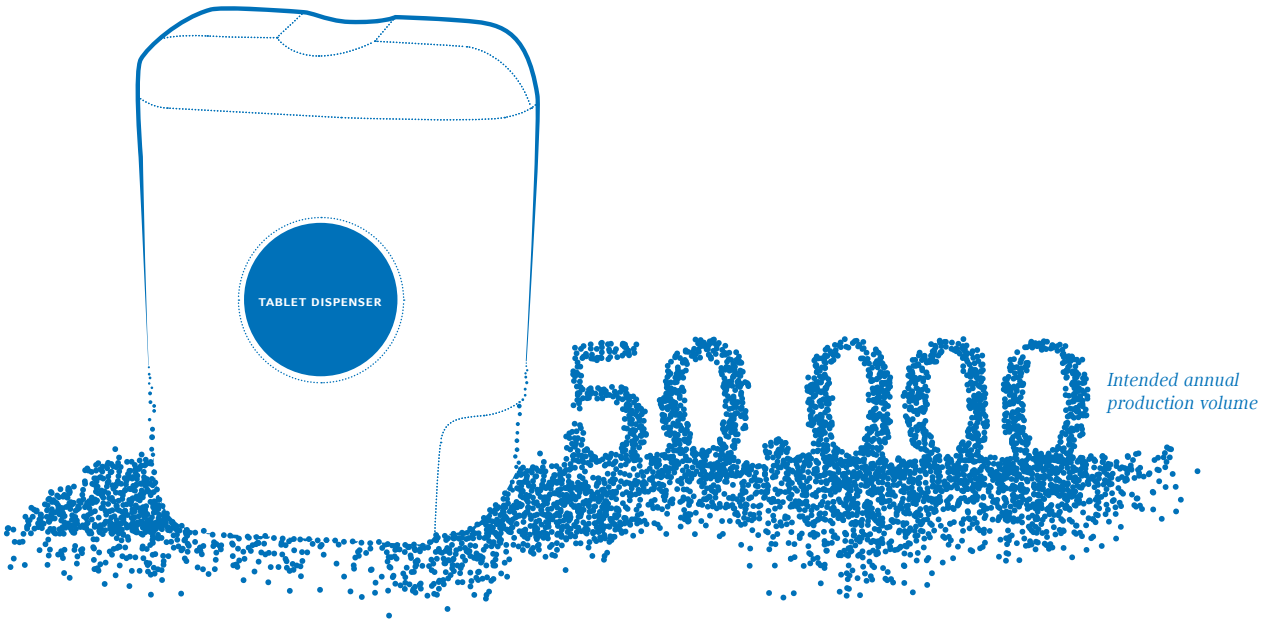
We generate a large part of our revenue with customers in the automotive industry. The trend towards replacing metal parts in motor vehicles with lighter and cheaper plastic parts continues to offer us good growth opportunities. However, the crisis in the automotive industry has shown us very clearly that we have to diversify our risks in this segment more widely. We believe the medical devices sector, with its high quality requirements, holds good short-term development potential for us. In the longterm we also want to expand our activities in other industrial sectors – such as electrical engineering and measurement and control technology – and so reduce the revenue share of the automotive industry.

Expanding our quality products in other industrial sectors

For us a customer relationship normally begins with the idea for a new component. Turning this idea into a marketable solution can take up to five years, depending on the complexity of the task. An understanding of these standard market development cycles is also important for the analysis of the segment's financial performance, because we only generate significant revenue from the customer relationship when mass production begins.

PLASTIC – A HIGH-TECH PRODUCT. The general public perception of plastic is still often as a poor-quality material with a limited lifespan – nothing could be further from the truth! Modern plastics are a great example of a cutting-edge technology. The quality specifications for the production of plastic parts are correspondingly demanding. Whether a car's electric window switch functions smoothly depends on the way the machinery that produces the component parts is made. We consider the exceptional precision of our tools and

AN EXAMPLE OF ONE OF OUR PRODUCTS IN THE CONSUMER HEALTHCARE SECTOR

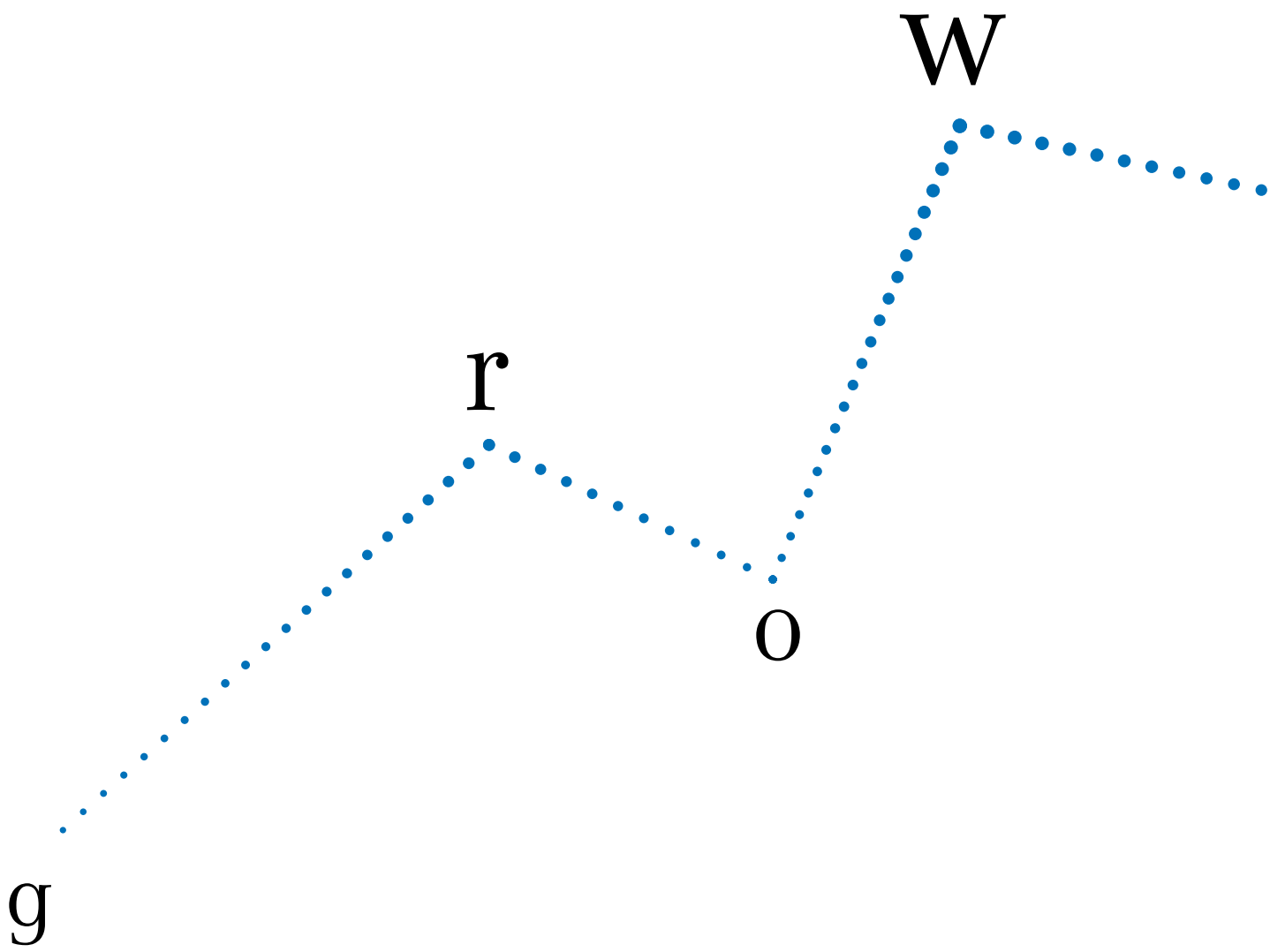


final products to be a unique selling proposition, which sets us apart from most of our competitors.

Another strength of our Plastics Segment is its great expertise in system solutions, i. e. the production of parts from several components. In the automotive industry in particular there is an increasing trend towards purchasing whole sub-assemblies from suppliers and not just individual parts. We see ourselves as being in an excellent position to meet these growing demands.

Between the parallel demands of sophisticated development processes and ever-tougher quality and time competition in our customers' sectors, physical proximity to these customers is becoming more and more important. Our international sites in China and the Czech Republic are therefore more than just outsourced production facilities. They are centres of excellence which enable us to respond swiftly to local customer demands and so strengthen the bonds that link us to these customers.

- *Specialised in the production of complex plastic parts from different materials*
- *Revenue share from outside the automotive industry should increase considerably in the long term*
- *Quality and system expertise are competitive advantages*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when the chemistry is right.

We want to grow, but not at any price. As a result, the steps we take are carefully thought out – whether we are investing in greater value creation, new production partnerships or even smaller acquisitions. Because for us, the chemistry is only right when the profitability is right too.

t

Extracting the best

Our growth potential

Quality before quantity. We used to generate growth mainly by adding capacity, but in future we want to increase our profitability primarily by adding greater value. A number of lasting market trends are assisting us here.

MAKING MORE FROM WHAT WE HAVE. With the construction of our propane deasphalting plant at the refinery in Hamburg in 2011 we successfully completed the first major project as part of our new strategic realignment. Since then the plant has been turning a residue of the production process into high-grade speciality products, among other things.

We also intend to boost the share of higher-quality products in our range of paraffins. Initially we will be looking at high-purity pharmaceutical grades. In addition, our research and development team is working hard on processes to reinforce our portfolio in the area of naphthenic oils.

In all these projects it is vital never to lose sight of the healthy balance between what is technically feasible and what makes economic sense. In purely technical terms we would already be capable of building a refinery that reduces the share of comparatively lower-value heating oil practically to zero. However, the hundreds of millions this would require in capital expenditure would never earn a financial return. This is partly due to the fact that we can also expand our capacities for high-grade speciality products in another, highly focused way.

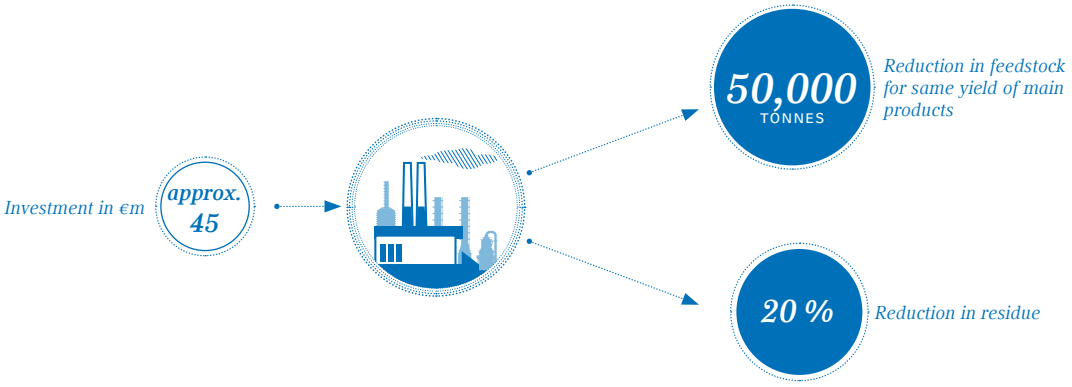
PRODUCTION PARTNERSHIPS FACILITATE EXPANSION. Production partnerships are a model we have implemented successfully several times in the past, especially abroad. The partner contributes its production infrastructure and we provide our process know-how and our distribution skills. In this way we avoid the expense of setting up our own production infrastructure when we enter new markets.

Many years of experience provide a competitive advantage

EFFICIENCY PROGRAMMES BACK UP GROWTH PROJECTS. We believe that making our processes as efficient as possible is another important key to lasting earnings improvements. Under the name of "KAT 10+" we have launched an efficiency programme in the Chemical-Pharmaceutical Raw Materials Segment with which we intend to reduce our cost base sustainably by some €10 million annually. In the Plastics Segment we have the "20+" programme for the headquarters in Coburg, which aims to increase productivity sustainably by 20 %.

PROPANE DEASPHALTING PLANT

INCREASING PRODUCT YIELD



Energy prices have a great impact on our costs due to our energy-intensive production processes. As we have to assume that prices will rise even further in the long term, we are looking very closely at ways of taking energy supplies for our refineries into our own hands.

MARKET TRENDS CREATE GROWTH OPPORTUNITIES. In addition to the success factors described above, which we can influence directly, certain market developments also open up new growth opportunities. The trend towards ever-greater product purity plays to our strengths as a quality provider. Agricultural oils, which are used in crop protection for instance, now have purity levels previously only associated with the pharmaceutical sector.

In both segments we benefit from the trend towards environmentally friendly mobility. Our plasticisers are scientifically proven to make an important contribution to improving the rolling performance of modern tyres and therefore to greater fuel economy. Our high-precision plastic parts also have the same effect, as in many cases they replace metal parts in cars and overall can reduce the vehicle's weight significantly.

- *Focus on boosting value creation in paraffins and naphthenic oils*
- *Efficiency gains should reduce the cost base by a two-figure million amount*
- *Market trends play to the strengths of H&R as a quality supplier*

New

horiz

zons around the corner.

To keep growing in the long term, we have to be where the economic growth is. This is why we want to extend our sales activities in Asia and South America to new countries. Either with our own facilities or via proven production partnerships with local partners we intend to derive even greater benefit from the high growth rates at our existing international sites.

Following the call of the market

Our internationalisation strategy

Products from H&R are world-class. On the basis of this conviction we intend to gradually open up new markets in the fastest-growing regions of the world in the years ahead. By 2015 the share of revenue generated outside Europe should rise to 30 %, from its current level of 19 %.

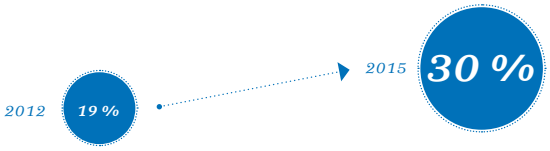
SUCCESS, STEP BY STEP. Anyone who looks at the history of the H&R network can see that exports and cultivating international trading relationships have always been an important pillar of our business activities. It is also clear that we have always carried out our international expansion with sound judgement and in carefully planned stages. We intend to stay true to this successful principle in future.

When we enter a new market we generally build up a trading partnership with local companies. If the market turns out to be attractive, the next step is to boost our presence with our own sales offices. If the sales potential is such that it is even worth producing locally, we first look at options for a production partnership, to which we would primarily contribute process and technical know-how. This enables us to avoid high start-up investments. We would also consider making smaller acquisitions to open doors into a new market, but do not pursue an explicit acquisition strategy.

LOCAL SERVICE FOR GLOBAL CUSTOMERS. With its good geographic location, excellent infrastructure and large number of qualified workers, Singapore has recently been able to convince several international chemical companies to make substantial investments in new facilities there. Some of our customers are among these companies. To provide them with the best possible on-site service, we opened a sales office in Singapore in 2012, which will concentrate exclusively on local customer relations. In the years ahead we may also set up our own logistical capacities in Singapore as needed.

INTERNATIONALISATION/ SALES REVENUE

INCREASING SALES REVENUE OUTSIDE EUROPE



INTERNATIONALISATION AND SALES REVENUE IN THE CHEMICAL-PHARMACEUTICAL DIVISION

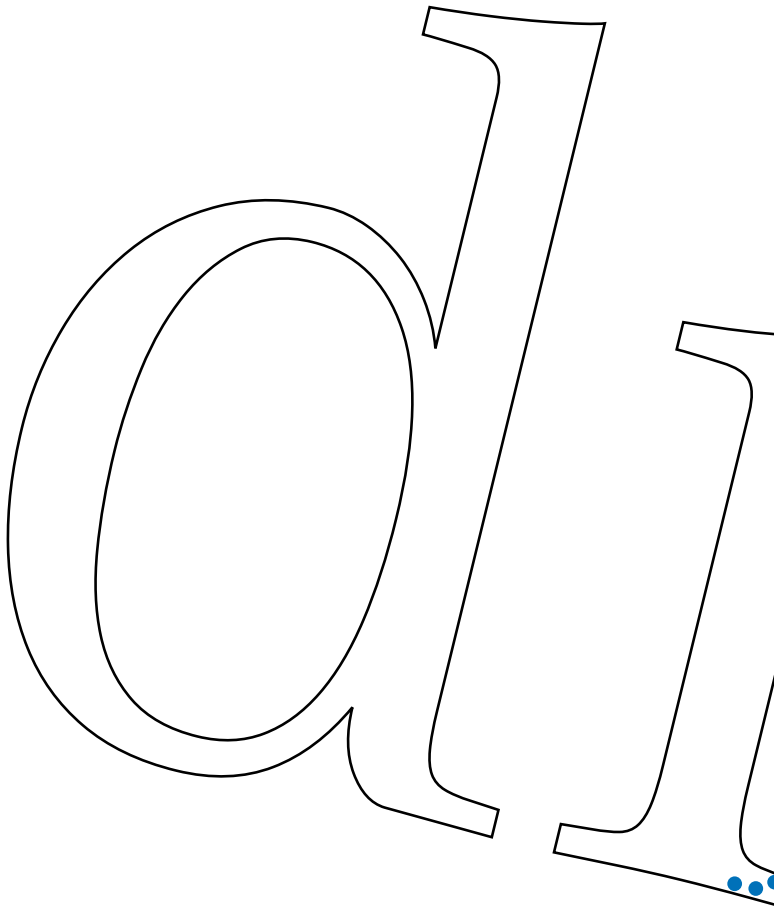
INCREASING SALES REVENUE OUTSIDE EUROPE

TWO NEW SALES OFFICES IN 2013. We have been expanding our international business steadily for years and in future we intend to ramp up our commitment in two more BRIC countries where we have only been represented by trading partners to date. In March 2013 we opened our first sales office on the Indian subcontinent in Mumbai. In the course of the year our new sales office in Brazil will also start work.

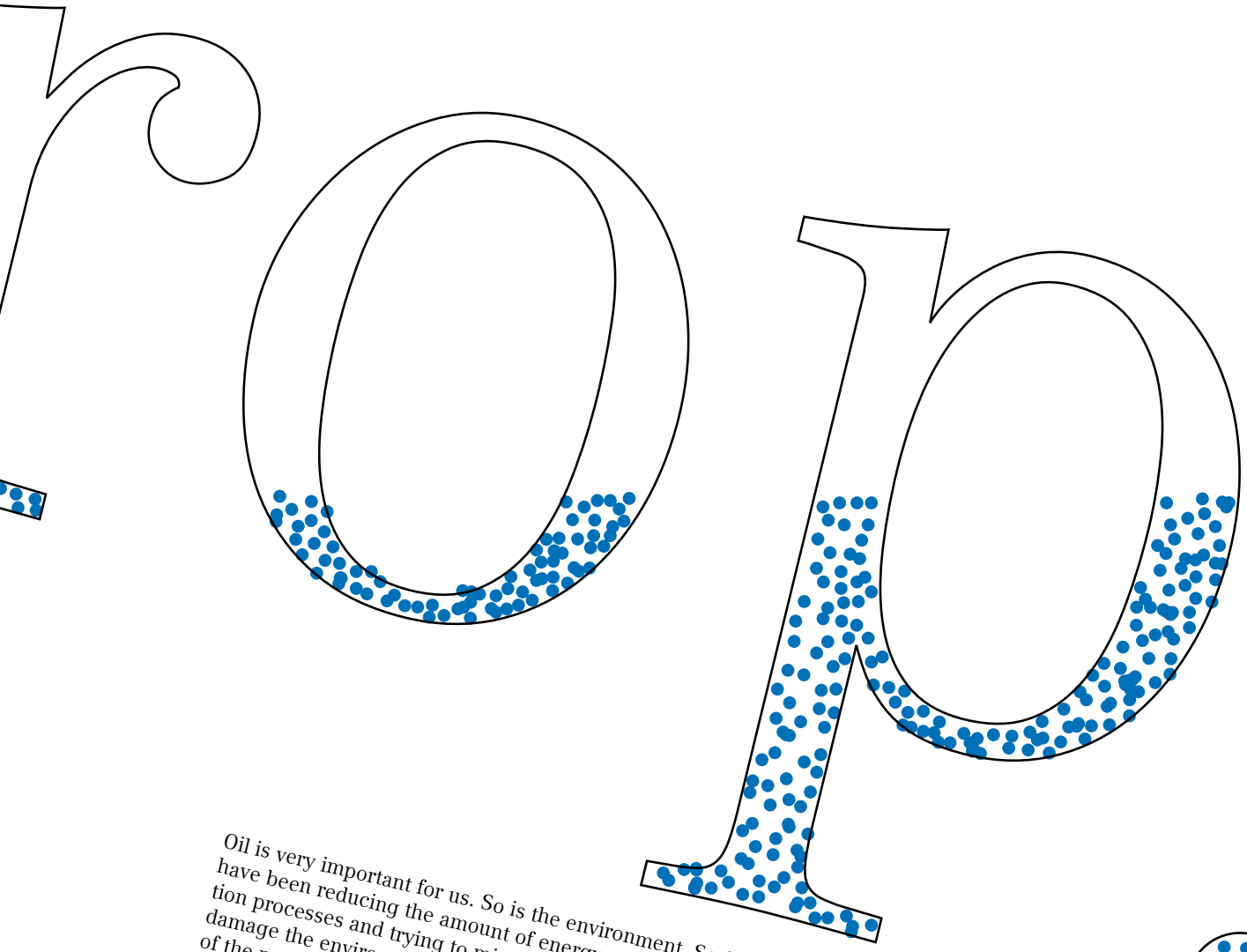
From now on we intend to market our entire product portfolio in these two countries ourselves, in order to benefit even more directly from the dynamic development of these two major economies. We see particularly high potential for our process oils, which are used in the polymer industry.

AN UNDERRATED CONTINENT. We also see interesting markets emerging for our company outside the boom countries that dominate the headlines. A number of African states have recently made great strides, both in economic and social respects. Their increasing political stability in particular creates an attractive environment for investment by international companies like us. With our South African site in Durban we have already established an important bridgehead in Africa, which should help us to develop commercial relationships with other African countries in the medium term.

- *Successive expansion of international activities without major investment risks*
- *Singapore in 2012 is to be followed in 2013 by sales offices in India and Brazil*
- *An eye on Africa as an interesting market in the long term*



Down to the last



Oil is very important for us. So is the environment. So for years we have been reducing the amount of energy consumed by our production processes and trying to minimise the presence of substances that damage the environment. That is not enough, however. Oil is one of the most valuable resources we have. So for us there is only one imperative: to use it sensibly down to the last drop!

Taking responsibility seriously

Our sustainable business

As part of a family-led network, sustainability has always provided the solid foundation for our company philosophy. We believe we have a duty to protect the environment and its resources, just as we do to ensure our employees have a safe and supportive workplace.

DUAL PROTECTION FOR THE ENVIRONMENT. Environmental protection has always been a two-dimensional affair in the H&R Group. Firstly, our segment portfolios include an increasing number of products which are either an alternative to others with damaging ingredients or make a direct contribution to environmental protection in the course of their use. Label-free plasticisers and light plastic parts for the tyre and automotive industries, white oils as an ingredient of biodegradable crop protection or paraffins for hydrophobic gels are just a few concrete examples of these.

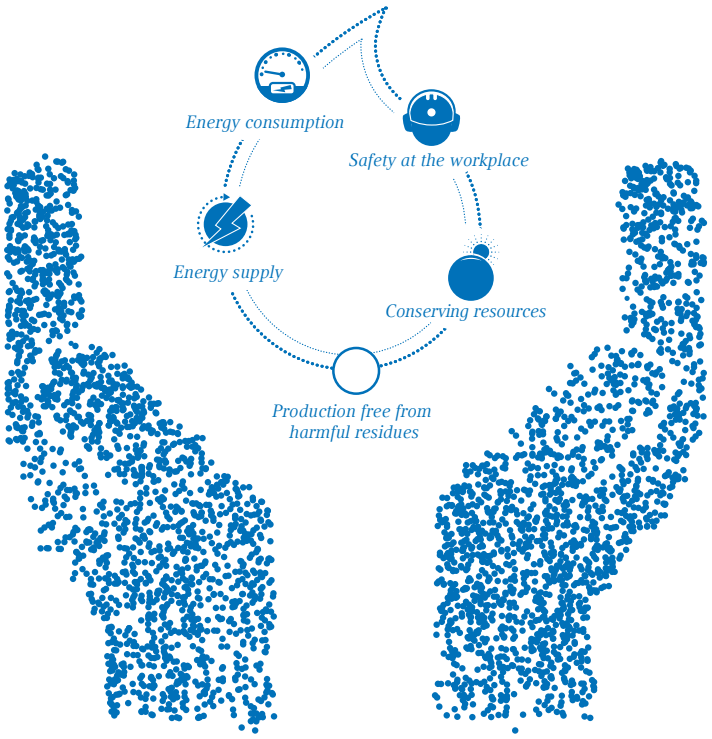
And secondly, we are working continuously to minimise the environmental impact of our own production activities and to bring our vision of a "green refinery" closer to reality. A key element of this vision is the complete elimination of combustion products, i.e. residual products which can only be sold as cheap sources of energy. In line with our strategy of increasing the value added, our long-term aim is to create nothing but high-grade speciality products from our raw material. At this point it becomes very apparent that environmental protection and earnings optimisation are by no means competing objectives.

The same applies to the supply of energy. We have to assume that in the long run, energy prices will only go in one direction and that is upwards. This makes it all the more interesting to explore options which would one day allow our refineries to take full charge of their own energy supply. Renewable energy should play an important role in these concepts, although we cannot completely lose sight of the economic aspects of course. We are therefore including natural gas in our calculations as a relatively clean fossil fuel.

At our two domestic refineries we already obtain a large proportion of the process heat we need from incineration plants for household waste, which saves considerable quantities of heating oil.

OUR RESPONSIBILITY TO CONSERVE RESOURCES

WHAT SUSTAINABILITY MEANS FOR H&R AG



EVERYTHING IN BALANCE. Our increasing internationalisation and the more complex production process that goes with our enhanced value creation also present our employees with new tasks and challenges. We believe it is important to maintain a sound balance in the course of this dynamic development – between experience and youthful energy, between work and regeneration, and also between different personalities and cultures.

As a manufacturing company with a high proportion of blue-collar workers we attach great importance to health and safety at work. Our "Life Plus" programme bundles a whole series of active healthcare options, such as nutritional advice, exercise sessions and medical check-ups. With our annual "Run for a Good Cause" we also demonstrate that a commitment to sport can be linked directly with social responsibility.

A healthy balance is also expressed in healthy figures: the average seniority of the staff at our German sites is more than 14 years. The staff turnover ratio on the other hand has always been consistently low at under 5 %.

- *Increasing proportion of products contributes to environmental protection*
- *Vision of the "green refinery" is gradually becoming reality*
- *Wide range of HR activities encourage loyalty*

Supervisory Board report

Dear Shareholders,

After years of growth and a comparatively good start to 2012, H&R AG was confronted with a more difficult environment towards the middle of the year, accompanied by a sharp fall in margins for its main products. Periods of economic misfortune shine an implacable light on the weaknesses of an organisation. At the same time, however, they offer opportunities to make successful use of previously unrealised potential. The Supervisory Board, together with the Executive Board, has used this momentum to subject the company's processes, structures and strategy to a critical review and to instigate improvements where necessary. In the second half of the year, we held intensive discussions with the Executive Board on the continued development of the business model for the AG – both as far as the Chemical-Pharmaceutical segment is concerned, as well as the plastics business at GAUDLITZ GmbH.

Advising and monitoring the Executive Board

In the reporting period the Supervisory Board performed the duties assigned to it by statute as well as by the company's articles of association and its own rules of procedure. We advised the Executive Board on the management of the company at regular intervals and monitored its work. The Supervisory Board was directly involved in all decisions of fundamental importance for the company. The Executive Board informed us regularly, promptly and comprehensively, both in writing and orally, about corporate planning, the course of business, strategic development and the current state of the company. Any differences between the planned and the actual course of business were explained in detail. The Executive Board agreed the strategic direction of the company with us. Transactions of major importance for the company were discussed in depth on the basis of Executive Board reports. The Supervisory Board approved the proposals put forward by the Executive Board following thorough review and discussion. A total of seven scheduled meetings were held during the reporting period.

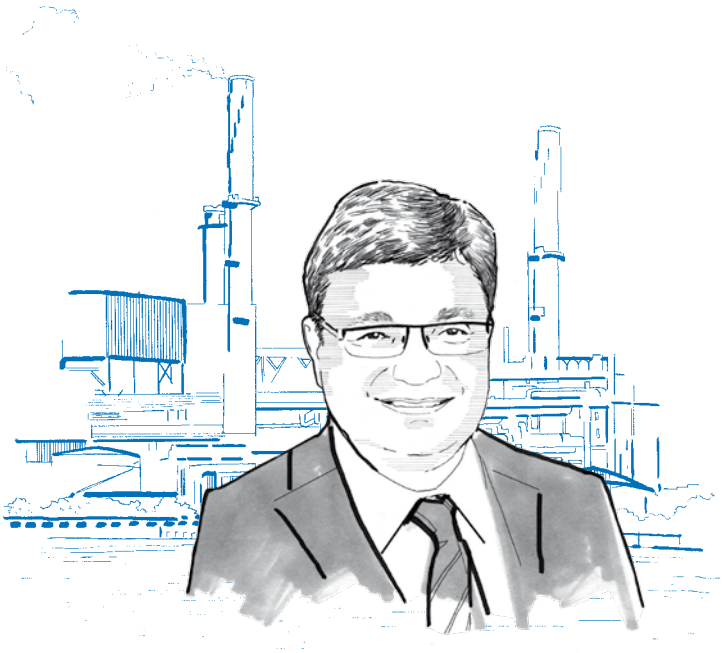
Furthermore, the Chairman of the Supervisory Board was in regular contact with the Executive Board outside the Supervisory Board meetings and was informed of current business developments and significant transactions. The Chairman of the Supervisory Board had separate strategy meetings with the Executive Board to discuss the prospects for and future direction of the individual business segments.

The work of the Supervisory Board committees

In order to carry out its responsibilities efficiently the Supervisory Board has set up a total of five committees. They prepare resolutions for adoption and topics for discussion by the full Supervisory Board. The committee chair reports to the Supervisory Board on the work of the respective committee at the subsequent meeting. The members of the individual committees and the number of meetings held are listed on page 37.

Further information see on p. 37.

The Audit Committee met twice. In the presence of the auditors and the Chief Financial Officer it dealt with the financial statements and combined management report for H&R AG and the Group for the financial year 2011, the subordinate status report and the proposal for appropriating net income. The Audit Committee also recommended auditors to the Supervisory Board for its proposal to the Annual Shareholders' Meeting. In addition, the following subjects were discussed in detail: the appointment of auditors for the financial year 2012, the monitoring of their independence and qualifications and the additional work carried out by them, and the establishment of their fees. At another meeting the committee was informed about the status of an accounting review by the German Financial Reporting Enforcement Panel and examined in depth the presentation of measurement methods for stocks of raw materials. In addition, the Audit Committee examined the company's accounting process and risk management system and received reports on the progress made towards implementing an internal audit function, as was decided the previous year.



Dr Joachim Girg
Chairman of the Supervisory Board

The Committee for Refinery Technology and Strategy (RTS) met six times last year. An equal number of conference calls was also held between committee members and the Executive Board. At the beginning of the year the focus was on a review of the propane deasphalting plant project and using the results to develop the internal project manual into what is known as a stage gate process. Past projects, including in particular the Golden Cut project, were also re-evaluated. Other key topics were competitive analyses and matters relating to flood protection for our refinery site in Hamburg.

In spring 2012 the main subjects were the implementation of improvements made necessary by the start-up difficulties with the propane deasphalting plant and the preparation of a business review of the refineries. The latter led to the launch of the "KAT10+" efficiency programme in early June. In the second half of 2012 the committee concentrated on the "KAT10+" project and the deteriorating earnings situation. Intensive discussions took place on developing the structure of the refineries and on the potential for efficiency gains that had been identified. The committee received regular information on the implementation of these two points. An audit programme for both refineries was produced on the basis of an annual plan for all the internal and external inspections, audits and benchmark analyses relating to the refineries. The results of the programme were monitored closely by the committee members.

In an effort to further improve our safety record all the committee members carried out at least one safety inspection per refinery in the financial year 2012. In addition, an emergency exercise was carried out on 6 November 2012, which involved the entire H&R network, including the Executive Board and the RTS committee members. In 2012 the Supervisory Board Chairman also began a series of visits to the company sites, some of which took several days, in order to familiarise himself actively with the production process.

The Nomination Committee met once in the reporting year and held one conference call, in order to prepare the election of a replacement for the deceased Supervisory Board member Volker Woyke at the Annual Shareholders' Meeting of H&R AG on 23 May 2013. In making its proposals to the Supervisory Board the Nomination Committee was guided by the requirements of the German Companies Act (AktG), the German Corporate Governance Code, the rules of procedure for the Supervisory Board and the targets set by the Supervisory Board for ensuring its diversity. In particular the Nomination Committee paid great attention to the personality, integrity, dedication, professionalism and independence of those proposed for election. With an eye to the increasing internationalisation of the company the Nomination Committee also considered it very important that the Supervisory Board should include people with international experience. The Supervisory Board complies with the principle of diversity by ensuring that an appropriate number of women are members. It also noted that the Supervisory Board should include at least three independent shareholder representatives as defined in 5.4.2 of the German Corporate Governance Code. In late 2011 the Nomination Committee made a recommendation to the Supervisory Board to put forward Mr Nils Hansen for re-election as well as Ms Anja Krusel and the two court-appointed members Dr Joachim Girg and Mr Volker Woyke as candidates for election to the Supervisory Board as shareholder representatives at the Annual Shareholders' Meeting held on 31 May 2012. Mr Sven Hansen has been proposed as a substitute for Mr Nils Hansen, should the latter resign his Supervisory Board seat prematurely. A corresponding decision of the Supervisory Board was made in early 2012 and approved by the Annual Shareholders' Meeting.

The Capital Measures and Investment Committee and the Steering Committee, which was created on 4 July 2012 following the revision of the Supervisory Board's rules of procedure, did not meet in the reporting period.

Topics discussed by the full Supervisory Board

Subjects discussed regularly by the full Supervisory Board included the revenue and earnings of H&R AG as well as its financial and earnings position; in aggregate and separately for the Chemical-Pharmaceutical Raw Materials Domestic and International Segments and the Plastics Segment. The Executive Board informed the Supervisory Board regularly and comprehensively about the course of business and the current state of the company.

At the meeting held on 24 January 2012 the Supervisory Board discussed current business developments in detail with the new Executive Board team and subsequently approved them. In addition, the Supervisory Board received information on the production launch of the propane deasphalting plant. It also discussed the results of the review of H&R AG's articles of association and its own rules of procedure.

On 27 March 2012 the Supervisory Board examined the financial statements for 2011 in the presence of the auditors. After an in-depth discussion, both the separate and consolidated financial statements for H&R AG were approved, as was the proposal for appropriation of net income and thereby the dividend proposal. All these items were included on the agenda and the invitation to the Annual Shareholders' Meeting of H&R AG held on 31 May 2012. The recommendations from the Nomination Committee for elections to the Supervisory Board were also discussed and approved. In addition, the revised and partly amended rules of procedure for the Supervisory Board and the Advisory Board were discussed and approved. Finally, Mr Bernd Günther, the Chairman of the Supervisory Board, who left for age reasons, was elected as Honorary Chairman of the Supervisory Board by acclamation, in gratitude for everything he has done for the company over many years.

At the Supervisory Board meeting held after the Annual Shareholders' Meeting on 31 May 2012, Dr Joachim Girg was elected as the new Chairman of the Supervisory Board and Mr Volker Woyke as his deputy.

On 4 July 2012 the Supervisory Board dealt with the steps that had been taken to optimise the propane deasphalting plant. Activities to improve earnings were also discussed with the Executive Board. It was at this meeting that the Executive Board presented the "KAT10+" programme to boost efficiency. A resolution was also passed to establish H&R Singapore Ltd. and new elections were held for the Supervisory Board committees.

For the first time, the September meeting was scheduled to take place over two days. On 11 September 2012 the topics included current business developments as well as an update on the "KAT10+" project and in particular the status of the anti-trust proceedings and sales agreements. With regard to the latter, the Executive Board provided an overview of the current sales agreements and informed the Supervisory Board of its views on possible amendments. In connection with the efficiency drive "KAT10+" the Executive Board presented a new management structure for the two domestic refineries. Finally, the Supervisory Board discussed various human resources topics, including the appropriateness of existing Executive Board remuneration. The Executive Board was not present when this item was discussed. The meeting on 12 September 2012 had been set aside solely for strategic matters. Under the heading "Refinery Strategy 2020" the Executive Board presented its thoughts on the medium to long-term development of the Chemical-Pharmaceutical Raw Materials Division and discussed them in depth with the Supervisory Board. Finally, a resolution was adopted to establish another strategic sales office, H&R India Sales Private Limited.

The meeting on 30 October 2012 took place at the premises of GAUDLITZ GmbH in Coburg. Alongside a presentation of the changes made by the revision of the German Corporate Governance Code dating from 15 May 2012, the meeting focussed on the development of the Plastics Division. The Executive Board gave a presentation on GAUDLITZ GmbH's current course of business and its plans for the future. A further item on the agenda was the current earnings situation at H&R AG and the earnings forecast for the full year. The new refinery management structure presented at the September meeting was approved.

On 11 December 2012 the earnings situation for 2012 and steps to improve earnings in 2013 were discussed. The Executive Board presented its planning for 2013 and subsequent years. Following up on the October meeting, the Executive Board and Supervisory Board looked again at a number of questions relating to the strategy for GAUDLITZ GmbH. Also on the agenda was the adoption of the declaration of compliance with the German Corporate Governance Code for the years 2012/13 as presented by the Executive Board. With few exceptions, H&R AG currently complies with the recommendations of the German Corporate Governance Code Commission as published on 15 June 2012. You can find our current declaration of compliance in accordance with Art. 161 of the German Companies Act (AktG) on page 34 et seq. of this report and online at www.hur.com under H&R AG.

For further information see page 34 et seq.

www.hur.com

Audit of the separate and consolidated financial statements

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, (PwC) audited the separate and consolidated financial statements and the combined management report for H&R AG and the Group for the financial year 2012 and issued an unqualified audit certificate for each. The separate financial statements for H&R AG and the combined management report for H&R AG and the Group were prepared in accordance with German commercial law. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the European Union (EU) and the supplementary provisions of German commercial law required by Art. 315a para. 1 of the German Commercial Code (HGB). The auditors carried out their audit in accordance with Art. 317 HGB and with the generally accepted auditing principles defined by the Institute of Public Auditors in Germany (IDW). The Executive Board distributed the aforementioned documents to the members of the Supervisory Board in good time. On 25 April 2013 the allocation of total net income for 2012 to the retained earnings of H&R AG was discussed in detail at the meeting of the Audit Committee. The separate and consolidated financial statements and the combined management report were dealt with in depth at the exact meeting.

The auditors' reports from PwC were distributed to all the Supervisory Board members and were reviewed thoroughly in the presence of the auditors at the Supervisory Board meeting held on 25 April 2013 to discuss the financial statements. The auditors reported on the main findings of their audit and confirmed that the internal control and risk management system had no major flaws as far as the accounting process was concerned. In addition, the auditors talked about significant transactions and decisions that had been taken concerning the financial statements. The Chairman of the Audit Committee gave an extensive report to the full Supervisory Board on the committee's review of the separate and consolidated financial statements.

Once the separate and consolidated financial statements and the combined management report had been reviewed and discussed by the Supervisory Board, we accepted the result of the audit, in line with the recommendation of the Audit Committee, and approved both the separate and the consolidated financial statements. The separate financial statements were thereby adopted. As the separate financial statements did not recognise a distributable profit for the reporting year, the Executive Board did not present the Supervisory Board with a proposal for the appropriation of net income.

The report on relations with affiliated companies prepared by the Executive Board in accordance with Art. 312 AktG was also examined by the auditors. The auditors informed the Supervisory Board of the outcome of the audit and issued the following auditors' opinion:

"Having carried out the audit and assessment dutifully 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 auditors 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 Supervisory Board and Executive Board

The financial year 2012 saw numerous changes in the boards of the company. Mr Bernd Günther, Chairman of the Supervisory Board for many years, and Mr Holger Hoff, an employee representative, left the Supervisory Board at the close of the Annual Shareholders' Meeting on 31 May 2012. The Supervisory Board would like to thank both of them for a loyal working relationship. In recognition of all he has done for the company over many years the Supervisory Board elected Mr Günther as Honorary Chairman of the Supervisory Board by acclamation.

Ms Anja Krusel was elected to the Supervisory Board at the Annual Shareholders' Meeting. The shareholder representatives appointed by court order in September 2011, Dr Joachim Girg and Volker Woyke, were also elected to the Supervisory Board. Mr Harald Januszewski succeeded Mr Hoff as a new representative of the employees.

The Deputy Chairman of the Supervisory Board, Mr Volker Woyke, died on 9 October 2012. Mr Woyke also chaired the Refinery Technology and Strategy Committee. Although Mr Volker Woyke had only been a member of our Supervisory Board for a little over a year he was greatly appreciated. His commitment and profound knowledge of the business left a lasting impression on us. He was a role model for many of us and his advice was eagerly sought.

Mr Niels H. Hansen was appointed as Chief Executive Officer (CEO) with effect from 1 January 2012. At the same time Mr Luis Rauch joined the company as Chief Financial Officer (CFO).

The Supervisory Board would like to thank the members of the Executive Board, the employees and the employee representatives of H&R AG and all the Group companies for their work.

Hamburg, 25 April 2013

Dr Joachim Girg
Chairman

It is with great sorrow and regret that we pay our last respects to Mr Volker Woyke on behalf of H&R AG

VOLKER WOYKE
* 25 MARCH 1954 † 9 OCTOBER 2012

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 of 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 2012/2013

The Executive Board and the Supervisory Board of H&R AG declare that between 21 December 2011 and 15 June 2012, 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 Federal Gazette and the recommendations made by the Government Commission of the German Corporate Governance Code as amended on 15 May 2012 and announced on 15 June 2012, with the following exceptions:

For further information see the glossary on page 182 et seq.

- Item 4.2.3 para. 2 of the Code: The variable remuneration components paid to Detlev Wösten, deputy member of the Executive Board, are made up equally of the annual consolidated operating result (EBITDA), adjusted for any extraordinary result as defined in Art. 275 para. 2 no. 16 of the German Commercial Code (HGB), and a second so-called earnings component dependent on personal targets. From the company's 2013 financial year, this will be a maximum of 100 % of the annual fixed remuneration. This form of variable remuneration was decided upon in light of Detlev Wösten's position on the Executive Board being limited to the end of 2013. Since there are no long-term performance results that can be used for the calculation of the variable remuneration, no negative developments will be taken into account either. The Executive Board and the Supervisory Board are nonetheless certain that this form of variable remuneration sets no incentive that would be contrary to the company's sustainable development, since the variable remuneration components will be capped at 100 % of annual fixed salary from 2013. Should Mr Wösten's appointment to the Executive Board be extended, this form of variable remuneration will be examined against the legal requirements and the Code's recommendations.

- Item 4.2.3 para. 3 of the Code: The German Corporate Governance Code recommends that no subsequent changes to the targets or comparison parameters are made for variable remuneration components. The executive employment contracts of all Executive Board members ensure that the variable remuneration is limited in case of extraordinary developments in the company that could not have been foreseen at the time the contract was drawn up or at the time that targets were defined, which are deemed to make the payment of the agreed variable remuneration or the achievement of the defined targets unreasonable. This could also be dealt with by appropriate amendments to the targets already defined for the payment of variable remuneration. It is the opinion of the Executive Board and the Supervisory Board that this does not represent any form of prohibited repricing as defined in Item 4.2.3 para. 3 of the German Corporate Governance Code, but rather an amendment of the agreed targets which, due to unforeseen circumstances, could be interpreted as false incentives. Since the decision on whether the amount of variable remuneration or the predetermined targets could be deemed unreasonable lies with the company, a subsequent change to the targets to the detriment of the company can be ruled out.

- Item 4.2.3 para. 4 of the Code: In the case of Luis Rauch or Niels H. Hansen terminating their executive roles prematurely, the calculation of the compensation cap will not be based on total remuneration of the previous financial year or the estimated total remuneration for the current financial year, but rather solely on the annual fixed remuneration without consideration of the variable remuneration components. This regulation is more beneficial for the company than the recommendation of the Code and is therefore in the interest of the company.

- Item 5.1.2 para. 2 of the Code: With the exception of the executive employment contract held by Mr Luis Rauch, neither the executive employment contracts of other Executive Board members nor the rules of procedure for the Executive Board stipulate a general age limit for members of the Executive Board at H&R AG. Given the age structure of the company's current Executive Board, the Executive and Supervisory Boards see no need for a rule of this kind. Furthermore, imposing a formal age limit would needlessly make it more difficult to find suitable Executive Board members. When searching for suitable candidates, the focus should be on individuals' qualifications, not their age.

- Item 5.4.5 para. 1 of the Code: The former Chairman of the Supervisory Board at H&R AG, Mr Bernd Günther, was an executive at a publicly listed company. In total, he held more than three Supervisory Board mandates at listed companies outside the Group. In this particular case the Supervisory Board considered it unnecessary to limit the number of mandates, as the Chairman of the Supervisory Board had sufficient time to fulfil his mandates. Following Mr Bernd Günther's departure from the Supervisory Board at the close of the company's 2012 Annual Shareholders' Meeting on 31 May 2012, the company is again in compliance with Item 5.4.5 sentence 2 of the Code's recommendations.

- Item 5.4.6 para. 2 of the Code: The annual variable remuneration for the Supervisory Board according to Art. 15 para. 1 of the Articles of Association is linked to the return on capital employed (ROCE), which is calculated on the basis of the audited and approved consolidated financial statements by dividing the earnings before interest and tax (EBIT) by the total capital employed, i.e. the sum of net financial debt, equity and pension provisions. This financial-year-related variable remuneration is not tailored to sustainable company development in terms of a time frame spanning several years, as intended by Art. 87 para. 1 sentences 2 and 3 of the German Companies Act for executive remuneration. The current regulations in the Articles of Association were made before the Code's recommendations came into force and have therefore not taken the new recommendations into account. The Executive Board and the Supervisory Board are currently deciding whether to suggest an amendment to the Supervisory Board's variable remuneration in light of the new recommendations at the Annual Shareholders' Meeting.

- Item 7.1.2 sentence 3 of the Code: The consolidated financial statements for the financial year 2012 will be published later than the date mentioned in 7.1.2 of the Code, but within the period of four months stipulated by Art. 62 para. 3 of the Frankfurt Stock Exchange Regulations, Art. 37v para. 1 of the German Securities Trading Act (WpHG) and Art. 325 para. 4 of the German Commercial Code (HGB). The time required to prepare the consolidated financial statements means that an earlier publication date is not possible. Preliminary key performance indicators have already been published in advance. In future, the company will again comply with this recommendation of the German Corporate Governance Code.

Executive Board and Supervisory Board of H&R AG

Salzbergen, 27 March 2013

Compliance

Management and control at H&R AG are 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 values and the corporate policy inspired by them can be found online at www.hur.com under the heading "About H&R".

www.hur.com

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 focus on topics relating to occupational health and safety, environmental protection and anti-trust legislation.

For further information see page 78

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 are entitled to attend the meeting and 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 his 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 request information about matters concerning the company and its affiliated companies 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, the appointment of the auditors, 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.

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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 in conjunction with Art. 96 para. 1 clause 4, 101 para. 1 sentence 1 AktG in conjunction with Art. 1 para. 1 sentence 1 no. 1, para. 2 sentence 1 no. 1, 4 para. 1 of the German One Third Employee Participation Act (DrittelbG), our Supervisory Board is composed of nine members in total, of whom six are appointed by the Annual Shareholders' Meeting, with no obligation to follow proposals made by the company, and three by the employees in accordance with the regulations on co-determination (see also pages 170 to 171 of this report). The board is therefore subject to co-determination in accordance with the German One Third Employee Participation Act (DrittelbG).

For further information see pages 170–171

The period of office of the Supervisory Board members Bernd Günther and Nils Hansen ended at the close of the Annual Shareholders' Meeting 2012. The period of office of the court-appointed Supervisory Board members Dr Joachim Girg and Volker Woyke also ended at the same time. This meant that four shareholder representatives had to be elected at the Annual Shareholders' Meeting. Dr Joachim Girg, Mr Nils Hansen, Mr Volker Woyke and Ms Anja Krusel were elected to the Supervisory Board until the close of the Annual Shareholders' Meeting 2016. At the same time the Annual Shareholders' Meeting followed the proposal of the Supervisory Board to elect Mr Sven Hansen to the Supervisory Board conditionally, as a substitute for Mr Nils Hansen, should the latter leave the Supervisory Board before the end of his regular period of office.

The Supervisory Board has been chaired by Dr Joachim Girg since his election to the Supervisory Board at the Annual Shareholders' Meeting 2012.

The period of office of the employee representatives on the Supervisory Board also ended at the close of the Annual Shareholders' Meeting 2012. Of the departing members Mr Holger Hoff, Mr Reinhold Grothus and Mr Rainer Metzner, Mr Grothus and Mr Metzner were re-elected in April 2012. Mr Harald Januszewski is the third employee representative on the Supervisory Board.

The Supervisory Board oversees the Executive Board and advises its members on their management of the company. Executive Board members are appointed and dismissed by the Supervisory Board in line with Art. 84, 85 of the German Companies Act (AktG). Amendments to the Articles of Association are made on the basis of Art. 133, 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. Art. 13 of the Articles of Association defines further circumstances, in addition to those defined by statute, 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.

TABLE 03

SUPERVISORY BOARD COMMITTEES IN 2012

Committee	Members	Number of meetings	Conference Calls
Steering Committee	Dr Joachim Girg (Chair), Roland Chmiel, Reinhold Grothus, Nils Hansen	–	–
Capital Measures and Investment Committee	Dr Joachim Girg (Chair), Roland Chmiel, Anja Krusel	–	–
Audit Committee	Roland Chmiel (Chair), Dr Joachim Girg, Anja Krusel	2	2
Nomination Committee	Nils Hansen (Chair), Dr Joachim Girg, Dr Rolf Schwedhelm	1	1
Refinery Technology and Strategy Committee	Volker Woyke (Chair until October 2012), Dr Joachim Girg, Nils Hansen	6	6

Five Supervisory Board committees have been formed:

- A Steering Committee chaired by Dr Joachim Girg; the other members are Mr Roland Chmiel, Mr Reinhold Grothus and Mr Nils Hansen. 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 and Investment Committee chaired by Dr Joachim Girg; the other members are Mr Roland Chmiel and Ms Anja Krusel. This committee prepares Supervisory Board votes on capital measures.

- An Audit Committee chaired by Mr Roland Chmiel; the other members are Dr Joachim Girg and Ms Anja Krusel. As an auditor, Mr Chmiel has specialist knowledge and experience of applying accounting principles and internal control procedures. This is a requirement for chairing 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; the other members are Dr Joachim Girg and Dr Rolf Schwedhelm. 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 Refinery Technology and Strategy Committee chaired by Mr Volker Woyke (until October 2012); the other members are Dr Joachim Girg and Mr Nils Hansen. The committee is responsible for advising and supervising the Executive Board on the further strategic development of the H&R Group's refinery sites. Mr Volker Woyke died unexpectedly on 9 October 2012. A new chair for this committee will be elected in 2013.

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 28–33 of this annual report.

For further information see pages 28–33

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. In 2012 the Executive Board consisted of three people, whose responsibilities were as follows:

Niels H. Hansen,
Chief Executive Officer:
Corporate strategy, research and technology, capital market communications, sales companies, foreign operations and IT

Luis Rauch,
Chief Financial Officer:
Accounting, finance, human resources

Detlev Wösten,
deputy member of the Executive Board:
Refineries, production, technology

The former Executive Board members 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 Chief Financial Officer as of the same date.

Mr Detlev Wösten has been a member of the Executive Board since 1 August 2011.

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 were drawn up in accordance with the German Commercial Code (HGB). The separate and consolidated financial statements for H&R AG for the 2012 financial year have been audited by PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Hamburg, (PwC) 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 Chairman would be notified immediately of any grounds for debarment or conflicts of interest which may arise during the audit, unless these are resolved immediately. It was also agreed that the Supervisory Board would be notified immediately of any findings and occurrences arising during the audit that are significant to the duties of the Supervisory Board. Finally, PwC is 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 of the German Companies Act (AktG).

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 91–99 of this report.

For further information see pages 91–99

Shares held by members of the Supervisory Board and Executive Board

As of 31 December 2012 members of our Supervisory Board held a total of 15,157,781 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 151,363 H&R shares (0.5 % of share capital) in person as of year-end 2012. This means that as of 31 December 2012 a total of 15,156,021 H&R shares were attributable to Mr Nils Hansen, which corresponds to an interest of 50.56 % in the share capital.

As of 31 December 2012 members of our Executive Board held a total of 2,100 shares and therefore an interest of less than 1 % in 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 2012 financial year:

TABLE 04

DIRECTORS' DEALINGS 2012

Date	Place	Name	Function	Financial instrument	Type of trans-action	Number of shares	Price per share	Transaction volume
16/2/12	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	3,000	15.63	46,909.65
9/3/12	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	6,000	15.47	92,865.00
19/4/12	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	4,000	14.42	57,680.00
31/5/12	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	3,000	14.64	43,935.00
1/6/12	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	1,300	13.98	18,174.00
4/6/12	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	10,000	13.05	130,552.70
7/6/12	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	3,642	13.83	50,386.96
13/7/12	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	5,000	13.51	67,594.30
18/7/12	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	2,198	13.28	29,196.52
19/7/12	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	5,000	13.85	69,250.00
23/7/12	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	7,000	13.06	91,455.00
26/7/12	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	5,000	12.34	61,727.50
30/7/12	XETRA	Luis Rauch	Management Board	H&R share	Purchase	500	12.25	6,125.00
17/8/12	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	5,000	12.31	61,550.00
31/10/12	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	5,000	12.71	63,575.00
16/11/12	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	3,000	12.18	36,541.38
26/11/12	XETRA	Luis Rauch	Management Board	H&R share	Purchase	500	12.00	6,000.00
17/12/12	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	5,000	11.96	59,821.80

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 in regular contact with both institutional and private investors at capital market conferences and shareholder events.

For a detailed description of our capital market activities, please refer to the chapter "H&R on the capital market" (pages 44–47 of this report).

For further information see pages 44–47

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 is made up of three members. 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 requirements, 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 an annual special/acknowledgement bonus up to a maximum of €100,000.00 that is awarded at the Supervisory Board's discretion. Special rules exist for the deputy Executive Board member Detlev Wösten, who was initially only appointed for three years. His variable remuneration components are made up equally of the annual consolidated operating result (EBITDA), adjusted for any extraordinary result as defined in Art. 275 para. 2 no. 16 of the German Commercial Code (HGB), and personal targets.

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 reviewed regularly and adjusted as necessary by the Supervisory Board. 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.

The fixed salary is reviewed regularly every two years.

VARIABLE REMUNERATION. The variable remuneration paid to Executive Board members, apart from Mr Detlev Wösten, 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 annual target bonus is capped at 100 % of gross annual salary for Mr Niels H. Hansen and at 62.5 % of gross annual salary for Mr Luis Rauch.

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 earnings component depends on whether the EBITDA defined in the business plan is achieved. If EBITDA is 110 % or more above plan, the Executive Board member is entitled to 50 % of the annual target bonus. The maximum entitlement to the earnings component is reduced on a straight-line basis by the amount by which EBITDA is below plan.

The sustainability component provides for a variable bonus based on the average return on capital employed (ROCE) over a rolling three-year period. The return is calculated as the ratio of EBIT to average capital employed (equity plus net financial debt, pension provisions and other non-current provisions). A maximum of 50 % of the annual target bonus is paid if the average annual ROCE reaches 20 %. The maximum entitlement to the sustainability component is reduced pro rata to 0 % for a ROCE of up to 5 %.

For further information see the glossary on page 182 et seq.

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 timeframe spanning several years.

Should a Board member's executive role be terminated prematurely, any payments agreed – 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 para. 4 of the German Corporate Governance Code as amended on 15 June 2012. The company has followed this recommendation to the extent legally possible by including what are known as "coupling clauses" in executive employment contracts.

The executive employment contracts of all Executive Board members ensure that the variable remuneration is limited in case of extraordinary developments in the company that could not have been foreseen at the time the executive employment contract was drawn up or at the time that targets were defined, which are deemed to make the payment of the agreed variable remuneration or the achievement of the defined targets unreasonable. This could also be dealt with by appropriate amendments to the targets already defined for the payment of variable remuneration.

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.

TABLE 05

EXECUTIVE BOARD REMUNERATION

	Fixed remuneration		Variable remuneration		Total	
	2012 IN €	2011 IN €	**2012[1] IN €**	2011 IN €	**2012 IN €**	2011 IN €
Niels H. Hansen	356,837	296,000	80,763	–	437,600	296,000
Luis Rauch	418,218	–	57,688	–	475,906	–
Detlev Wösten	221,054	83,771	43,601	62,500	264,655	146,271
Gert Wendroth (until 31/12/2011)	–	475,739	–	400,000	–	875,739
Andreas Keil (until 31/12/2011)	–	374,897	–	350,000	–	724,897
Total	**996,109**	**1,230,407**	**182,052**	**812,500**	**1,178,161**	**2,042,907**

[1] In the financial year 2012, the members of the Executive Board renounced variable remuneration components of €82,782 to which they were entitled (which includes the entire sustainability component of €79,500).

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. The return 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, €10,000.00 is paid to each Supervisory Board member per financial year. For each percentage point over the 10 % minimum return, the variable remuneration increases by €1,500.00 for each Supervisory Board member per financial year. The variable remuneration is limited to a total of €32,500.00 per Supervisory Board member and financial year.

Supervisory Board members who belong to one of the Supervisory Board's committees receive an additional 1/8 of the annual fixed remuneration per committee. Members of the company's Audit Committee receive 1/4 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 €200.00 for each Supervisory Board or committee meeting they attend.

In 2012 a total of €60 thousand (previous year: €84 thousand) was paid in fees in the course of a consultancy contract with Idunahall Verwaltungs-Gesellschaft mbH, which is controlled by Mr Bernd Günther, a former Chairman of the Supervisory Board.

TABLE 06

SUPERVISORY BOARD REMUNERATION[1)]

	Fixed remuneration		Remuneration for Supervisory Board activities		Variable remuneration		Total	
	2012 IN €	2011 IN €	**2012 IN €**	2011 IN €	**2012 IN €**	2011 IN €	**2012 IN €**	2011 IN €
Bernd Günther[2)] (Chairman)	24,918	60,000	7,268	17,500	–	17,800	32,186	95,300
Dr Joachim Girg[3)] (Chairman)	47,541	8,082	11,107	740	–	5,706	58,648	14,528
Roland Chmiel[4)]	21,639	24,137	12,910	12,500	–	17,800	34,549	54,437
Anja Krusel (since 31/5/2012)	11,694	–	3,689	–	–	–	15,383	–
Dr Rolf Schwedhelm	20,000	24,192	3,770	5,000	–	17,800	23,770	46,992
Volker Woyke[5)]	20,847	6,411	4,980	1,479	–	5,706	25,827	13,596
Nils Hansen	20,000	20,000	13,811	15,740	–	17,800	33,811	53,540
Reinhold Grothus	20,000	20,000	1,230	–	–	17,800	21,230	37,800
Holger Hoff (until 31/05/2012)	8,306	6,411	–	–	–	5,706	8,306	12,117
Harald Januszewski (since 31/5/2012)	11,694	–	–	–	–	–	11,694	–
Rainer Metzner	20,000	20,000	–	–	–	17,800	20,000	37,800
Total	**226,639**	**189,233**	**58,765**	**52,959**	**–**	**123,918**	**285,404**	**366,110**

[1)] Figures without attendance fees
[2)] Chairman until 31/05/2012
[3)] Deputy Chairman until 31/5/2012; Chairman from 31/5/2012
[4)] Deputy Chairman from 1/11/2012
[5)] Deputy Chairman from 31/5/2012 until 31/10/2012 (†)

Company share and share price performance

STOCK MARKETS MUCH FRIENDLIER IN 2012. Those involved with the German stock market can look back on a generally successful performance over the reporting period. The German share index (DAX) had its best year since 2003, rising by 29.1 % to 7,612 points. On an international comparison this means German shares performed much better than the American Dow Jones index, for instance, which went up by 7 %, or the EURO STOXX 50, which climbed by nearly 14 %.

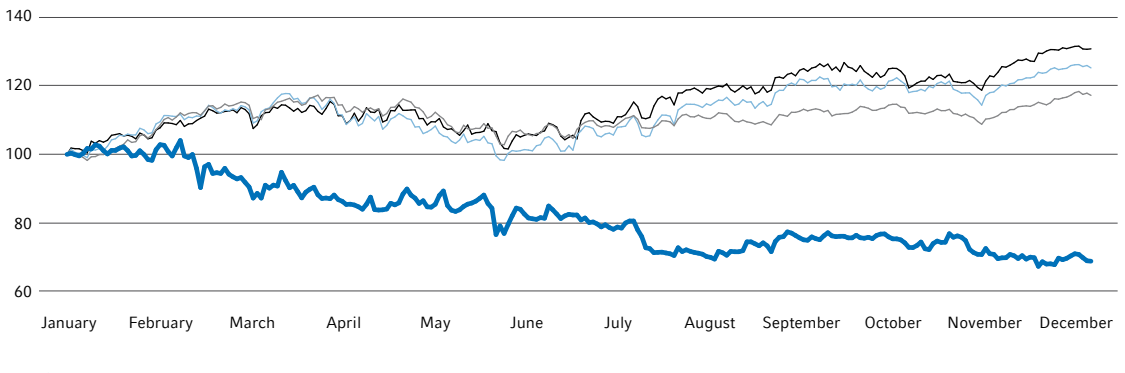
In 2011 the performance of German shares was still held back by the sovereign debt crisis, but 2012 was a much more attractive proposition altogether for investors. Low interest rates on fixed income investments, an expansionary monetary policy by central banks and the steps taken to cope with the euro debt crisis, which were well received by capital markets, all came together to create an environment in which investors started investing more in equities again.

The performance of the DAX over the year reflected both the strength of the German economy and investor confidence in German companies. Although the index declined towards mid-year as investors feared for the future of the euro, the statements on the European Stability Mechanism from the European Central Bank and the German Constitutional Court sent a vital message to capital markets. International investors then returned in greater force to European markets, from which the German stock market benefited more than most.

GRAPH 01

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

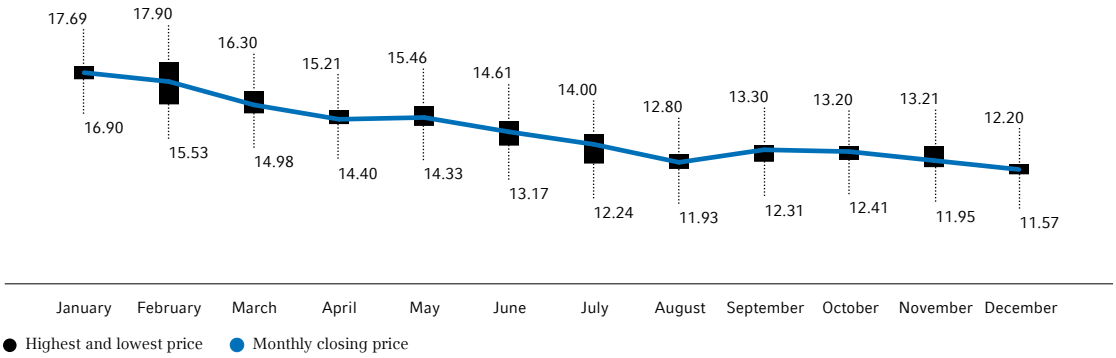
(INDEX 30/12/2011 = 100)



GRAPH 02

HIGHEST AND LOWEST PRICES OF THE H&R SHARE, FULL YEAR 2012

IN €



SUBDUED PERFORMANCE BY H&R SHARE. Trading in H&R AG shares began the first months of the 2012 financial year under the influence of the strong performance in 2011. The share reached its high for the year at the XETRA closing price of €17.90 on 9 February, which at that point represented an increase of 4.1 % on the opening price for the year. Markets came under increasing pressure towards the middle of the year. The DAX fell sharply, as did the SDAX – the reference index for 50 smaller German companies and an important index for the H&R share. The H&R AG share could not escape this general downward trend. It came under additional pressure from the earnings impact of higher raw materials prices, which was outlined in the half-year financial statements.

Although international markets and shares in the majority of German companies experienced a sharp recovery in the second half of the year, the performance of the H&R share remained subdued until year-end. The high expectations created by the strong 2011 financial year were not fulfilled in the third quarter, despite good revenue developments. The share plumbed its low for the year on 6 December at €11.57, recovering slightly to €12.20 before closing the year at €11.83.

TABLE 07

DIVIDEND YIELD FOR THE H&R SHARE

BASED ON CLOSING PRICES FOR THE YEAR

IN %	Yield
2007	3.95
2008	3.67
2009	3.00
2010	3.09
2011	3.63
2012	–

TABLE 08

BASIC DATA ON THE H&R SHARE

ISIN/WKN	DE0007757007 / 757007
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 and 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 2012 the market capitalisation of our company on a like-for-like basis was €354.4 million (31 December 2011: €496.1 million). As a result of this fall in market capitalisation we slipped down the joint index ranking for MDAX and SDAX companies listed with Deutsche Börse, which is based on this criterion, tumbling to 85th place (31 December 2011: 66th place).

On the criterion of trading volume our share moved up to 70th place (31 December 2011: 73rd place) at the end of the reporting period. Altogether, H&R shares valued at €132.5 million were traded on German exchanges in 2012 (based on the XETRA average annual price). This corresponds to an average daily trading volume of €521.6 thousand. The majority of transactions in H&R shares were completed via the XETRA electronic trading platform.

With these rankings, the company's listing in the SDAX remains secure.

TABLE 09

KEY SHARE DATA

	2012	2011	2010	2009	2008
Number of shares on 31 December[1]	29,973,112	29,973,112	29,973,112	29,973,112	29,973,112
Earnings per share	€0.01	€1.29	€1.74	€0.83	€1.05[3]
Highest price for the year	€17.90	€21.86	€22.89	€16.85	€21.11
Lowest price for the year	€11.57	€12.98	€13.20	€7.55	€9.25
Price on 31 December	€11.83	€16.55	€21.05	€14.98	€10.90
Performance (excluding dividend)[2]	–28.2 %	–21.4 %	40.5 %	37.4 %	–46.1 %
Market capitalisation on 31 December	€354.4 million	€496.1 million	€630.9 million	€449.0 million	€326.7 million
Dividend	–	€0.60	€0.65	€0.45	€0.40
Dividend yield	–	3.6 %	3.1 %	3.0 %	3.7 %
Average daily trading volume	€522 thousand	€575 thousand	€666 thousand	€423 thousand	€859 thousand

[1] Since 2008 ordinary shares only.
[2] Based on closing price of the shares for the year.
[3] The cartel fine reduced earnings per share by €0.73.

BOARD MEMBERS INCREASE STAKE IN H&R AG. In the reporting period we received notice of 18 directors' dealings in H&R shares.

The Supervisory Board member Nils Hansen increased his holdings of H&R shares in 16 steps by a total of 73,140 shares.

Luis Rauch, the Chief Financial Officer, acquired a total of 1,000 shares in two steps.

The individual transactions are listed in the "Directors' dealings" section on page 40 of this report.

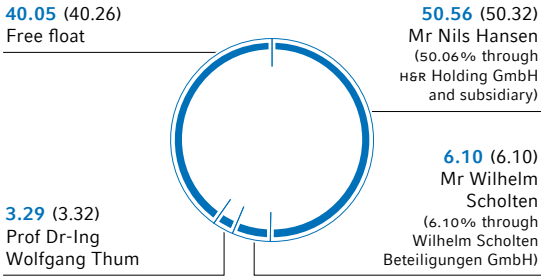
For further information see page 40

SHAREHOLDER STRUCTURE. According to notification received from Mr Nils Hansen dated 23 December 2010, his share of voting rights exceeded the threshold of 50 % on 17 December 2010 and came to 50.06 % as of this date. These voting rights are held by H&R Beteiligung GmbH and are attributable to Mr Nils Hansen via H&R Holding GmbH.

GRAPH 03

SHAREHOLDER STRUCTURE AS OF 31/12/2012

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



According to the last informal notification received from him, Mr Nils Hansen held an additional 0.5 % of the voting rights in person as of year-end 2012.

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 2012.

According to a disclosure under the German Securities Trading Act (WpHG) dated 3 February 2009, Prof. Dr.-Ing. Wolfgang Thum held 4.13 % of the voting rights in H&R AG on 28 January 2009. According to an informal disclosure his share of voting rights came to 3.29 % as of year-end 2012.

The remaining 40.05 % of H&R shares were in free float as of 31 December 2012.

ANNUAL SHAREHOLDERS' MEETING WELL ATTENDED. Our Annual Shareholders' Meeting held in Hamburg on 31 May 2012 was again an encouraging confirmation of the great interest shown by our shareholders in the affairs of the company. The meeting was attended by 74.0 % of voting capital (previous year: 76.4 %), on par with the good level seen in recent years. All the agenda items put forward for voting were approved by more than 94.0 % of represented capital, including the proposal by the Executive Board to distribute a dividend of €0.60 per share for the 2011 financial year (2010: €0.65).

Investor relations

INTENSIVE COMMUNICATION WITH CAPITAL MARKETS. Our investor relations activities seek to maintain an ongoing, constant and open exchange of information with everyone involved in the capital market. For us the year 2012 was defined by the need to make contact with private and institutional investors even more efficient and focused.

The Executive Board and investor relations staff spoke with more than 100 fund managers at a total of eleven (previous year: 20) conferences and roadshows in Baden-Baden, Stuttgart, Munich, Frankfurt, Dresden and Zurich. We concentrated on attending specific conferences where we were able to address a large number of investors at once. This concept reduces the amount of time required and ensures that our communications work is efficient: it has proved itself as a model for the future.

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 again at information events for private investors, providing information about H&R AG's performance and prospects and taking part in discussions at events organised by the associations Deutsche Schutzvereinigung für Wertpapierbesitz (DSW) in Hamburg, Lüneburg and Berlin and the Hamburg Stock Exchange Day. Private shareholders and interested members of the public were again provided with opportunities to visit our refineries in Hamburg and Salzbergen.

Many investors 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.

TABLE 10

INVESTOR RELATIONS

Banks offering research coverage	10
Analysts' reports	47
Participants at the analysts' conference	19
Roadshow and conference days involving the Executive Board	11
Events for private investors	4

RESEARCH COVERAGE REMAINS HIGH. In the reporting period analysts from ten different banks and credit institutes produced research studies on the H&R share and provided investors with regular updates. New in 2012 were the reports by Close Brothers Seydler AG and Hauck & Aufhäuser Institutional Research AG. The research departments of UniCredit Bank AG and WestLB AG were wound up, however, and coverage discontinued.

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.

TABLE 11

RESEARCH COVERAGE OF THE H&R SHARE

Bankhaus Lampe
CA Cheuvreux
Close Brothers Seydler (new in 2012)
Commerzbank
Hauck & Aufhäuser Institutional Research (new in 2012)
Kepler Capital Markets
LBBW
NordLB
Silvia Quandt
SRH Alster Research

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

H&R AG
Investor Relations
Am Sandtorkai 50
20457 Hamburg
Germany
Phone: +49 (0) 40-43218-321
Fax: +49 (0) 40-43218-390
Email: investor.relations@hur.com
Internet: www.hur.com

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 34 et seqq. of this report.

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

KEY TOPICS IN 2012

– *Sustained strong demand for crude oil-based speciality products*

– *Revenue up again to €1,228.9 million; all segments report revenue growth*

– *Operating result (EBITDA) for the full year severely depressed by prices of raw materials and base oils*

– *Efficiency drive and expansion of international activities ensure competitiveness*

– *Arrangements made to meet financing covenants and secure funding for the long term*

– *Extensive package of activities intended to boost profitability*

Business and overall climate

– Chemical-Pharmaceutical Raw Materials Division is main revenue driver
– Product portfolio comprises more than 800 crude oil-based speciality products
– Global presence expanded and proximity to customers improved

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 2012: 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. Over 800 different products are created in the course of our production processes. Most of them are sold through our distributor Hansen & Rosenthal to more than 100 different buyer industries.

For further information see the glossary on page 182 et seq.

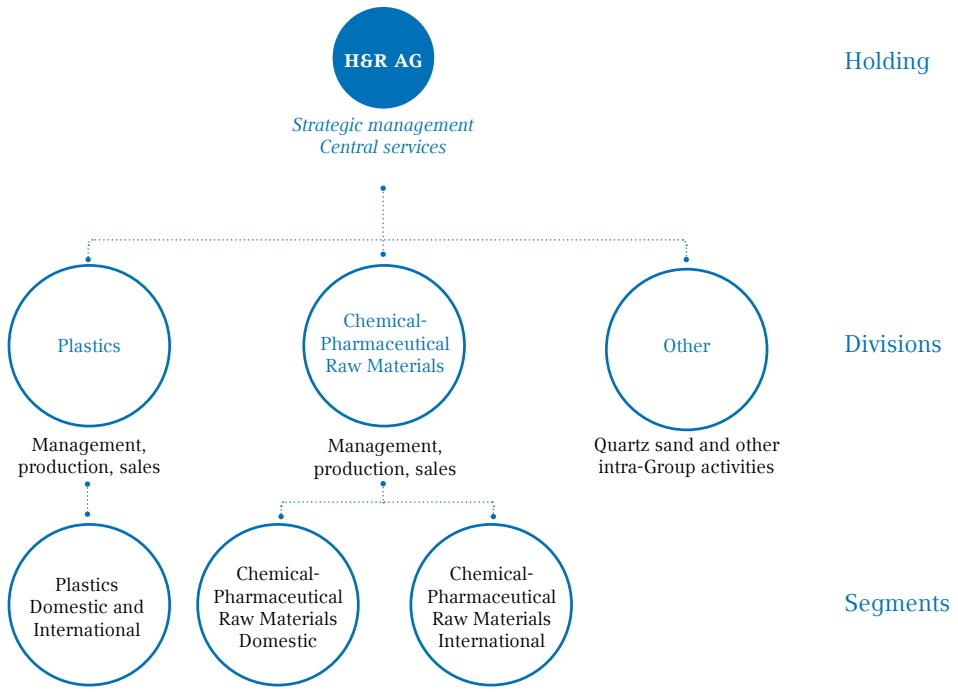
Our Chemical-Pharmaceutical Raw Materials International Segment (share of revenue in 2012: 20 %) bundles numerous blending and conversion plants as well as distribution sites in other European countries and overseas. The segment's main products include label-free plasticisers for the tyre industry and wax emulsions for the building materials industry.

In the much smaller Plastics Division (share of revenue in 2012: 5 %) 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 main customer. Areas of increasing importance include medical devices and other industrial applications.

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). H&R AG is investigating whether to exploit these considerable reserves, which add up to some 13.5 million tonnes. In the reporting period further preparatory work was carried out and a number of steps in the complex approval procedure successfully completed. Alternative uses for the land are also under review.

GRAPH 04

PRESENTATION OF GROUP STRUCTURE



Legal structure

As the Group's parent company, H&R AG is in charge of the strategic management of our business operations. 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.

Sites

At year-end 2012, our Group employed 1,458 people around the world. The following overview shows our most important sites with more than ten members of staff:

At the end of the reporting period the number of consolidated subsidiaries was 28 (31 December 2011: 27). The company H&R Singapore Pte Ltd. was established in the reporting period. This company was set up in connection with the expansion of our distribution network in the strategically important South-east Asian market. Our subsidiaries can be found in the list of shareholdings (pages 178 et seq. of this annual report).

For further information see pages 178 et seq.

TABLE 12

MAIN SITES IN THE H&R GROUP

Continent	Country	City	Division	Employees
Africa	South Africa	Durban	Chemical-Pharmaceutical Raw Materials	39
Asia	China	Wuxi	Plastics	130
	Malaysia	Port Klang/Batu Caves	Chemical-Pharmaceutical Raw Materials	19
	Thailand	Bangkok/Si Racha	Chemical-Pharmaceutical Raw Materials	32
Australia	Australia	Laverton	Chemical-Pharmaceutical Raw Materials	36
Europe	Germany	Hamburg	Chemical-Pharmaceutical Raw Materials	257
		Salzbergen	Chemical-Pharmaceutical Raw Materials	381
		Coburg	Plastics	354
	UK	Tipton	Chemical-Pharmaceutical Raw Materials	40
	Netherlands	Nuth	Chemical-Pharmaceutical Raw Materials	19
	Czech Republic	Dačice	Plastics	94

Main products, services and business processes

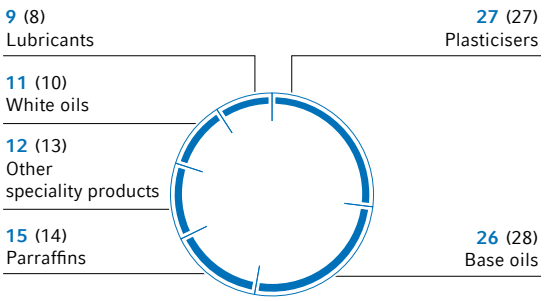
So-called long residue is the primary raw material used at our specialist refineries in Germany, as well as vacuum gas oil. These derivatives, which are produced when crude oil is distilled at fuel refineries, undergo a number of production stages to turn them into base oil – the raw material needed 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. Following the upgrade to our refineries, what used to be by-products of this process are now efficiently utilised – this creates more high-grade crude oil-based speciality products and a new by-product, bitumen, used for road building.

Customer demand was particularly strong in 2010 due to the economic upturn, so new orders fell slightly for the second year in a row in the reporting period. As a result the volume of major products sold by our Chemical-Pharmaceutical Raw Materials Division declined from 872,000 tonnes in 2011 to 839,000 tonnes.

GRAPH 05

SALES OF MAIN PRODUCTS IN 2012

IN % (PREVIOUS YEAR'S FIGURES)



We also refine crude oil-based feedstock at the Chemical-Pharmaceutical Raw Materials International Segment's blending and conversion plants. Production here centres on environmentally friendly, label-free plasticisers and wax emulsions. In the international segment we also enter into production partnerships and use production facilities operated by our local partners. This enables us to reduce both capital expenditure and risks while accelerating our growth.

In the Plastics Division, we produce high-precision, 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 blends 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.

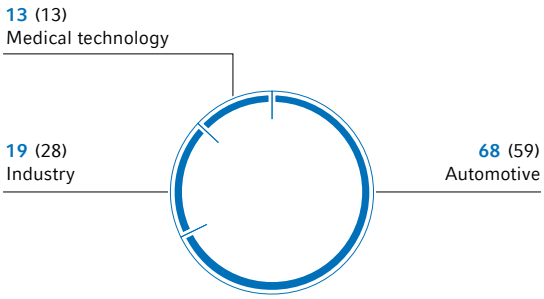
The customers of our Plastics Division can be divided into three groups, of which the automotive industry is still the largest by far. Other increasingly important customer groups are the medical device industry and the general industrial sector. In the latter group we primarily include products for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

GRAPH 06

REVENUE BY CUSTOMER GROUP IN THE PLASTICS DIVISION FOR 2012

IN % (PREVIOUS YEAR'S FIGURES)



Legal and economic factors

The production process at our plants in Salzbergen and Hamburg generates residues which are used as components of a bunker fuel containing sulphur. With effect from 1 January 2015, the International Maritime Organization (IMO) plans to reduce the maximum permissible sulphur content for bunker fuel in the North Sea and Baltic from 1.0 % to 0.1 %. New guidelines are also expected to apply to global shipping from 2020. The maximum value should fall to 0.5 %.

Implementing this reduction in the permitted level of sulphur in bunker fuel will in all probability restrict the marketing opportunities for our residue in future. Nonetheless, by using what are known as propane deasphalting plants, we can convert the residue into environmentally friendly, crude oil-based speciality products and an asphalt that is used in the road-building industry.

For further information see the glossary on page 182 et seq.

At our speciality refineries in Germany we use long residue as the feedstock for our products. The price of this derivative, which is produced when crude oil is distilled at fuel refineries, correlates with the current price of crude oil. Product margins are often reduced temporarily as a result of the interaction between raw materials prices and base oil prices. Base oil is a by-product of our joint production process and is used to make engine oils, among other things. As rising raw materials prices can generally only be passed on in the form of higher product prices after a certain delay, the margin for base oil is difficult to forecast, given the strong volatility of prices.

Corporate management, objectives and strategy

Internal management system

A value-based management system is used to guide and manage the Group. At the heart of this system is a comprehensive method of reporting for key figures. This helps the management team to monitor 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 leading 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.

For further information see the glossary on page 182 et seq.

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 % target rate of return for the reporting period (previous year: 7.7 %).

Our borrowing costs are determined by calculating the ratio of interest expense to average interest-bearing debt. They came to 5.3 % in the reporting period (previous year: 5.0 %). Taking the tax rate of 28.3 % into account, the after-tax figure was 3.8 % (previous year: 3.6 %).

This corresponds to a weighted average cost of capital after tax of 6.4 % (previous year: 6.4 %) 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: 8.9 %).

TABLE 13

COST OF CAPITAL (WACC)

IN %	2012	2011
Risk-free interest rate	2.3	3.2
Market risk premium	6.0	5.0
Beta for H&R AG	0.9	0.9
Cost of equity	7.7	7.7
Percentage of equity	67.0	69.0
Cost of debt before tax	5.3	5.0
Group tax rate	28.3	28.3
Cost of debt after tax	3.8	3.6
Percentage of debt	33.0	31.0
WACC after tax	6.4	6.4
WACC before tax	8.9	8.9

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 a ROCE of at least 15.0 %. In the reporting period we were unable to meet this minimum target, generating a ROCE of 5.3 %.

For further information see the glossary on page 182 et seq.

TABLE 14

RETURN ON CAPITAL EMPLOYED (ROCE)

€ MILLION	2012	2011	2010	2009	2008[1]
EBIT	25.4	68.1	82.0	44.7	56.9
Ø Capital Employed	478.1	449.5	377.8	343.8	341.8
ROCE in %	**5.3**	**15.2**	**21.7**	**13.0**	**16.6**

[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 €–17.2 million in the reporting period (previous year: €28.3 million).

For further information see the glossary on page 182 et seq.

LIQUIDITY. By focussing on our free cash flow, we ensure that the H&R Group will retain its financial solidity in the future. Our free cash flow is largely 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.

TABLE 15

FREE CASH FLOW

€ MILLION	2012	2011	2010	2009	2008
Cash flow from operating activities	84.7	–11.8	52.1	21.5	16.0
Cash flow from investing activities	–33.7	–42.3	–32.8	–23.6	–44.9
Free cash flow	**50.9**	**–54.2**	**19.3**	**–2.1**	**–28.9**

We improved cash flow from operating activities substantially in 2012, mainly by cutting net working capital. This had risen the previous year due to the higher prices of raw materials and products, but we managed to achieve a reduction in 2012 by means of various activities, in particular forfaiting and more efficient overall management of receivables and inventories.

In 2012 we limited our capital expenditure primarily to small and medium-scale maintenance and modernisation work. Substantial cash outflows were incurred the previous year to pay for components of our propane deasphalting plant. After the negative figure for the previous year, this meant we were able to generate a substantially positive free cash flow again in 2012.

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 three financial covenants, which relate to our equity, the ratio of our net debt to operating earnings (EBITDA) and the interest coverage ratio. The latter only applies to the 10-year tranche of the borrower's note loan. Net gearing is another important key performance indicator for our capital structure. This expresses our net debt in relation to equity.

For further information see the glossary on page 182 et seq.

TABLE 16

CAPITAL STRUCTURE

€ MILLION	2012	2011	2010	2009	2008
Net debt/ EBITDA	3.17	2.15	1.08	1.79	2.00
Equity ratio in %	35.8	38.0	42.5	39.3	38.2
Net gearing in %	70.4	79.4	49.2	64.7	62.0

GROWTH. We measure our growth using absolute earnings indicators such as EBITDA, EBIT and EBT as well as by sales volumes of 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.

TABLE 17

EARNINGS AND VOLUME GROWTH

€ MILLION	2012	2011	2010	2009	2008
Sales volume main products in kt[1]	839	872	932	812	775
EBITDA	49.3	89.1	103.4	65.6	51.2
EBIT	25.4	68.1	82.0	44.7	34.9
EBT	1.5	54.5	73.6	36.2	23.8

[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.

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, the current focus is on increasing the value added by our refineries.

The propane deasphalting plant in operation at our Hamburg refinery since late 2011/early 2012 makes more efficient use of a residue generated during the production process to deliver an additional raw material for conversion into high-grade crude oil-based speciality products. Just like the catalyst after which it is named, our efficiency improvement programme "KAT10+" is intended to improve workflows, make them more efficient and accelerate processes within the company. The multidisciplinary approach applied at a number of technical and operational points aims to increase the value added by our company and to deliver additional earnings potential of €10.0 million a year, hence the suffix 10+.

For further information see the glossary on page 182 et seq.

The final legal arrangements are currently being made to switch the Salzbergen site to contract processing of high-grade speciality products. Thereafter a test phase of 18 to 24 months is planned.

In our International Chemical-Pharmaceutical Segment we plan to keep ramping up our activities in high-growth markets, especially in Asia and South America. By extending our distribution network to Singapore, India and Brazil we have laid the groundwork for further stable revenue and earnings growth in our international business. We have set ourselves the target of increasing the revenue share of our chemical-pharmaceutical business outside Europe from around 19 % at present to 30 % by 2015. In addition to organic growth, we also intend to expand upon our successful production partnership 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 opens up growth opportunities for us in this customer segment. However, sales performance in the automotive industry in recent years has shown clearly how important it is to build up additional customer segments – such as medical devices – in order to diversify risk. To set ourselves apart from the many manufacturers on the market and to deepen our vertical integration, 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 device 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 guided 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. Managerial staff within this segment are responsible for key functions such as raw materials purchasing, project management, accounting and sales at both sites. This enables us to keep the organisational structure lean and thereby realise 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. Our Group financing structure currently consists of a borrower's note loan for a total of €150.0 million and a syndicated loan for up to a further €150.0 million. As of 31 December 2012, approximately €78.0 million was also outstanding on various investment loans refinanced by the state-owned bank KfW, of which €50.0 million related to KfW environmental loans.

Last year the gearing ratio agreed in the covenant to the syndicated loan, the KfW environmental loan and other loans was breached as of 30 June 2012. After some discussion, the syndicate banks agreed to waive both the gearing test as of 30 June 2012 and 30 September 2012 and their right to terminate the loan agreement. To provide greater room for manoeuvre the covenant ratio was adjusted to 3.5 at the end of the year. This applies until 31 December 2014 for the syndicated loan and otherwise for the remaining term of the loans. However, the interest rate coverage ratio for the ten-year tranche of the borrower's note loan was not met as of 31 December 2012. In early 2013 the lenders were therefore offered an early repayment of the loan, which they accepted for an amount of €21.0 million. A waiver was agreed with the creditor for the remaining amount.

The syndicated loan and a KfW environmental loan for a nominal amount of €50.0 million are governed by the terms of the ten-year tranche. Because the covenant was formally breached, these loans were also recognised as current as of 31 December 2012.

As a purely precautionary measure we have also agreed a waiver for the 1st quarter of 2013, although we do not expect to breach the covenant. We have also applied and received the banks' consent to increase the gearing for the 2nd and 3rd quarters of 2013.

For more information on our main financing instruments, please refer to the section "Financial management principles and objectives" on page 71 et seq. of this report.

For further information see page 71 et seq.

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 managed 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 leverage 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.

Although we again had no need to buy in external production expertise or patents in the reporting period, we did cooperate closely with universities and research institutes. 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. The range of applications for our crude oil-based speciality products is particularly diverse: around 800 products in total serve as raw materials 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 in 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.

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.

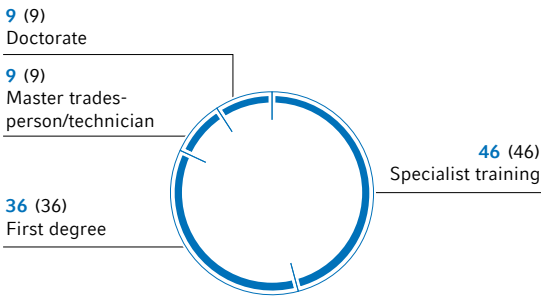
PLASTICS. Increasingly complex technology is being used in vehicles to reduce fuel consumption and CO_2 emissions. This is prompting growing demand for complex plastic parts. We often develop such parts – which consist of several different materials – in conjunction with our clients, who supply car makers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

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

GRAPH 07

QUALIFICATION STRUCTURE IN R&D IN 2012

IN % (PREVIOUS YEAR'S FIGURES)

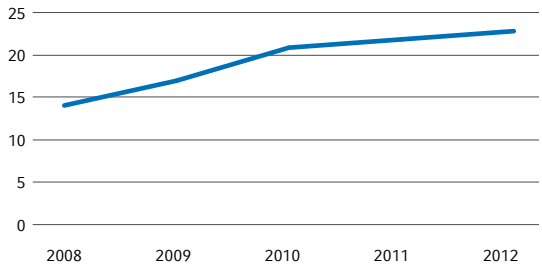


R&D expenses, staff and key figures

GRAPH 08

EMPLOYEES IN R&D

NUMBER



The importance of our research activities is reflected in our consistently high spending over many years and the recruitment of additional staff in this field. Out of a total of 23 employees (previous year: 22) in the Research & Development department, all have relevant qualifications, either in the form of an apprenticeship in a chemicals-related trade or in some cases a master qualification. Other highly qualified staff include engineering graduates and those with a doctorate in chemistry.

At nearly €2.1 million, R&D spending was on par with the previous year. Our R&D ratio, defined as R&D expense in relation to revenue, fell slightly from 0.18 % to 0.17 % because revenue was higher.

TABLE 18

RESEARCH AND DEVELOPMENT COSTS

€ THOUSAND	2012	2011	2010	2009	2008
Research and development costs	2,072	2,117	1,783	1,477	1,202
of which Chemical-Pharmaceutical Raw Materials Division	1,720	1,817	1,424	1,147	852
of which Plastics Division	352	300	359	330	350
As % of annual revenue	0.17	0.18	0.17	0.19	0.12

Course of business at a glance

The course of business at the H&R Group in the reporting period was defined largely by price-driven revenue increases and a robust sales situation in the first nine months of the year. Although this trend was not maintained into the final quarter, H&R completed the financial year with total revenue of more than €1.2 billion, exceeding the previous year's record figure. Product volumes fell slightly. The performance was mostly thanks to the strength of the Chemical-Pharmaceutical Division, which again accounted for 95 % of revenue. The Plastics Division made further progress with its restructuring and repositioning and also contributed slightly higher revenue in 2012.

At the earnings level, performance over the year was mixed: after a decline in the first six months of 2012 we were initially able to increase our operating result in the second half, but came under pressure again towards the end of the year. Altogether, we generated EBITDA of €49.3 million, which was much lower than in the two record years before, due to greater competition and pressure on margins. The prices for crude oil and base oils were also more volatile.

Macroeconomic climate

The global economy lost momentum again in 2012. According to estimates by the Kiel Institute for the World Economy (Institut für Weltwirtschaft, IfW), global production rose by just 3.2 % on average, following another equally modest increase of 3.8 % the year before.

In developed economies the rise in gross domestic product (GDP) was also moderate and the euro area even slipped into recession. The necessary restructuring of the excessive debt amassed in some eurozone countries before the financial crisis depressed demand and led to a need for structural supply-side changes at the same time. The resulting uncertainty on the part of consumers and investors put a considerable drag on the economy. Over the full year 2012 GDP in the euro area fell by 0.5 % – the countries in the euro area most affected by the crisis, Portugal (–1.8 %), Italy (–0.9 %) and Spain (–0.7 %) remained mired in recession.

The pace of growth slowed sharply in developing and emerging markets, whose economies had expanded very rapidly in the recovery phase immediately after the financial crisis. Weak demand from industrialised countries was joined by domestic economic problems, thereby depressing growth.

At year-end the Kiel Institute's indicator for global economic activity picked up somewhat, based on confidence levels measured in 42 countries.

Growth in H&R AG's key Southeast Asian emerging markets remained moderate, according to estimates by the International Monetary Fund (IMF). Although growth rates of between 5 % and 6 % were reported in the first half, slightly above the average for Asia, a decline in government spending over the remainder of the year slowed the pace.

GRAPH 09

EXCHANGE RATES €/US$ IN 2012

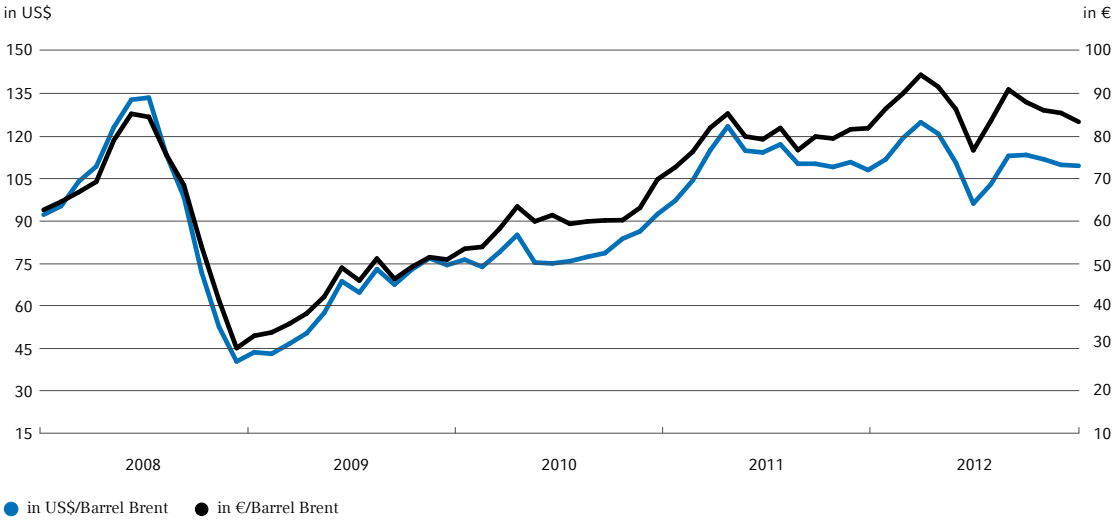
The weak export environment and uncertainty over the ability of the political decision-makers to overcome the crisis in the euro area also dampened economic growth in Germany in the reporting year. New orders and industrial production already began to turn downwards in the spring. German companies were again hit hard towards the end of the year: growth for the full twelve months came to 0.7 %, according to figures from the German Institute for Economic Research (Deutsches Institut für Wirtschaftsforschung, DIW). The German economy in particular felt the headwinds from abroad, where the pace of growth had also slowed: some important trading partners in the eurozone were still in a deep recession. Exports to Asia fell sharply for the first time since 2008/2009. This marked the end of a long-term trend in which the euro area was becoming less important as a sales market for Germany, with this key role being taken up by emerging Asian economies. The Kiel Institute nonetheless sees a good chance that German companies will make up for weaker demand from the euro area thanks to their strong position on Asian markets and increased sales activities.

The euro initially appreciated against the US dollar in the reporting period. Having closed the previous year at US$1.29, the euro strengthened until the middle of February 2012, reaching a high for the year of US$1.35. By the summer the euro had shed all of these gains, brought low by the accelerating debt crisis in many European states and the ongoing debate about the future of the common currency, reaching its low point for the year in July at an exchange rate of US$1.21 per euro. Thereafter the positions taken by the European Central Bank and the German Constitutional Court with regard to the European Stability Mechanism helped the euro to a substantial recovery. Its closing rate for the year of nearly US$1.32 was almost the same as its opening rate.

GRAPH 10

OIL PRICES 2008–2012

(AVERAGE MONTHLY PRICES)



For further information see the glossary on page 182 et seq.

The price of crude oil (all figures relate to a barrel of North Sea Brent) went up sharply in the first three months of 2012. The high for the year was recorded as early as March at US$128.40. Crude oil prices then fell steeply until early summer, dropping below the US$100 mark to a low for the year of US$88.53. The closing price for the year of US$111.30 (31 December 2011: US$107.50) represents an annual increase of 3.5 %. As the euro was stronger in relation to the US dollar, the price of crude oil only rose moderately in euros, H&R AG's functional currency.

Industry-specific climate

The German chemical industry's expectations for the year 2012 were not fulfilled, according to the industry association VCI. Production fell, but revenue remained constant at €184.2 billion thanks to a price increase of 2.5 %. Although domestic revenue was down, the industry enjoyed continuing strong demand from outside Europe, which more than made up for the rather sluggish course of business on the continent. Altogether, Germany's third-largest sector languished in the difficult global environment – slow global economic growth and the recession in Southern Europe put a harsh end to the forecasts announced by many chemical companies at the beginning of the year.

Capacity utilisation for the chemical industry fell slightly in 2012, but remained high at 82.8 %, according to estimates by VCI. Despite the economic downturn the German chemical industry increased the size of its workforce in 2012. At the end of the year the sector had some 437,000 employees, which represented an increase of 2.3 % or 10,000 jobs compared with 2011.

Events with a major impact on the course of business

We laid the foundations for our very encouraging revenue growth right at the start of 2012. Income of €335 million at the end of the first quarter was a record for our business. Subsequent quarters were also impressive, with revenue above the €300 million mark, but our business lost momentum towards the end of the year. In total, and despite the lower income in the fourth quarter, revenue exceeded the previous year's figure of €1.2 billion in 2012. Most of the additional revenue was delivered by our chemical-pharmaceutical speciality products. The volume of main products sold fell from 872,000 tonnes in 2011 to 839,000 tonnes. As a result of higher raw materials costs, prices for the products manufactured in these segments were much higher than in the previous year.

To understand earnings development for last year, several factors are important. Firstly, it became clear early on that the very favourable framework conditions and economic environment seen in 2011 – and therefore the exceptionally high level of earnings – could not be reproduced on a 1:1 basis in 2012. Secondly, the operating result for 2012 bore the burden of lower sales volumes, higher raw materials costs, fluctuating crude oil prices and more volatile margins. Finally, another key success factor for our business is to operate our production facilities at full capacity and without interruptions. As far as the scheduled shutdowns for routine TÜV tests were concerned, we were able to keep these unavoidable interruptions to a minimum. There were unexpected start-up difficulties at our new propane deasphalting plant in the 1st quarter of 2012. We were therefore not able to exploit the full potential of the plant in the financial year under review.

These factors were largely responsible for the fact that we were not able to maintain the previous year's earnings over the full year 2012 at Group level.

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

Revenue in the Chemical-Pharmaceutical Raw Materials Division of €1,173.3 million was above the minimum total revenue forecast in the 2011 Annual Report of €1.1 billion.

The revenue growth in our biggest division was largely driven by higher raw materials costs, which we were partially able to pass on in the form of higher product prices after a certain delay. Our income statement for the 2012 financial year therefore shows an increase of 3.0 % in the cost of materials, from €987.3 million to €1,017.4 million, in addition to the 1.6 % rise in revenue. 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. Our budget assumption of constant year-on-year crude oil prices, with an average price of US$110.00 per barrel, was largely accurate. However, the market value of our base oil was much lower than planned. This is a by-product of our other

processes and is used as a basis for lubricants. No further refinement is possible. The value of base oil as reported by ICIS pricing was volatile over the course of the year and difficult to forecast. On top of this, the pressure from competition was much higher in a number of product categories, which we were only partly able to offset with higher revenue from other speciality products.

Revenue in the Plastics Division came to €55.6 million, which was below our minimum forecast of €65.0 million. Orders from our customers in the automotive industry in particular were lower than planned as a result of the decline in car sales.

When the Annual Report for 2011 was published in March 2012, the Executive Board gave a revenue forecast for 2012 of between €1.1 billion and €1.3 billion. These assumptions were reiterated in all the quarterly reports. An operating result (EBITDA) on par with the previous year 2011 was deemed ambitious from the outset, however.

When the half-yearly results were published in 2012 the Executive Board corrected its forecast again and stated that in view of the course of business the result would be significantly down on the 2011 financial year. With an operating result (EBITDA) of €49.3 million for the full year 2012, this scenario did indeed materialise.

As a result of the unsatisfactory earnings situation, H&R AG breached certain covenants attached to the financial instruments both over the course of the year and at year-end. All these breaches of covenant were covered by waivers from the holders of the borrower's notes, but the costs of negotiating the waivers in turn reduced earnings.

TABLE 19

FORECASTS FOR THE FINANCIAL YEAR 2012

Date of forecast	30/3/2012	Actual figure
Revenue at Chemical-Pharmaceutical Raw Materials Division	≥ €1,100.0 million	€1,173.3 million
Revenue at Plastics Division	≥ €65.0 million	€55.6 million
Group EBITDA	< €89.1 million	€49.3 million

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

– Revenue up following growth in all segments
– Earnings improvement at Chemical-Pharmaceutical Raw Materials International
– EBITDA at Group level down sharply due to various factors

Earnings position

In the 2012 financial year we generated very strong revenue of €1,228.9 million (previous year: €1,209.5 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 95 % of revenue in 2012. Overall, the primarily price-related increase in revenue did not have a positive effect at the earnings level, however. Alongside feedstock volatility, this was primarily due to the weak performance of prices for base oils, which more than offset positive pricing trends in other product areas.

TABLE 20

VARIATION ANALYSIS

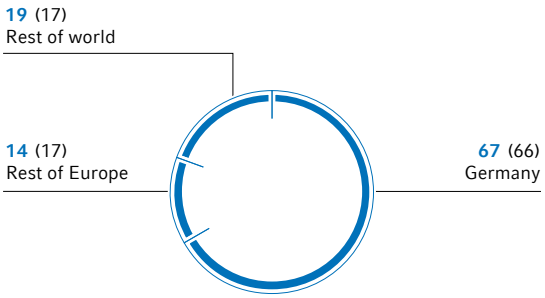
IN PERCENTAGE POINTS	2012
Revenue change	**1.6**
Due to volume/structure	–3.5
Due to pricing	4.2
Due to currency movements	0.9

The regional focus of our business activities remains on Germany, where 66.7 % of revenue was generated. This percentage includes transactions with our sales partner – the Hansen & Rosenthal Group – which conversely 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 33.3 % of revenue, other European countries account for 14.4 percentage points, while the rest of the world makes up 18.9 percentage points.

GRAPH 11

GROUP REVENUE BY REGION IN 2012

IN % (PREVIOUS YEAR'S FIGURES)



After a very good first quarter in 2012, sales volumes of crude oil-based speciality products declined over the summer and autumn months but were still better than in the same periods of the previous year. The consolidated operating result (EBITDA) was lower than the previous year's however, falling by 44.7 % compared with 2011 to €49.3 million (previous year: €89.1 million).

The EBITDA margin deteriorated by 3.4 percentage points, from 7.4 % in the 2011 financial year to 4.0 %. After deducting slightly higher depreciation and amortisation, we reported Group earnings before interest and taxes (EBIT) of €25.4 million – a 62,7 % decrease (previous year: €68.1 million).

Earnings before taxes (EBT) fell more steeply than the aforementioned earnings indicators because the interest expenses on our financing instruments increased due to the costs of obtaining the waiver: They collapsed by 97.2 % from €54.5 million in 2011 to €1.5 million. Consolidated net income after minority interests fell by 99.0 % to €0.4 million thousand (previous year: €38.5 million). Earnings per share were €0.01, as against €1.29 in the previous year.

For further information see the glossary on page 182 et seq.

TABLE 21

REVENUE AND EARNINGS DEVELOPMENT

€ MILLION	2012	2011	2010	2009	2008
Revenue	1,228.9	1,209.5	1,056.8	762.3	1,035.2
Operating result (EBITDA)	49.3	89.1	103.4	65.6	51.2
EBIT	25.4	68.1	82.0	44.7	34.9
Earnings before taxes	1.5	54.5	73.6	36.2	23.8
Consolidated net income before minority interests	0.3	38.5	52.0	25.1	9.6
Consolidated net income after minority interests	0.4	38.5	52.0	25.0	9.5
Earnings per share (€)	0.01	1.29	1.74	0.83	0.32
Return on equity in %	0.1	16.3	25.6	14.4	5.5
Return on capital employed (ROCE) in %	5.3	15.2	21.7	13.0	10.4

Orders trend

Over the first nine months of the financial year 2012, new orders for the products in our Chemical-Pharmaceutical Division were on par with the strong previous year. Only towards the end of the year did demand fall back, partly because customers reduced their order volumes in anticipation of the upcoming holiday period. Demand also declined towards year-end for macroeconomic reasons. Altogether, we sold 839,000 tonnes (2011: 872,000 tonnes) of our main products.

The Plastics Division saw rising order volumes at the beginning of the reporting period. This trend was largely driven by customers from the automotive industry. Orders fell sharply in the second half of the year in particular, however, as the mood on the automotive market darkened.

The division's order book at the end of 2012 was unchanged year on year at €34.0 million.

Development of the main items in the income statement

Stocks of finished and unfinished products fell by €6.4 million in the reporting period, largely as a result of optimising our inventory management procedures.

Higher raw materials prices drove up the cost of materials by 3.0 % to €1,017.4 million in the 2012 financial year (previous year: €987.3 million). This took the cost of materials ratio up to 83.2 %, compared with 79.7 % a year previously.

Despite an increase in staff numbers, personnel expenses fell by 4.2 % to €73.0 million (previous year: €76.2 million). In line with our strategy, one of the main aims of our capacity expansion was to strengthen our international business. At the same time it means we benefit from lower wage costs in local labour markets. Lower bonuses and performance-related payments also helped to keep personnel expenses down.

Depreciation and amortisation rose by 13.8 % to €23.9 million despite lower capital expenditure on property, plant and equipment. The previous year's figure was €21.0 million. The increase is principally due to the additional depreciation for our propane deasphalting plant, which has been in operation at our Hamburg site since December 2011.

TABLE 22

DEVELOPMENT OF THE MAIN ITEMS IN THE INCOME STATEMENT

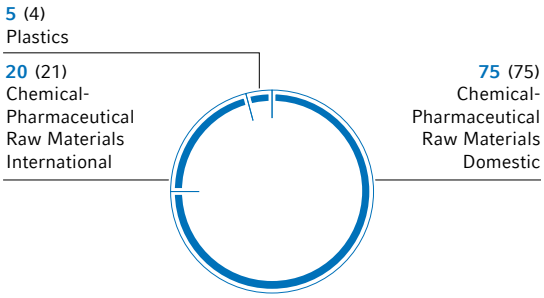
€ MILLION	2012	2011	2010	2009	2008
Revenue	1,228.9	1,209.5	1,056.8	762.3	1,035.2
Changes in inventories	–6.4	29.0	20.3	3.4	5.4
Other operating income	19.7	21.0	21.3	15.6	23.9
Cost of materials	–1,017.4	–987.3	–812.8	–557.6	–825.2
Personnel expenses	–73.0	–76.2	–74.5	–67.9	–62.7
Depreciation and amortisation	–23.9	–21.0	–21.4	–20.8	–16.3
Other operating expenses	–102.9	–107.2	–108.1	–90.4	–125.4
Income from operations	**25.1**	**67.8**	**81.7**	**44.7**	**34.8**
Financial result	–23.6	–13.4	–8.1	–8.5	–11.0
Earnings before taxes	**1.5**	**54.5**	**73.6**	**36.2**	**23.8**
Consolidated net income before minority interests	**0.3**	**38.5**	**52.0**	**25.1**	**9.6**
Consolidated net income after minority interests	**0.4**	**38.5**	**52.0**	**25.0**	**9.5**

Interest expenses increased in 2012. Additional costs were also incurred for the interest rate swaps and the waivers. The early repayment of €21.0 million of the 10-year tranche of the borrower's note loan also resulted in extra expenses. In total these effects increased expenses by €6.1 million, reducing the financial result to €–23.6 million, some 76.1 % below the previous year's figure of €–13.4 million. Our tax expenses went down more or less in line with our earnings before taxes (EBT). Tax expenses of €1.2 million (previous year: €16.0 million) correspond to a tax rate of 28.3 %, almost unchanged compared with the previous year.

GRAPH 12

REVENUE BY SEGMENT IN 2012

IN % (PREVIOUS YEAR'S FIGURES)



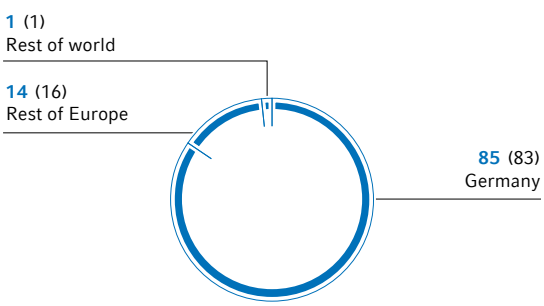
Earnings trends in the segments

CHEMICAL-PHARMACEUTICAL RAW MATERIALS DOMESTIC. 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 1.0 % to €952.2 million in the 2012 financial year (previous year: €943.2 million). By contrast, the operating result (EBITDA) for the segment declined by 53.7 % to €33.0 million (previous year: €71.3 million), primarily due to slightly lower sales volumes for crude oil-based speciality products and lower margins at the end of the year.

GRAPH 13

REVENUE BY REGION IN THE CHEMICAL-PHARMACEUTICAL RAW MATERIALS DOMESTIC SEGMENT IN 2012

IN % (PREVIOUS YEAR'S FIGURES)

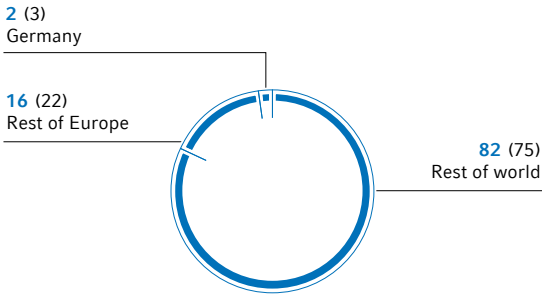


CHEMICAL-PHARMACEUTICAL RAW MATERIALS INTERNATIONAL. Revenue in the international segment also increased – by 1.8 % to €254.1 million (previous year: €249.6 million) – on the back of higher prices. As speciality products with more stable margins account for a larger share of the product portfolio, the operating result (EBITDA) went up by 1.6 % year on year to €19.3 million (previous year: €19.0 million).

GRAPH 14

REVENUE BY REGION IN THE CHEMICAL-PHARMACEUTICAL RAW MATERIALS INTERNATIONAL SEGMENT IN 2012

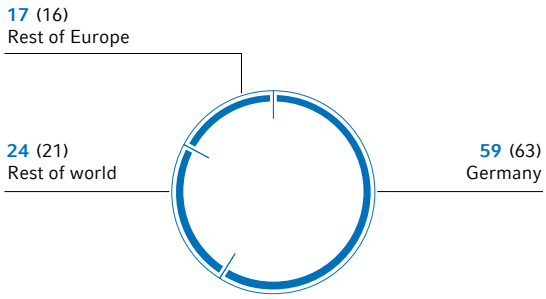
IN % (PREVIOUS YEAR'S FIGURES)



GRAPH 15

REVENUE BY REGION IN THE PLASTICS SEGMENT IN 2012

IN % (PREVIOUS YEAR'S FIGURES)



PLASTICS. Our Plastics Segment benefited from an increase in new orders. The ensuing rise in volumes of 5.7 % was higher here than in the other segments and generated revenue of €55.6 million (previous year: €52.6 million). After recording an operating profit (EBITDA) of €2.3 million in the previous year, we reported a loss of €0.8 million in the reporting period, partly due to the launch of operations at our site in the Czech Republic.

TABLE 23

KEY FIGURES FOR THE SEGMENTS (IFRS)

€ MILLION	2012	2011	2010	2009	2008
Revenue					
Chemical-Pharmaceutical Raw Materials Domestic	952.2	943.2	808.1	583.2	819.8
Chemical-Pharmaceutical Raw Materials International	254.1	249.6	229.8	158.8	174.5
Plastics	55.6	52.6	42.8	38.7	47.6
Others/consolidation	–33.0	–35.9	–23.9	–18.4	–6.7
Operating result (EBITDA)					
Chemical-Pharmaceutical Raw Materials Domestic	33.0	71.3	86.7	51.7	59.6[1]
Chemical-Pharmaceutical Raw Materials International	19.3	19.0	20.7	19.7	12.7
Plastics	–0.8	2.3	–0.3	–3.0	2.1
Others/consolidation	–2.2	–3.5	–3.7	–2.8	–1.2

[1] Figure has been adjusted for the provision for the cartel fine of €22.0 million.

Financial and asset 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
- compliance with financing conditions
- 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 long-term funding, in November 2011 we replaced the syndicated loan taken out in 2008 for up to €250.0 million with borrower's note loans 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. We are also required to maintain a certain interest coverage ratio for the 10-year tranche of the borrower's note loan amounting to €31.0 million.

Further waivers were agreed in connection with the covenant breach to maintain the financing arrangements and avert potential liquidity risks. For a detailed description we refer to the explanation on page 59 and the presentation of existential risks on pages 97 and 98.

For further information see pages 59, 97 and 98

TABLE 24

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[1]	2011	30/11/2021
Redeemable loan	20.0[2]	2009	30/6/2019

[1] Of which €21 million refinanced at the start of 2013.
[2] Before capital repayments.

In addition to these debt instruments we took out ten-year loans of €20.0 million in May 2009 and €50.0 million in January 2011 via the state-owned promotional bank Kreditanstalt für Wiederaufbau (KfW) 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.

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 hedging relationships for the interest rate swaps recognised as cash flow hedges ceased to exist in the 2012 financial year, because the criteria for their effectiveness were no longer met.

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

With earnings for the period before minority interests, taxes and interest of €23.8 million, our cash flow from operating activities for 2012 was substantially positive again at €84.7 million (previous year: €–11.8 million). The cash flow from operating activities was boosted primarily by a sharp reduction of €76.7 million in net working capital. Cash outflows for income tax payments also fell to €7.4 million (previous year: €22.2 million). The cash outflow for investing activities declined to €33.7 million (previous year: €42.3 million). The majority of this expenditure related to modernisation and maintenance work at our refineries. As a result, free cash flow (total cash flow from investing and operating activities) was substantially positive again at €50.9 million (previous year: €–54.2 million).

The cash outflow for financing activities came to €15.3 million (previous year: cash inflow of €91.3 million). €18.0 million was paid in dividends to the shareholders of H&R AG and approximately €6.2 million was spent on the repayment of debt. In 2011 this item consisted of capital repayments of €201.1 million. New financial liabilities of €311.8 million in 2011 as part of the refinancing operation contrasted sharply with the figure of just €8.6 million in 2012.

At the end of the reporting period, cash and cash equivalents amounted to €89.6 million, having totalled €53.1 million one year earlier. Optimised receivables management, including factoring, and more efficient inventory management were the main reasons for the improvement.

Existing payment obligations in the current year consist of €0.7 million for finance leases and €4.6 million for operating leases. The total amount of liabilities falling due to banks in 2011 is €69.6 million on account of the reporting date.

TABLE 25

FINANCIAL POSITION

€ MILLION	2012	2011	2010	2009	2008
Cash flow from operating activities	84.7	–11.8	52.1	21.5	16.0
Cash flow from investing activities	–33.7	–42.3	–32.8	–23.6	–44.9
Free cash flow	50.9	–54.2	19.3	–2.1	–28.9
Cash flow from financing activities	–15.3	91.3	–26.9	8.3	30.2
Financial resources as of 31/12	89.6	53.1	16.2	20.9	14.4

Capital expenditure

Our capital expenditure fell to €36.7 million (previous year: €41.1 million) in the reporting period. Property, plant and equipment accounted for €35.3 million of the total (previous year: €39.5 million), while €1.4 million (previous year: €1.6 million) went towards intangible assets.

TABLE 26

CAPITAL EXPENDITURE IN THE SEGMENTS

€ MILLION	2012	2011	2010	2009	2008
Chemical-Pharmaceutical Raw Materials Domestic	30.8	37.9	33.3	22.0	43.9
Chemical-Pharmaceutical Raw Materials International	1.8	1.3	3.5	1.5	1.6
Plastics	3.3	1.4	1.6	0.7	1.5
Other activities	0.8	0.5	0.9	0.2	0.1
Group	**36.7**	**41.1**	**39.3**	**24.4**	**47.1**

We invested a total of €32.6 million (previous year: €39.2 million) in the Chemical-Pharmaceutical Raw Materials Division in the 2012 financial year. A large proportion of the total (€30.8 million) was for maintenance and repair work at the refinery sites in Hamburg and Salzbergen. The division's remaining capital expenditure of €1.8 million was divided among our international sites.

By contrast, capital expenditure in the Plastics Division rose sharply from €1.4 million in 2011 to €3.3 million in the reporting year. We invested the bulk of this in our site in Coburg (Germany). The amount invested in our foreign activities was modest, however.

The substantial investment in our refineries meant that the bulk of our capital expenditure again took place in Germany, which accounted for nearly 92 % of total spending (previous year: 95 %).

GRAPH 16

INVESTMENT BY REGION IN 2012

IN % (PREVIOUS YEAR'S FIGURES)

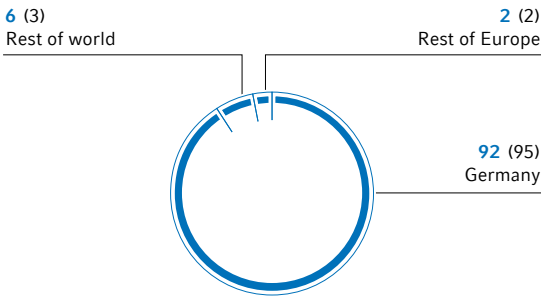


TABLE 27

NET CAPITAL EXPENDITURE VOLUME

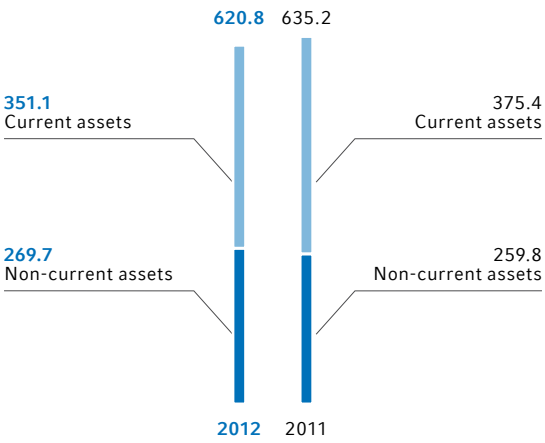
€ MILLION	2012	2011	2010	2009	2008
Capital expenditure	36.7	41.1	39.3	24.4	47.1
– Depreciation	23.9	21.0	21.4	20.8	16.3
– Disposal of assets	0.4	0.6	0.1	0.3	0.4
Net capital expenditure volume	**12.4**	**19.5**	**17.8**	**3.3**	**30.4**

Balance sheet analysis

GRAPH 17

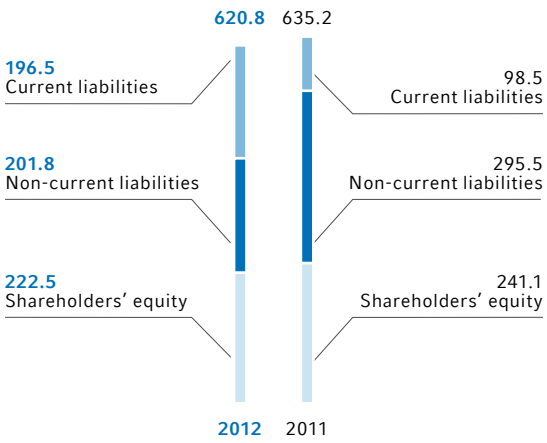
ASSETS

€ MILLION



SHAREHOLDERS' EQUITY AND LIABILITIES

€ MILLION



The balance sheet total contracted by 2.3 % to €620.8 million as of year-end 2012 (31 December 2011: €635.2 million). Cash and cash equivalents went up sharply to €89.6 million compared with €53.1 million a year previously as a result of forfaiting (€27.2 million), optimised receivables and inventory management (€12.8 million) and a customer's early payment (€10.7 million).

Trade accounts receivable dropped by 41.0 % to €70.0 million as of the reporting date (31 December 2011: €118.6 million). The reason for the decline was partly the fall in business towards the end of the year and therefore the lower amount of receivables as of the reporting date. Furthermore, intensive collection management, including factoring, also had a positive effect on our accounts receivable. Inventories fell by 8.9 % as of 31 December 2012 from €198.3 million to €180.6 million.

Overall, current assets declined by 6.5 % to €351.1 million as of 31 December 2012, compared with €375.4 million a year earlier. Their share of the balance sheet total decreased to 56.6 % (previous year: 59.1 %).

Non-current assets went up by 3.8 % in 2012 to €269.7 million as against €259.8 million on 31 December 2011. The main driver of this increase was the 5.9 % rise in property, plant and equipment from €206.9 million to €219.1 million.

On the liabilities side of the balance sheet, current liabilities doubled from €98.5 million to €196.5 million and their share of total equity and liabilities rose correspondingly to 31.7 % (31 December 2011: 15.5 %). Trade accounts payable were up 19.1 % to €61.7 million as of the reporting date (31 December 2011: €51.8 million). Other provisions declined by 32.8 % to €8.8 million (previous year: €13.1 million), due to lower profit-sharing for employees. This was offset by the substantial increase in other financial liabilities as a result of restructuring the borrower's note loan. As the negotiations with investors on the interest coverage ratio for the 10-year tranche of the borrower's note loan were not completed as of 31 December 2012, the €31.0 million from this tranche was recognised as current liabilities.

The syndicated loan and a KfW environmental loan for a nominal amount of €50.0 million are also governed by the terms of the ten-year tranche. Because the covenant was formally breached, these loans were also recognised as current as of 31 December 2012.

Non-current liabilities decreased by 31.7 % to €201.8 million (31 December 2011: €295.5 million), contracting from 46.5 % to 32.5 % as a proportion of the balance sheet total. Most of this reduction is due to the fall in liabilities to banks from €191.1 million to €133.7 million and in other financial liabilities from €37.6 million to €9.0 million. As mentioned above, the latter results from the reclassification of the 10-year tranche of the borrower's note loan to current liabilities.

Shareholders' equity at H&R AG came to €222.5 million at the end of the reporting period and was therefore around 7.8 % lower than in the previous year (31 December 2011: €241.1 million). The dividend payment to shareholders of approximately €18.0 million was largely responsible for the decline. The equity ratio fell accordingly, but remained at a solid 35.8 % as of the reporting date (31 December 2011: 38.0 %). Net gearing (net debt in relation to equity) dropped by 9.0 percentage points from 79.4 % to 70.4 %.

For further information see the glossary on page 180 et seq.

There were no acquisitions or disposals of companies in the reporting period.

Our off-balance sheet assets consisted mainly of the leased portion of the refinery site in Hamburg and our leased vehicle fleet.

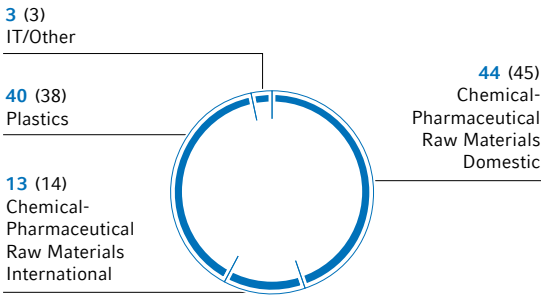
Non-financial performance indicators

Employees

GRAPH 18

EMPLOYEES BY SEGMENT IN 2012

IN % (PREVIOUS YEAR'S FIGURES)



The number of employees at the H&R Group increased as of year-end 2012 by 49 to 1,458 (31 December 2011: 1,409). Most of the new recruitment took place at foreign companies in the Plastics Division.

CHEMICAL-PHARMACEUTICAL RAW MATERIALS. At 835, the number of employees in the Chemical-Pharmaceutical Raw Materials Division was nearly unchanged as of year-end 2012 (31 December 2011: 836). The division's domestic refineries in Hamburg and Salzbergen employed 644 people at the end of the reporting period (31 December 2011: 642). The number of employees at our international companies only changed marginally as well, to 191 (31 December 2011: 194). The largest foreign sites by headcount were those in the United Kingdom (40), South Africa (39), Australia (36) and Thailand (32).

PLASTICS. In the Plastics Division we hired 46 new members of staff due to the improving order situation. This took the headcount from 532 at year-end 2011 to 578 as of 31 December 2012. Recruitment was particularly strong abroad, where 31 new jobs were created. While capacities in China were adjusted to lower sales volumes, the workforce at our Czech site grew substantially.

GRAPH 19

EMPLOYEES BY REGION 2012

IN % (PREVIOUS YEAR'S FIGURES)

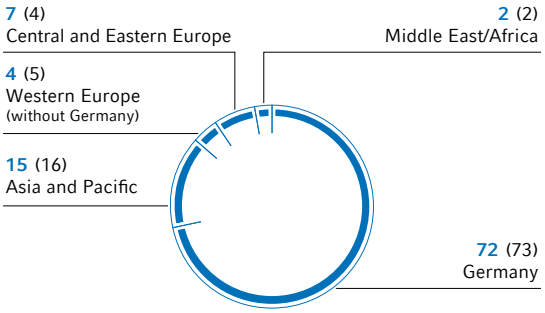


TABLE 28

PERSONNEL KEY FIGURES

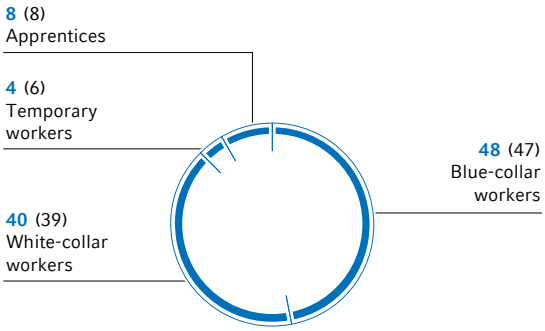
	2012	2011	2010	2009	2008
Employees	1,458	1,409	1,374	1,336	1,340
thereof apprentices	85	85	81	73	78
Personnel expenses in € million	73.0	76.2	74.5	67.9	62.7

At our foreign subsidiaries we have recorded only the total number of employees since 2012, but in Germany we still distinguish between blue and white-collar workers. Blue-collar workers make up the largest section of the workforce at our domestic companies with 47.6 %. White-collar workers accounted for 40.2 % and temporary staff for 4.1 %.

GRAPH 20

EMPLOYEES BY TYPE OF CONTRACT IN 2012

IN % (PREVIOUS YEAR'S FIGURES)



In 2012 we again assumed our social responsibility by training young people. Across the Group an unchanged total of 85 young professionals were completing an apprenticeship at the end of the year. 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. With the current number of apprentices H&R is already very well prepared for the Group's medium-term personnel requirements.

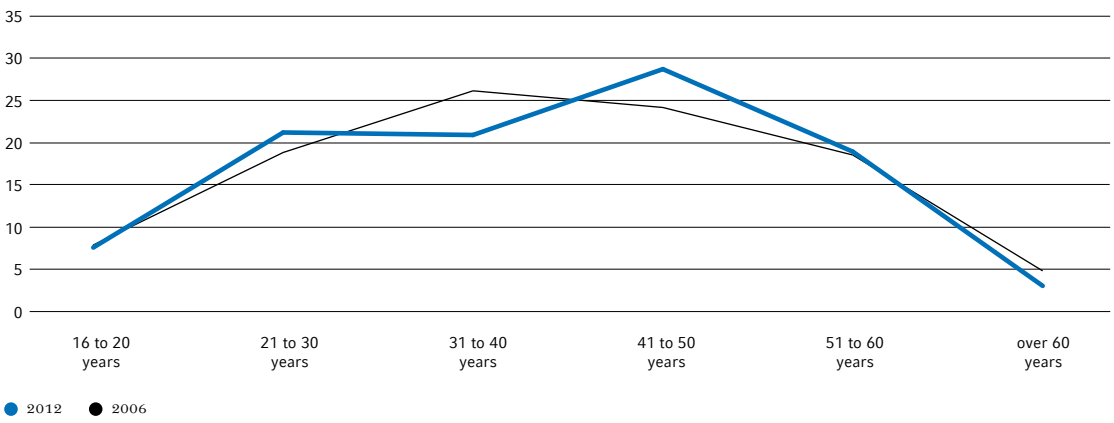
Our performance-related pay schemes and flat hierarchies also make us an attractive employer for experienced professionals. The increasing complexity of our plants and the continuing internationalisation of the H&R Group mean that staff training is becoming more and more important. As we can only compete internationally when 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 €454 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.

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

GRAPH 21

AGE STRUCTURE OF DOMESTIC EMPLOYEES

IN %



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 28.8 % of the workforce. The age distribution of our employees is thus typical of industrial companies in Germany.

Occupational 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. At the same time this is a precaution against 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 UWEB2000. Contractors working in our factories are also included in our safety strategy by means of 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 safety performance by means of safety inspections and ad-hoc visits.

Our accident statistics are based on the international CONCAWE standard (CONservation of Clean Air and Water in Europe) which uses the indicators "lost workday injury frequency" (LWIF) and "lost workday injury severity" (LWIS). The LWIF figure shows the frequency of accidents (number of work accidents with at least 1 day lost for every 1 million working hours). It covers both company employees and contractors. The LWIFS figure shows the severity of accidents (number of days lost per work accident). It also covers both company employees and contractors.

For further information see the glossary on page 182 et seq.

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 LWIF of 4.4 for our refineries (previous year: 6.8) to be satisfactory. This is regardless of the fact that no lasting damage to people or the environment has occurred. 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 headquarters in Salzbergen these programmes collectively form the "Life Plus" project. The programmes 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.

TABLE 29

OCCUPATIONAL SAFETY AT THE H&R REFINERIES

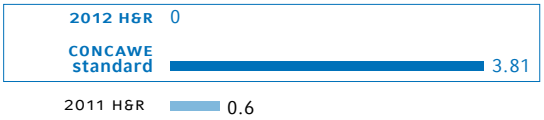
	2012	CONCAWE standard	2011	2010	2009
Number of occupational accidents with a least one day lost per million working hours (lost workday injury frequency; LWIF)	4.4	1.7	6.8	9.0	4.8
Number of occupational accidents with at least one day lost	8.0	–	11.0	14.0	7.0
Number of days lost due to accidents	195.0	–	161.0	198.0	81.0
Number of working days lost per occupational accident	24.8	52.7	14.6	14.1	11.6
Number of fatal occupational accidents	–	4.0	–	–	–

Process safety

As an operator of refineries and production plants we do not work in a closed system. On the contrary – as a company and employer, but above all as a consumer of natural resources and a neighbour at our production sites – we have a duty and an obligation to act safely and sustainably. The operation of our refineries involves a variety of substances which require careful handling. The safety of our processes is therefore of fundamental importance for us. Since the start of 2011 we have measured our performance in this area by means of the PSPI (process safety performance indicator). To calculate this figure we track incidents relating to the safety of our processes (PSE – process safety events) per 1 million working hours. We benchmark our results by comparing them with the reference figure from the industry association CONCAWE. Since we began recording the PSE we have always been better than the CONCAWE reference standard. The last notifiable incident occurred in 2011.

GRAPH 22

PROCESS SAFETY AT THE H&R REFINERIES



Membership of industry associations

Good networking is not only important at an operational level, i.e. with customers and markets, but also within industry associations. As the operator of two speciality refineries, our value creation goes beyond the normal standard of a fuel refinery. We also use different substances in our production process. To protect our interests we are therefore members of associations for refinery operators and the petroleum industry. Our employees are present as experts in the committees for occupational safety, process safety, environmental protection and refinery technology at DGMK, Deutsche Wissenschaftliche Gesellschaft für Erdöl, Erdgas und Kohle e. V. (German Society for Petroleum and Coal Science and Technology), and are involved in the work of the CONCAWE industry association.

This strong network ensures that not only is H&R kept informed of all major industrial and legal developments in the areas of environment, safety and technology, but it can also play an active role in shaping these processes.

Environmental report

Environmental protection and the responsible use of natural resources are key goals 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.

Our paraffins can be used to weatherproof domestic timber varieties. This makes them suitable for garden furniture, for example, which avoids the need for heavy deforestation of slow-growing tropical timber.

The innovative products from our Plastics Division are increasingly being utilised as a substitute for 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. At the same time the energy footprint for their production is much better than for comparable metal components.

ENERGY EFFICIENCY AND CLIMATE PROTECTION. Germany is a business location with high energy costs, which affects particularly energy-intensive production facilities such as our refineries. For precisely this reason H&R has always had an acute awareness of its energy use and strives consistently and systematically to reduce this cost factor. The efficiency programme "KAT10+" concentrates on just this point, calling on our sites in Hamburg and Salzbergen to be even more careful in their use of energy. The refineries have to make their contribution to the ambitious goal of improving Group earnings by at least €10.0 million. As a reference value we have taken energy consumption in the twelve months before "KAT10+" was launched in June 2012. By the end of 2012 the cumulative saving compared with the reference figure was 3.2 %. This is an achievement which also pays off in financial terms. From June to December 2012 the two refineries reported savings of more than €0.8 million thanks to greater energy efficiency, which means they are already making a contribution to meeting our ambitious targets.

In order to not only stay competitive but also contribute to protecting the environment at the same time, the reduction of CO_2 emissions is an important element of our environmental strategy. Given the depth of their value chain, the H&R refineries are faced with particular challenges. In contrast to other refinery operators, whose processes end with the production of fuel or base oils, this is the point where our refineries' real role begins, producing higher-grade speciality products. On the one hand the additional processing stages require further energy inputs, which increases CO_2 emissions. On the other, more high-grade and long-lasting products are produced, which contributes to the conservation of resources.

In the past we have reported these figures as absolute quantities. However, this does not adequately reflect the extent of our value creation and the size of our refineries. For the current annual report we have therefore decided to present the figures for our CO_2 emissions, waste water and refuse as quantities per tonne of feedstock. We have used the figure for the year 2011 as the reference value of 100 %.

TABLE 30

EMISSIONS BY H&R REFINERIES

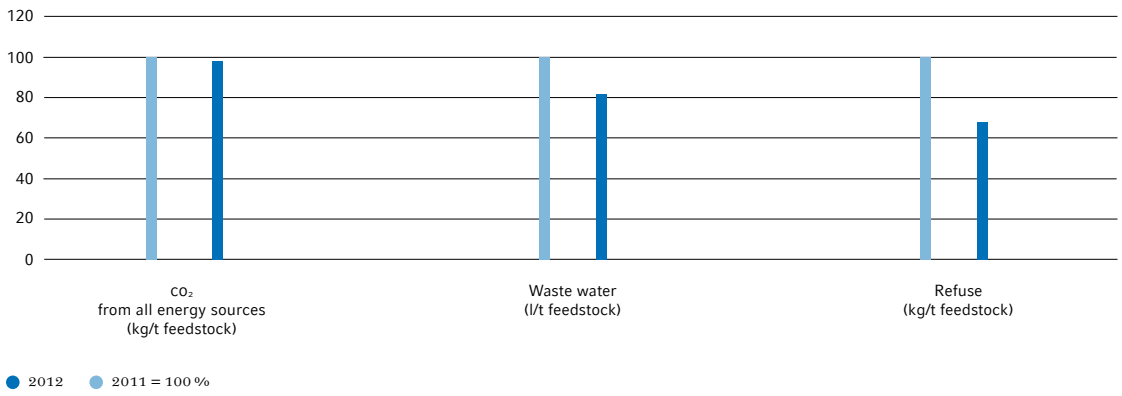
PER TONNE OF FEEDSTOCK

	2012	2011
CO_2 from all energy sources (kg/t feedstock)	397.6	398.1
Waste water (l/t feedstock)	717.9	861.2
Refuse (kg/t feedstock)	2.14	3.09

GRAPH 23

EMISSIONS BY H&R REFINERIES IN 2012

AS % OF REFERENCE VALUE



CO_2 EMISSIONS. For the first time this new presentation method enables us to show our CO_2 footprint on a standardised basis, including indirect effects, such as from purchasing additional energy, as well as the direct emissions. We reflect the extent of our value creation by no longer considering the raw materials used at the beginning and the CO_2 emissions produced at the end of the process chain in isolation, but by evaluating the total of all individual plant throughputs in the course of production. For the financial year 2011 our emissions per tonne of feedstock came to 398.1 kg. Last year we already achieved a slight reduction of almost 0.1 % to 397.6 kg.

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. Fortunately, the total amount of refuse generated by our refineries is low. In a year-on-year comparison between 2011 and 2012 we again reduced the quantity of waste sharply by 31.0 %. Instead of 3.09 kg per tonne of feedstock, we only generated 2.14 kg per tonne last year.

WATER CONSUMPTION. Most 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 directly. Our closed-circuit systems enable us to use our cooling water several times in some cases, thereby reducing our overall water consumption. 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 as waste water without any concerns. In total we returned 717.9 litres of domestic or process waste water per tonne of feedstock in 2012. In the previous year the corresponding amount was 861.2 litres.

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 more than 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 CONCAWE association. 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. No costs were incurred for this in the 2012 financial year, however.

Supplier and customer relations

SUPPLIER RELATIONS. The main feedstock 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 several 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.

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.

No supply shortages occurred in the reporting period. We are not dependent on individual suppliers.

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.

After some initial success in diversifying the customer groups for our Plastics Division in the previous year, its dependency on the performance of the automotive industry went back up again in 2012: customers from this market segment accounted for 68 % of revenue in the reporting period, compared with 59 % a year previously. The industrial segment in particular, where we primarily manufacture products for customers in electrical, measuring and control technology, was not able to maintain its revenue share, which fell sharply from 28 % to 19 %. Revenue from customers in the medical devices segment was roughly stable at a low level.

General economic outlook

Assessment of the economic situation by company management

Contrary to our expectations, the economic situation for H&R AG did not change in the reporting period. The operating result (EBITDA) of €49.3 million is certainly a disappointment compared with the two previous years and we are not satisfied with it. In particular the second and fourth quarters of 2012 were weak and their contributions to the operating result for the full year were only in single figures.

The Executive Board has responded decisively wherever H&R AG is capable of improving the situation sustainably itself and can reduce cost factors to a minimum on its own initiative. In contrast to the situation for raw materials and volatile base oil prices, the company can exert a direct influence over its own processes, the product portfolio and the strategic direction of the business. Our "KAT10+" efficiency drive shines a spotlight on these areas and examines their potential for optimisation. Initial successes point us in the right direction and exhort us to redouble our efforts. As part of our extensive planning process we carried out an in-depth analysis of the external, market-driven influences on our business and have developed a portfolio of activities that meets our high quantitative and qualitative specifications. This holistic approach combines the instruments in use to date, such as our optimised inventory and receivables management, with new activities. They include the greater use of factoring, a modified commission model for our distribution partners, which improves margins for H&R AG and an optimised financing structure. Some of these measures have already been implemented or can be put into effect at short notice. In other areas, like switching the Salzbergen site to exclusive contract production for one of our main customers, H&R AG is in a phase of intensive due diligence.

As a result we believe the company is in a much more stable position to cope with the persistently difficult environment and increased competition than would have been the case without the implementation of these activities.

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. The assets and financial position also reflect the steps described on page 74 with regard to working capital management (factoring, inventory management, payments on account). For a full description of the assumptions and judgements made with respect to the measurement of assets and liabilities we refer to the presentation in the notes to the consolidated financial statements of this annual report.

For further information see page 74

Earnings, financial and asset position of H&R AG

– Annual financial statements for H&R AG in accordance with the German Commercial Code (HGB)
– Annual net loss of €19.4 million
– No dividend to be paid

Earnings position of H&R AG under HGB

TABLE 31

INCOME STATEMENT OF H&R AG

€ THOUSAND	2012	2011	Change
Revenue	1,306	1,264	42
Other operating income	4,595	1,208	2,846
Personnel expenses	–2,468	–3,530	1,603
Depreciation and amortisation	–18	–7	–11
Other operating expenses	–10,826	–3,094	–7,732
Income from profit transfer agreements	957	45,260	–44,303
Expenses from loss transfer agreements	–7,741	–1,398	–6,343
Income from lending financial assets	10	12	–2
Other interest and similar income	14,051	8,079	5,972
Amortisation of financial assets	0	–32	32
Interest and similar expenses	–17,917	–12,203	–5,714
Result of ordinary operations	**–18,051**	**35,560**	**–53,611**
Extraordinary result	–53	–53	0
Taxes	–909	–9,795	8,886
Other taxes	–380	–1	–379
Annual net income	**–19,393**	**25,711**	**–45,104**
Profit carried forward from previous year	–	–	–
Transfer to retained earnings	0	7,727	–7,727
Distributable profit	–19,393	17,984	–37,377
Dividend	0	17,984	–17,984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We have prepared the annual financial statements for H&R AG in accordance with the German Commercial Code (HGB). They are published in the Federal Gazette and are permanently available for downloading from the H&R AG section of the company website www.hur.com. We will be happy to send you a printed copy of the financial statements on request. For the year 2012 we have combined the management report for the H&R Group and 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, revenue came to around €1.3 million. Personnel expenses of €2.5 million were lower than in the previous year (€3.5 million), mainly because of prepaid expenses for the executive service contracts which ended in 2012 and were not renewed. Income from profit transfer agreements was significantly lower at €0.9 million (previous year: €45.3 million). The decline is principally the result of lower earnings from subsidiaries in the Chemical-Pharmaceutical Raw Materials Domestic Segment and the Plastics Segment. The generally unsatisfactory earnings situation at the subsidiaries with which profit transfer agreements exist was also the main reason for the rise in expenses from loss transfer agreements from €1.4 million a year previously to €7.7 million in the reporting period. The subsidiaries of H&R AG obtain funding for their financing needs from H&R AG, which in turn refinances its lending on the capital markets by means of credit lines and borrower's note loans. At the end of 2011 the internal interest rate was adjusted in line with refinancing rates. This took full effect for the first time in 2012, increasing our other interest and similar income sharply from €8.1 million to €14.1 million. The refinancing of H&R AG in 2011 also caused financing costs to rise in 2012 as a result of waiver charges and early redemption penalties for instance, taking interest and similar expenses up to €17.9 million (31 December 2011: €12.2 million). The latter also include an addition of €1.2 million to provisions for onerous contracts for the valuation of interest rate swaps. Other operating costs include further additions of €4.2 million. Overall, the result of ordinary operations fell to €–18.1 million (previous year: €35.6 million).

Taxes went down largely in line with the result of ordinary operations to €0.9 million compared with €9.8 million for the previous year. As a result H&R AG reported an annual net loss of €19.4 million (previous year: profit of €25.7 million). Accordingly there was no transfer to retained earnings (2011: €7.7 million). The annual net loss was recognised in full as negative distributable profit. Our poor result does not allow for dividend distribution. As our earnings improve sustainably over the years ahead we are planning to give our shareholders an appropriate share of the company's profits, however, and to resume our policy of attractive dividend payments.

Financial and asset position of H&R AG under HGB

TABLE 32

ABRIDGED H&R AG BALANCE SHEET

€ THOUSAND	31/12/2012	31/12/2011	Change
Intangible assets	–	–	–
Land, rights equivalent to real property and buildings including buildings on land owned by third parties	9	9	0
Other equipment, operational and office equipment	126	17	109
Property, plant and equipment	**136**	**26**	**110**
Shares in affiliated companies	85,414	85,414	0
Loans to affiliated companies	74,804	88,923	–14,119
Equity interests	1,050	1,050	0
Loans to entities in which the company has a participating interest	187	250	–63
Financial assets	**161,455**	**175,637**	**–14,182**
Receivables from affiliated companies	171,579	219,244	–47,665
Other assets	6,150	639	5,511
Receivables and other assets	**177,729**	**219,883**	**–42,154**
Securities	**252**	**245**	**7**
Bank balances	59,095	30,637	28,458
Current assets	**237,076**	**250,765**	**–13,689**
Deferred income	**607**	**759**	**–152**
Assets	**399,273**	**427,188**	**–27,915**
Subscribed capital	76,625	76,625	0
Capital reserve	31,225	31,225	0
Other retained earnings	29,866	29,866	0
Distributable profit	–19,393	17,984	–37,377
Equity	**118,323**	**155,699**	**–37,376**
Provisions for pensions and similar obligations	3,004	3,957	–953
Tax provisions	1,430	542	888
Other provisions	8,827	2,994	5,833
Provisions	**13,621**	**7,494**	**6,127**
Liabilities to banks	198,790	202,125	–3,335
Trade accounts payable	204	93	111
Liabilities to affiliated companies	35,623	27,904	7,719
Other liabilities	33,072	33,874	–802
Liabilities	**267,690**	**263,995**	**3,695**
Equity and liabilities	**399,273**	**427,188**	**–27,915**

H&R AG's balance sheet total fell by 6.5 % to €399.3 million as of 31 December 2012 (31 December 2011: €427.2 million).

Loans to affiliated companies decreased sharply from €88.9 million to €74.8 million. The decline is largely because of loan repayments made by our subsidiaries. Financial assets dropped as a result to €161.6 million, compared with €175.6 million at year-end 2011.

Receivables from affiliated companies fell from €219.2 million to €171.6 million due to lower earnings at subsidiaries with which profit and loss transfer agreements are in place.

Bank balances rose substantially from €30.6 million to €59.1 million as of the reporting date. Repayments of loans made to our subsidiaries were the reason for the increase. Because our own financing arrangements have fixed repayment dates we were unable to use these funds to repay our own liabilities, so we invested them instead.

All in all, current assets went down by 5.5 % from €250.8 million to €237.1 million.

The distributable profit for H&R AG for the financial year 2011 came to €18.0 million. This amount was distributed in full to our shareholders as a dividend on 1 June 2012.

The net loss incurred in the reporting period was recognised at the full amount of €19.4 million as negative distributable profit. Altogether, shareholders' equity contracted from €155.7 million as of 31 December 2011 to €118.3 million at the end of the reporting period. The equity ratio fell to 29.6 % (31 December 2011: 30.3 %).

Additional provisions were made for income taxes in anticipation of the results of a tax inspection, taking the total to €1.4 million (31 December 2011: €0.5 million).

The provision for onerous contracts relating to the valuation of interest rate swaps was increased from €5.4 million to €6.8 million.

Liabilities rose slightly by 1.4 % to €267.7 million (31 December 2011: €264.0 million) and accounted for 67.0 % of the balance sheet total compared with 61.8 % a year previously, as the balance sheet total was lower. Liabilities to affiliated companies went up sharply from €27.9 million to €35.6 million. This effect stems primarily from the losses we assumed from subsidiaries bound to us by profit and loss transfer agreements, but is partly offset by lower liabilities to banks and a drop in other liabilities.

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 2012 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 notification received from Mr Nils Hansen dated 23 December 2010, his share of voting rights exceeded the threshold of 50 % on 17 December 2010 and came to 50.06 % as of 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 50.56 % on 31 December 2012. Of the total, 0.5 % is held by Mr Hansen in person.

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. Art. 13 of the Articles of Association defines further circumstances, in addition to those defined by statute, 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 share capital by 30 May 2017 by a maximum of €37,312,522.05 by issuing up to 14,595,390 ordinary no-par bearer shares. The issue may be effected in one or more tranches in return for cash and/or contributions in kind (Approved Capital 2012). In principle, the shareholders have subscription rights. The new shares may also be acquired by one or more banks with the obligation to offer them for subscription to shareholders. Subject to the approval of the Supervisory Board, the Executive Board is entitled to suspend shareholders' subscription rights on one or more occasions,

a) to the extent necessary to exclude fractional share amounts from shareholders' subscription rights;

b) to the extent necessary to grant holders of option or conversion rights and obligations under warrants or convertible bonds the same rights to subscribe for new shares that they would have as shareholders if they had already exercised their option or conversion rights or fulfilled their conversion obligations.

c) to the extent that the new shares are issued for subscription in cash and the proportion of share capital attributable to the new shares does not exceed the lesser of €7,662,503.90 or 10 % of share capital at the time this authorisation to exclude subscription rights takes effect and is exercised for the first time ("maximum amount"). Furthermore, the is-

sue price of the new shares must not be significantly lower than the quoted price for company shares of the same type already listed on the stock exchange at the time the issue price is set definitively.

d) to the extent that the new shares are issued for subscription in kind – especially in the form of companies, parts of companies, interests in companies or receivables – and the proportion of share capital attributable to the new shares does not exceed the lesser of €15,325,007.80 or 20 % of share capital at the time this authorisation to exclude subscription rights takes effect and is exercised for the first time.

The maximum amount defined in Art. 4 para. 4c of the Articles of Association is to be reduced by the proportion of share capital attributable to new or previously acquired treasury shares which have been issued or sold since 31 May 2012 on the basis of a simplified exclusion of subscription rights in accordance or by analogy with Art. 186 para. 3 sentence 4 AktG, and by the proportion of share capital attributable to shares that can be acquired by means of option or conversion rights and obligations that have been issued since 31 May 2012 by analogous application of Art. 186 para. 3 sentence 4 AktG. Any reduction is reversed to the extent that authorisations to issue convertible bonds and/or warrants in accordance with Art. 221 para. 4 sentence 2, Art. 186 para. 3 sentence 4 AktG or to sell treasury shares in accordance with Art. 71 para. 1 no. 8, Art. 186 para. 3 sentence 4 AktG or to issue new shares in accordance or by analogy with Art. 186 para. 3 sentence 4 AktG are granted again by the Annual Shareholders' Meeting once the authorisation which resulted in the reduction has been exercised.

The Executive Board is authorised – with the Supervisory Board's approval – to define the further details of the capital increase, in particular the rights attached to the shares and the terms of the share issue. The Supervisory Board is authorised to amend Art. 4 of the Articles of Association to reflect the amount of approved capital subscribed once the share capital increase has been fully or partly completed and after the authorisation has expired.

The Executive Board is also authorised until 30 May 2016 – with the Supervisory Board's approval – 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 Supervisory Board is authorised to revise Art. 4 para. 5 of the Articles of Association once the share capital increase has been fully or partly completed or the authorisation has expired.

Finally, the Executive Board was authorised – with the Supervisory Board's approval – to increase the company's share 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, the shareholders were to be granted subscription rights.

In 2012 the Executive Board made no use of this authorisation.

The resolution passed by the Annual Shareholders' Meeting on 27 May 2010 authorised the company to acquire treasury shares in the period until 26 May 2015 of up to 10 % of share capital at the time the resolution was passed. Together with other treasury shares held by the company or attributable to it as per Art. 71a et seqq. AktG, the treasury shares acquired under this authorisation may not exceed 10 % of the company's share capital at any point in time.

Treasury shares may not be acquired for the purpose of trading. 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. The details of the authorisation can be found in the proposal by the Executive Board and Supervisory Board published to accompany item 5 of the agenda for the Annual Shareholders' Meeting held on 27 May 2010, which will be sent by post on request.

There was no share buyback programme last year.

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 share capital is usually represented at our Annual Shareholders' Meetings, Mr Nils Hansen regularly had a de facto voting majority in prior years too. 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 2012 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

In view of last year's performance, the company has updated its business policies. Events after the reporting date expected to have a significant effect on the earnings, financial and asset position of the H&R Group therefore include in particular the matters described in the risks report and forecast from page 97 (waiver application) and steps to manage working capital (factoring, inventory and stock management, payments on account).

For further information see pages 97 et seq.

Risks

– Systematic risk management guarantees early identification of suboptimal performance
– Breach of covenants included in catalogue of financial risks
– Risk-return profile still considered attractive

Risk policy

The commercial policy of H&R AG is aimed at increasing the value of the company over the long term. Subject to careful consideration of the associated risks, this means seizing the opportunities offered by the market.

Our risk policy aims to optimise the relationship between risks and opportunities while avoiding existential risks. Systematic risk management is the direct responsibility of the Executive Board. Risks are generally identified and communicated by the managing directors of the respective local operating units. As far as possible, risks are eliminated or otherwise addressed at a local level.

As a manufacturer of crude oil-based speciality products we have a particular responsibility to protect people and the environment when operating our refineries. All our production sites therefore have officers responsible for the safety of the employees and the facilities as well as for environmental protection.

Risk management system

The risks to which H&R AG and its subsidiaries are exposed are identified, assessed, communicated and limited or eliminated as appropriate across the entire Group. We use various methods to measure risks, such as monitoring sector-specific and macroeconomic risk indicators and analysing purchasing and sales markets.

The identification of risks is considered to be the responsibility of all employees. It is encouraged by flat hierarchies and an open communications culture in relation to potential risks, with local managing directors leading by example.

H&R AG uses the "COSO" model to assess risks (Committee of Sponsoring Organizations of the Treadway Commission), one of the standards for internal controls recognised by the American Securities and Exchange Commission (SEC). Risk assessment is carried out quarterly by the risk manager (generally the relevant operational manager) on site by means of a questionnaire, inventory list, data collection form and current calculation 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 Control department of the parent company H&R AG. The Risk Control 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 Control 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. The Risk Control department 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.

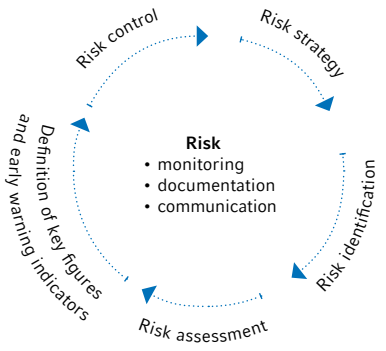
The regular divisional meetings attended by local managing directors and the Executive Board are a further instrument used for the early recognition of risk. The flow of information created in this way between the operating and administrative levels ensures that operational risks are reflected in the 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 reporting on risk management. If the risk situation 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 are 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.

GRAPH 24

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 principle of two signatories, 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.

The risk management system relating to derivative financial instruments

H&R AG has very strict rules governing the use of derivative financial instruments. We 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). Derivative financial instruments are not used for speculative purposes. The contracts currently in place serve mainly to hedge interest rate risks.

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

TABLE 33
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/ general competition	likely	moderate	higher
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 the breach of covenants	possible	significant	higher
Exchange rate risks	possible	moderate	unchanged
Interest rate risks	unlikely	moderate	lower
Risks from defaulting customers and banks	unlikely	moderate	unchanged
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 high-precision 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 800 or so crude oil-based speciality products are used in several of the 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 mainly relates to 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 high-precision plastic parts by the 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 the domestic economy.

Closely correlated with 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.

Product margins are often also reduced temporarily as a result of the interaction between raw materials prices and base oil prices. Base oil is a by-product of our joint production process and is used to make engine oils, among other things. As rising raw materials prices can generally only be passed on in the form of higher product prices after a certain delay, the margin for base oil is difficult to forecast, given the strong volatility of prices. The deterioration in margins that occurred in 2012 is largely due to this volatility. H&R AG has taken steps to address this problem; see Forecast.

For further information see page 100

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 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 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 AND GENERAL COMPETITION. 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.

In addition to substitution risk there is also the possibility over the lifecycle of a given product that competitors will develop and bring to market products which are identical to our speciality products. This would expose us to greater competition. Last year we experienced this tendency with our label-free plasticisers.

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 CO_2 emissions but also cuts our energy costs significantly.

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. We also invest regularly 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 investing in our existing production sites. 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 can only be sold on the market at lower prices than forecast, if at all.

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.

We are not planning any company acquisitions in the current financial year. At present, there are therefore no risks associated with the integration of employees, technologies and processes, such as can arise following acquisitions.

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 attractive profit-related pay schemes, a platform for making suggestions for improvement and activities throughout the Group to encourage healthy living.

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 only partially 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 mid-May 2012 and the end of September 2012 we drew down an average of €20.0 million of the syndicated loan. Our Group Treasury department monitors our liquidity status on a daily basis to avoid any cash flow difficulties.

For further information see the glossary on page 182 et seq.

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 breached, the banks are entitled to call in the loan.

In the reporting period, our business performance meant that we missed our net debt target as of 30 June 2012. After talks with the syndicate banks, the agreements were altered accordingly and the banks waived their right to determine breaches of covenant as of 30 June 2012 and 30 September 2012 and to call in the loan.

To provide greater room for manoeuvre the covenant ratio was also adjusted. This applies until 31 December 2014 for the syndicated loan and otherwise for the remaining term of the loans. However, a waiver for the interest coverage ratio on the 10-year tranche of the borrower's note loan was only agreed in mid-January 2013 and only for a partial amount of €10.0 million. It was agreed that another tranche of €21.0 million should be repaid early. The loan tranche was repaid from available liquidity and by making use of existing credit lines. Early redemption penalties of €2.0 million were also paid. As a purely precautionary measure we have also agreed a waiver for the 1st quarter of 2013, although no breach of the covenant is expected. It was agreed to increase the debt multiple for the 2nd quarter and as of 30 September 2013.

The syndicated loan and a KfW environmental loan for a nominal amount of €50.0 million are also governed by the terms of the ten-year tranche. Because the covenant was formally breached, these loans were also recognised as current as of 31 December 2012.

Compliance with the financial covenants remains a crucial part of the financing agreements in 2013 too. If these covenants were to be breached again and could not be renegotiated this would jeopardise the continued existence of the Group. We are countering the risk of a repeated breach of financing conditions by means of an extensive, and in the opinion of the Executive Board, sustainable series of activities to reduce debt and improve earnings. They comprise the greater use of factoring, a modified commission model for our distribution partners which improves margins for H&R AG, converting the Salzbergen site to contract processing and an optimised financing structure.

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. Trade credit insurance has also been taken out for a number of major customers.

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 165 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.

For further information see page 165

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.

INTEREST RATE RISKS. In order to secure the long-term financing of the Group on favourable terms and further diversify our debt structure we replaced the syndicated loan taken out for up to €250.0 million in 2008 with a borrower's note loan for a total of €150.0 million and a new syndicated loan for an additional €150.0 million in November 2011. The interest payable on one €80.0 million tranche of the borrower's note depends on general developments in money market rates. We have arranged interest rate hedges of €80.0 million to cover this portion of the borrower's note loan. The interest rate risk is therefore limited to drawdowns on the credit lines granted under our new syndicated loan in excess of this amount.

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 €1,051 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 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 €36.0 million. H&R ChemPharm GmbH, which is part of the H&R Group, is jointly liable for €22.0 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 Commission's ruling and the amount of the fine. Notwithstanding the appeal, the sum of €22.0 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. In the reporting period the Executive Board endeavoured to reach a settlement with the legal representatives of the plaintiffs. In 2012 a sum of approximately €55 thousand was paid in this context and provisions for further settlements were made for an additional €491 thousand. 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. The repeated breach of covenants that occurred in the 2012 financial year altered the risk situation for H&R AG and has been included in the overview of financial risks. At the same time a package of measures has been implemented by the Executive Board that is intended to increase stability and reduce exposure to such going-concern risks. As in the past, the main risks otherwise relate to 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 continued existence 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 to them appropriately.

Company rating

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

Forecast

– Increasing the efficiency of all company processes remains the central element of the strategy
– Strengthening international business
– Using the opportunities offered by the anticipated economic recovery

Group strategy in the next two financial years

Planned changes in company policy and non-financial goals

In view of the challenges faced in 2012, we have updated our business policies for the future. No significant alterations to our legal and organisational structure are envisaged at present, however, apart from the switch to contract processing in Salzbergen. We are aiming for further profitable growth in our Chemical-Pharmaceutical Raw Materials Division. In the Plastics Division we will pursue our course of firmly establishing the company in our sub-markets. From this basis we will examine and exploit future growth opportunities in line with our overall strategy.

The Chemical-Pharmaceutical Domestic Segment is our core business and was the main driver of revenue growth in the reporting period. We intend to prepare it for future challenges by means of continuous modernisation and expansion work. This applies not only to capacities, but above all to the efficiency and value creation of our refineries. The experience that comes from operating these refineries will establish us as an innovative partner for our customers and an expert market player. Our efficiency drive "KAT10+" does not just focus on the production facilities in Hamburg and Salzbergen, however. It calls on all areas of the organisation to examine their own structures and to contribute to a financially quantifiable optimisation of all processes wherever possible and necessary.

In the International Chemical-Pharmaceutical Segment, our strategy of forming production partnerships to supplement our own blending and conversion plants has proven to be successful.

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.

We are providing support at holding company level for the realisation of our divisional strategies by implementing a catalogue of measures that will take effect quickly. This is a continuation of the achievements already made by "KAT10+" and adds another package to these company-driven optimisation activities that more closely reflects the market-driven influences on our business, which are only partly within our control. At the same time it improves the visibility of medium-term company planning. The intention is therefore to minimise the adverse effect of these volatile factors on our earnings. As a result of last year's performance and in order to ensure long-term compliance with our financing conditions we carried out a detailed analysis of what went particularly well and areas where we still need to take decisive action. The result is what we consider to be a quantitatively and qualitatively convincing portfolio of activities, which are intended to stabilise earnings directly. This holistic approach combines the instruments in use to date, such as our optimised inventory and receivables management, with new activities. They include the greater use of factoring, a modified commission model for our distribution partners, which improves margins for H&R AG and an optimised financing structure. To leave room for the activities to take effect, and although we do not expect to breach the terms of the financing, we also took the precaution of applying for a waiver as of 31 March 2013 and an increase in the gearing ratio as of 30 June 2013 and 30 September 2013, which the banks have consented to.

Individual steps to increase planning visibility, reduce debt and improve earnings

The financial instruments factoring and forfaiting were successfully used again to a greater extent in the 1st quarter of 2013. This non-recourse sale of receivables reduces the company's risk exposure significantly by converting receivables into cash.

Last year H&R AG's margins came under continuous pressure, principally as a result of volatile raw materials costs and low prices for base oils. The aim is therefore to renegotiate the fundamental premise of existing agreements. Initial adjustments to prices and commissions have already been agreed.

At the end of the year the practice of optimising stocks of raw materials by aligning warehouse volumes with planned sales and delivery volumes was introduced and has already vastly reduced H&R AG's working capital. As well as reducing the quantity of debt-financed inventory, this step means that less use needs to be made of the syndicated loan facility.

The final legal arrangements are currently being made to switch the Salzbergen site to contract processing of high-grade speciality products. All the parties involved have signed a corresponding letter of intent. A test phase of 18 to 24 months is planned following the review. One result of this switch is that the raw materials will be provided for production by the customer. The customer therefore assumes the market price risk (volatility) and H&R AG's operating result is improved substantially by the payment of a defined processing fee per tonne to cover all fixed and variable operating costs and provide a risk-adjusted return on invested capital.

The financing structure will be adjusted as necessary in line with the lower receivables and working capital requirement.

By implementing these steps, H&R AG is reducing risks and cost factors that weighed particularly heavily last year, in particular the risk of a continued breach of the financial covenants. At the same time the Executive Board believes it puts the company in a much more stable position to cope with the persistently difficult environment and increased competition than would have been the case without the implementation of these activities.

Future sales markets

In the Chemical-Pharmaceutical Division, Germany and other European countries will remain the main revenue drivers for our business. 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 nearly 19 % in the reporting period (previous year: 17 %) and the aim is to lift this to at least 30 % by 2015. We want to participate in the growth forecast for these regions' economies, not only by accelerating the expansion of our existing sales activities but also by forming new production partnerships. 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.

By operating new equipment at our facilities we increase the value added by our domestic refineries. This enables us to convert previously unrefinable products into high-grade crude oil-based speciality products and to minimise the amount of waste residue left over by the production process. 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 KG 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. One of the focal points of our research and development activities is to ensure the continued diversification of our main products. 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.

As a result of expanding and modernising our refinery in Hamburg the volume of low-grade residue produced, which was used in the past as heavy fuel oil, will decline significantly. In future this will lead to greater production of high-grade, environmentally friendly main products as well as bitumen for road building.

In the Plastics Division the aim of refocusing on customers in the medical devices sector is reflected in more products for this segment: following complex approval procedures over the last few years we have launched a number of components for a sample analysis device. We have also started mass-producing an innovative protective cover for surgical tools used in intestinal operations and a novel dispenser for medicines. In future we expect to continue developing and bringing additional high-precision plastic parts to market.

Economic environment in the next two financial years

Future macroeconomic situation

The outlook for the global economy has been more positive again recently. In its latest forecast the International Monetary Fund (IMF) predicts growth in global gross domestic product of 3.5 % in 2013, slightly higher than in the reporting period (+3.2 %), and a further rise to 4.1 % in 2014. The euro area is expected to make a weak contribution here, since several of the steps to overcome the euro crisis will only be implemented over the course of the year or are likely to have a delayed effect. Following a fall of 0.4 % in economic output in 2012, the decrease is forecast to slow to –0.2 % in 2013 before growth of 1.0 % returns in 2014.

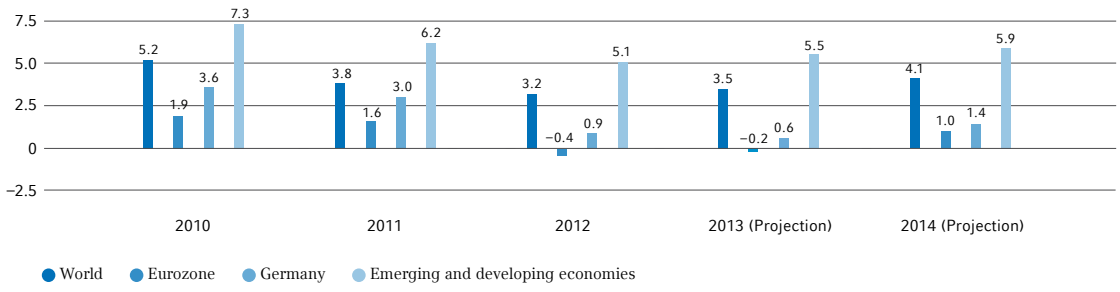
With forecast GDP growth of 0.6 % in the current year and 1.4 % in 2014, Germany should again be able to pull away from the other countries in the eurozone. Growth forecasts for developing and emerging markets are also brighter at 5.5 % for the current and 5.9 % for the following year, compared with 5.1 % in 2012. Generally speaking, the ASEAN 5 area, which is of great importance for H&R AG, should follow this trend. Gross domestic product for this economic zone comprising Indonesia, Malaysia, the Philippines, Thailand and Vietnam is predicted to rise by 5.5 % in 2013, although the growth forecast of 5.7 % for 2014 is slightly slower than for the Asian region as a whole.

Our plans for the next two years are based on an exchange rate of US$1.25 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 2013 and 2014 we are reckoning on a price of US$110.00 per barrel for North Sea Brent.

GRAPH 25

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 no longer generate paraffins and plasticisers as by-products, for example, 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 introduction of mandatory labelling for car tyres as of 1 November 2012 gave a boost to our sales of environmentally friendly, label-free plasticisers and partially made up for adverse effects such as the expiry of patent protection and the corresponding increase in competition. Looking to the future, it is nonetheless vital to develop innovative follow-on products. We are therefore at an early stage of research into naphthenic oils, which in the long term could replace our previous label-free plasticisers as an additive for tyre compounds. If we can be the first producer to establish this product on the market our company should profit from good earnings prospects – especially in the early phase of the product lifecycle.

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 and relying entirely on plastic even for large components means there is further potential to increase revenue from this customer group.

The medical devices 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 we benefited considerably from the recovery in the global economy following the 2009 crisis. In 2010 and 2011 especially, revenue and earnings were above average.

After these two years of generally favourable economic conditions, leading economic indicators began pointing to a downturn for the financial year 2012. Our business performance last year was indeed mixed. Although revenue of €1.2 billion set another record, the operating result of €49.3 million was down on the previous year and below our expectations.

Leading economic experts are expecting conditions to become more amenable for Germany in 2013 and 2014, prompting faster growth than in other countries in the eurozone. Given the planned expansion of our business outside Europe, the growth rates projected by experts for Asia, South America and Africa also suggest potential for H&R AG to do more business there.

If these more optimistic economic forecasts for the financial years 2013 and 2014 should materialise and if the measures implemented in the course of 2013 begin to have an effect, we are expecting the consolidated operating result (EBITDA) for the current financial year to be on par with 2012. For the year after we expect earnings to improve again slightly.

Forecast revenue development

Our revenue is affected considerably by the cost of raw materials for our Chemical-Pharmaceutical Division. We try to 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 economic upturn on the horizon to have a slight positive effect on revenue, the steps taken to increase efficiency, the progress made on implementing our internationalisation strategy and the reorganisation of the Plastics Division should help to stabilise revenue. Switching the refinery to contract processing will also help to stabilise revenue. Altogether, we are expecting Group revenue to remain strong at between €1.1 billion and €1.3 billion in 2013 and 2014. Revenue for the Plastics Division should contribute around €65 million to the total in 2013 and €75 million the year after.

Forecast development of the main items in the income statement

The switch to contract processing in Salzbergen mentioned above will result in structural changes to the income statement.

Forecast development of dividends

TABLE 34
DIVIDEND DEVELOPMENT

IN €	Dividend per share
2008	0.40
2009	0.45
2010	0.65
2011	0.60
2012	–

In the 2012 financial year H&R AG reported negative net income of €19.4 million. The annual profit for 2012 does not allow for dividend distribution.

Expected financial position

Planned financing activities

Notwithstanding the authorisation from the Annual Shareholder's Meeting we are not currently planning to raise any additional equity capital.

The main pillars of our Group financing arrangements are borrower's note loans for a total of €150.0 million and a syndicated loan for up to a further €150.0 million. Various financial covenants have been agreed for the borrower's note loans and the syndicated loans. As of 31 December 2012 a formal breach of the interest coverage ratio for the 10-year tranche of the borrower's note loans meant that the non-current 10-year tranche is presented as a current liability in the financial statements for 2012.

In addition to these debt instruments we have non-current borrowings totalling €50.0 million, partly via other loans from the public funding bank Kreditanstalt für Wiederaufbau (KfW).

For more information on our main financing instruments, please refer to the section "Financial management principles and objectives" on page 71 of this report. The activities described there will make a major contribution to reducing our financing requirement.

For further information see page 71

Forecast liquidity development

Thanks to the free credit lines from our syndicated loan, we have secure access to sufficient liquidity for the years ahead.

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, we will also examine larger-scale projects to further enhance products in our Chemical-Pharmaceutical Division 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, because any refinery closures reduce the supply of our products.

In recent years we have concentrated on developing environmentally friendly feedstock that meets 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 the area of medical devices. 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 extending the value chain even further and increasing production efficiency by means of innovative manufacturing processes.

At our Hamburg refinery we convert a residue previously left over by our production process into additional high-quality crude oil-based speciality products. 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. Total production capacities at Group 1 refineries in particular have fallen in recent years as a result of closures. The number of suppliers for many of our speciality products has dropped accordingly.

For further information see the glossary on page 182 et seq.

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

Overall statement on the expected development of the Group

Following two years of very strong revenue and earnings in 2010 and 2011, H&R AG's performance was well below expectations in 2012. Good earnings contributions from Chemical-Pharmaceutical Raw Materials outside Europe could not make up for the much larger, but weaker business in the eurozone.

There are a number of factors that may influence our business performance in the current year and thereafter: leading economic experts initially expect a more amenable outlook and a slight upturn in the economy for Germany. They are predicting a faster pace of growth for our key markets outside Europe.

At the same time we expect the internal measures to increase the company's efficiency and stabilise the earnings situation to have an effect in the immediate term.

All in all we remain conservative, however, and are projecting an operating result (EBITDA) for 2013 on par with the previous year. To the extent that the economic predictions for 2014 prove correct, our earnings could pick up again slightly the year after.

Consolidated financial statements

Consolidated balance sheet of H&R AG

as of 31 December 2012

ASSETS

€ THOUSAND	Item	31/12/2012	31/12/2011
Current assets			
Cash and cash equivalents	(6)	89,588	53,097
Trade accounts receivables	(7)	69,952	118,634
Income tax claims	(33)	4,078	89
Inventories	(8)	180,596	198,257
Other financial assets	(9)	1,199	1,867
Other assets	(10)	5,690	3,416
Current assets		**351,103**	**375,360**
Non-current assets			
Property, plant and equipment	(11)	219,117	206,867
Goodwill	(12)	35,418	35,410
Other intangible assets	(12)	4,453	4,263
Investment in associates	(13)	842	777
Other financial assets	(9)	5,840	5,144
Other assets	(10)	1,531	1,527
Deferred taxes	(33)	2,455	5,812
Non-current assets		**269,656**	**259,800**
Total assets		**620,759**	**635,160**

EQUITY AND LIABILITIES

€ THOUSAND	Item	31/12/2012	31/12/2011
Current liabilities			
Liabilities to banks	(14)	69,598	12,510
Trade accounts payable	(15)	61,667	51,848
Income tax liabilities	(33)	2,738	1,937
Other provisions	(16)	8,789	13,121
Other financial liabilities	(17)	45,488	5,642
Other liabilities	(18)	8,242	13,424
Current liabilities		**196,522**	**98,482**
Non-current liablities			
Liabilities to banks	(14)	133,653	191,096
Pension provisions	(19)	51,289	50,693
Other provisions	(16)	7,243	7,151
Other financial liabilities	(17)	9,040	37,581
Other liabilities	(18)	123	132
Deferred taxes	(33)	468	8,884
Non-current liabilities		**201,816**	**295,537**
Shareholders' equity			
Subscribed capital	(20)	76,625	76,625
Capital reserve	(21)	18,599	18,599
Revaluation surplus	(22)	–4,601	–3,751
Retained earnings incl. net income	(23)	126,862	144,564
Foreign currency translation adjustments		4,984	5,150
Equity of shareholder's of H&R AG		**222,469**	**241,187**
Non-controlling interests	(24)	–48	–46
Shareholders' equity		**222,421**	**241,141**
Total shareholders' equity and liabilities		**620,759**	**635,160**

Consolidated income statement of H&R AG

1 January 2012 to 31 December 2012

€ THOUSAND	Item	1/1 – 31/12/2012	1/1 – 31/12/2011
Sales	(26)	1,228,945	1,209,534
Changes in inventories of finished goods and work in progress	(8)	–6,383	29,002
Other operating income	(27)	19,669	21,039
Cost of material	(28)	–1,017,360	–987,322
a) Expenditure on raw materials, supplies and merchandise		–977,257	–950,153
b) Purchased services		–40,103	–37,169
Personnel expenses	(29)	–72,974	–76,224
a) Wages and salaries		–61,796	–64,850
b) Social security payments and expenses for pensions and for support		–11,178	–11,374
Depreciation and amortisation		–23,869	–21,022
Other operating expenses	(30)	–102,923	–107,177
Income from operations		**25,105**	**67,830**
Net interest result	(31)	–22,287	–12,254
a) Interest income		414	797
b) Interest expenses		–22,701	–13,051
Result of at-equity reported shareholdings	(13)	287	289
Other financial result	(32)	–1,598	–1,415
Earnings before taxes (EBT)		**1,507**	**54,450**
Income taxes	(33)	–1,203	–15,975
Income after taxes		**304**	**38,475**
of which attributable to non-controlling interests		–78	–71
of which net income to shareholders of H&R AG		**382**	**38,546**
Earnings per share (undiluted), €	(34)	0.01	1.29
Earnings per share (diluted), €	(34)	0.01	1.29

Consolidated statement of comprehensive income of H&R AG

1 January 2012 to 31 December 2012

€ THOUSAND	Item	1/1 – 31/12/2012	1/1 – 31/12/2011
Income after tax		**304**	**38,475**
Changes in fair values of derivatives designated as cash flow hedges		–1,929	–4,863
Recognized in profit or loss		470	343
Income tax		540	1,376
Changes recognized outside profit and loss (cash flow hedges)	**(37)**	**–919**	**–3,144**
Changes in fair values of financial assets available for sale		96	0
Income tax		–27	0
Changes recognized outside profit and loss (financial assets available for sale)	**(37)**	**69**	**0**
Changes of the balancing item due to currency translation		**–166**	**–1,167**
Total changes recognized outside profit and loss		**–1,016**	**–4,311**
Total comprehensive income		**–712**	**34,164**
of which attributable to non-controlling interests		–78	–71
of which attributable to H&R AG shareholders		–634	34,235

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

as of 31 December 2012

2012

				Other comprehensive income					
				Revaluation surplus					
€ THOUSAND	Sub-scribed capital	Capital reserve	Retained earnings incl. net income	Fair value measure-ment of securities	Cash Flow Hedges	Currency translation adjust-ments	Equity attributable to H&R AG share-holders	Non con-trolling interests	**Total equity**
Status as of 1/1/2012	76,625	18,599	144,564	70	–3,821	5,150	241,187	–46	241,141
Capital increase	–	–	–	–	–	–	–	–	–
Capital increase of subsidiaries	–	–	–100	–	–	–	–100	100	–
Dividends	–	–	–17,984	–	–	–	–17,984	–24	–18,008
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–
Income after tax	**–**	**–**	**382**	**–**	**–**	**–**	**382**	**–78**	**304**
Changes reco-gnized outside profit or loss	**–**	**–**	**–**	**69**	**–919**	**–166**	**–1,016**	**0**	**–1,016**
Total com-prehensive income	**–**	**–**	**382**	**69**	**–919**	**–166**	**–634**	**–78**	**–712**
Status as of 31/12/2012	**76,625**	**18,599**	**126,862**	**139**	**–4,740**	**4,984**	**222,469**	**–48**	**222,421**

2011

€ THOUSAND	Sub-scribed capital	Capital reserve	Retained earnings incl. net income	Other comprehensive income: Revaluation surplus: Fair value measure-ment of securities	Other comprehensive income: Revaluation surplus: Cash Flow Hedges	Other comprehensive income: Currency translation adjust-ments	Equity attributable to H&R AG share-holders	Non con-trolling interests	**Total equity**
Status as of 1/1/2011	76,625	18,599	125,501	70	–677	6,317	226,435	3	226,438
Capital increase	–	–	–	–	–	–	–	–	–
Capital increase of subsidiaries	–	–	–	–	–	–	–	42	42
Dividends	–	–	–19,483	–	–	–	–19,483	–20	–19,503
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–
Income after tax	**–**	**–**	**38,546**	**–**	**–**	**–**	**38,546**	**–71**	**38,475**
Changes reco-gnized outside profit or loss	**–**	**–**	**–**	**0**	**–3,144**	**–1,167**	**–4,311**	**0**	**–4,311**
Total com-prehensive income	**–**	**–**	**38,546**	**0**	**–3,144**	**–1,167**	**34,235**	**–71**	**34,164**
Status as of 31/12/2011	**76,625**	**18,599**	**144,564**	**70**	**–3,821**	**5,150**	**241,187**	**–46**	**241,141**

Consolidated cash flow statement of H&R AG

1 January 2012 to 31 December 2012

€ THOUSAND			1/1 – 31/12/2012	1/1 – 31/12/2011
1.		Income after taxes	304	38,475
2.		Income taxes	1,203	15,975
3.		Net interest result	22,287	12,254
4.	+/–	Depreciation and amortization	23,869	21,022
5.	+/–	Changes in non-current provisions	–2,246	–1,981
6.	+	Interest received	414	797
7.	–	Interest paid	–12,564	–11,415
8.	+/–	Income tax received/paid	–7,385	–22,167
9.	+/–	Other non-cash expenses and income	–3,757	–40
10.	+/–	Changes in current provisions	–4,625	–5,644
11.	–/+	Result from disposal of fixed assets	281	461
12.	–/+	Changes in Net Working Capital	76,698	–61,638
13.	+/–	Changes in other net assets/ other non-cash items	–9,819	2,090
14.	**=**	**Cash flow from operating activities (sum of 1 to 13)**	**84,660**	**–11,811**
15.	+	Proceeds from disposal of property, plant and equipment	90	174
16.	–	Capital expenditures for property, plant and equipment	–32,416	–41,682
17.	–	Capital expenditures for intangible assets	–1,406	–1,584
18.	+	Proceeds from disposal of financial assets	100	750
19.	–	Capital expenditures for financial assets	–100	–
20.	**=**	**Cash flow from investing activities (sum of 15 to 19)**	**–33,732**	**–42,342**
21.		**Free cash flow (sum of rows 14 and 20)**	**50,928**	**–54,153**
22.	–	Dividend paid by H&R AG	–17,984	–19,483
23.	+	Proceeds from capital increase of subsidiaries	–	42
24.	+	Payments for purchase of non-controlling interests	322	–
25.	–	Dividend paid to non-controlling interests	–24	–20
26.	–	Repayment of financial liabilities	–6,158	–201,075
27.	+	Proceeds from financial liabilities	8,571	311,795
28.	**=**	**Cash flow from financing activities (sum of 22 to 27)**	**–15,273**	**91,259**
29.	+/–	Net change in financial resources (sum of rows 14, 20, 28)	35,655	37,106
30.	+	Financial resources at the beginning of year	53,097	16,151
31.	+/–	Changes due to currency conversion	836	–160
32.	**=**	**Financial resources at the end of year**	**89,588**	**53,097**
		Cash and cash equivalents	89,588	53,097
		Overdraft	–	–
		Financial resources	**89,588**	**53,097**

Notes

as of 31 December 2012 (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.

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 2012 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 2012 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.

(2) Consolidation and measurement of investees

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: 15) German and 12 (previous year: 12) foreign subsidiaries drawn up as of the same reporting date.

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.

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.

Equity interest accounted for using the equity method

Equity interests in associated companies and 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 2012 three companies were accounted for using this method.

In line with the equity method, equity interests in associated companies and joint ventures are initially recognised 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 associated companies and 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.

Other investments

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.

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:

EXCHANGE RATES FOR MAJOR CURRENCIES PER €1

	Closing rate 31/12/2012	Closing rate 31/12/2011	Average rate 2012	Average rate 2011
US dollar	1.3194	1.2939	1.2856	1.3917
British pound	0.8161	0.8353	0.8111	0.8678
Australian dollar	1.2712	1.2723	1.2413	1.3482
South African rand	11.1727	10.483	10.5546	10.093
Thai baht	40.347	40.991	39.944	42.425
Chinese yuan	8.2207	8.1588	8.1094	8.9961
Czech koruna	25.151	25.787	25.146	24.589
Malaysian ringgit	4.0347	4.1055	3.9689	4.2553

(3) 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.

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. Assets are derecognised at the time the rights to payments from the asset expire or are transferred and therefore at the time at which essentially all of the risks and opportunities associated with ownership are transferred. Before receivables transferred in the course of factoring or forfaiting are derecognised, H&R AG verifies the criteria for derecognition in accordance with applicable regulations. If the criteria are not met, the receivables are kept on the balance sheet. If essentially all of the opportunities and risks are neither retained nor transferred and if control over the receivables remains with the transferor, it means that a complete disposal has not taken place. In this case only a partial disposal of the receivables is recognised, alongside a continuing involvement. The continuing involvement is the extent to which the transferor is still exposed to changes in the value of the receivables.

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.

Non-current assets held for sale and discontinued operations

"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 discontinued operation.

Fixed assets

Fixed assets are valued at acquisition or production costs minus cumulative depreciation and impairment costs. H&R AG does not apply the revaluation model according IAS 16.31.

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

Assets with an indeterminate useful life, such as goodwill or intangible assets that are not yet ready for use, are not amortised but tested annually for impairment. Assets subject to depreciation and amortisation are tested for impairment if events or changes in circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is recognised for the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Assets for impairment testing are aggregated at the lowest level at which cash flows can be separately identified (CGU).

With the exception of goodwill, non-monetary assets on which impairment losses have been recognised in the past are examined as of every reporting date for any indication that the impairment should be reversed.

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 2012 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 12). 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 made as far as continuing costs are not exceeded.

Liabilities

Liabilities comprise liabilities to banks, trade payables, provisions as well as other 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 37.70 ff 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

Revenue and other operating income is recognised when the service is rendered or when risk is transferred to the customer or when the claim arises. In addition, revenue is recognised on sales in which legal title has passed to the customer but delivery has been postponed at the customer's request. Intra-Group supplies of products and services take place on arm's-length terms.

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

In accordance with IAS 12, deferred taxes are recognised for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their taxable values as used to calculate net income for tax purposes. They are accounted for using the liability method.

Deferred taxes on losses carried forward and on all taxable temporary differences are recognised to the extent that it is likely that the expected tax saving will be realised in the future. Domestic losses can be carried forward without limitation in Germany, but their use is limited by the minimum tax payment. Foreign losses carried forward are often subject to specific national regulations on how long they can be carried forward and limitations on their use for profits from operating activities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax liabilities resulting from the initial recognition of goodwill are not recognised. Also not recognised are deferred tax assets and liabilities resulting from the initial recognition of assets and liabilities in the course of a business transaction if it is not a business combination and if neither earnings for the period before taxes nor the taxable result are affected as a 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. 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.

(4) 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.

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 (39).

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.

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.

(5) Effects of new accounting standards

Standards and interpretations applicable for the first time in the current financial year

The International Accounting Standards Board (IASB) has published amendments to the following standards, whose application was obligatory for the first time in the current financial year.

– Amendments to IFRS 7 – Financial Instruments: Disclosures – Transfers of financial assets

The additional disclosures relate in particular to transactions in which financial assets are derecognised in their entirety and where rights and obligations constituting a continuing involvement remain with the transferring entity or arise in the course of the transfer. The amendment was effective for the first time in the reporting year but had no material effect on the presentation of the asset, financial and earnings position of H&R AG.

None of the interpretations published by the International Financial Reporting Interpretations Committee (IFRIC) was applicable for the first time in the current financial year

Published standards and interpretations that are not yet applicable

As of the reporting date the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) had published the following accounting standards, which were not yet obligatory, however. The H&R network did not apply these standards in advance.

Standard/ Interpretation	Description	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	1/7/12	5/6/12	None
IAS 12	Amendment: income taxes	1/1/13	11/12/12	None
IAS 19	Amendment: employee benefits	1/1/13	5/6/12	more detailed notes
IAS 27	Amendment: consolidated and separate financial statements	1/1/14	11/12/12	None
IAS 28	Amendment: investments in associates	1/1/14	11/12/12	None
IAS 32	Amendment: financial instruments: presentation	1/1/14	13/12/12	None
IFRS 1	Amendment: First-time adoption of IFRS: severe hyper-inflation and removal of fixed dates for first-time adopters	1/1/13	11/12/12	None
IFRS 1	Amendment: Government loans	1/1/13	04/03/13	None
IFRS 7	Amendment: financial instruments: disclosures	1/1/13	13/12/12	None
IFRS 9	Financial instruments	1/1/15	postponed	Unclear
IFRS 10	Consolidated financial statements	1/1/14	11/12/12	Unclear
IFRS 11	Joint arrangements	1/1/14	11/12/12	None
IFRS 12	Disclosures of interests in other entities	1/1/14	11/12/12	None
	Transition Guidance: amendments to IFRS 10, IFRS 11 and IFRS 12	1/1/14	4/3/13	Unclear
IFRS 13	Fair value measurement	1/1/13	11/12/12	Unclear
	Investment Entities: Amendments to IFRS 10, IFRS 12 and IAS 27 for investment	1/1/14	expected in Q3.13	None
IFRIC 20	Stripping costs in the production phase of a surface mine	1/1/13	11/12/12	None
	Annual Improvements to IFRSs 2009-2001	1/1/13	27/3/13	None

The following published standards and interpretations have a material effect on H&R AG.

Amendments to IAS 19: Employee Benefits

The IASB's amendment to IAS 19 Employee Benefits published in June 2011 eliminates the corridor approach, with the result that in future, actuarial gains and losses on defined-benefit pension plans are to be recognised immediately in other income without effect on profit or loss. Net interest expenses on defined-benefit pension plans are also to be calculated on the basis of a net liability. As this corresponds to the balance of the pension obligation and the fair value of plan assets, income from plan assets, which is recognised in profit or loss, is to be calculated using the same interest rate as that used for pension obligations. In the event of future changes to the plan, past service costs are recognised immediately in profit or loss.

The effects on the asset, financial and earnings position of H&R AG are as follows:

These changes result in an increase in pension provisions by the amount of previously unrecognised actuarial gains and losses and past service cost, which comes to some €11.5 million in total. This retrospective adjustment reduces shareholders' equity by the same amount.

Further effects relate to the measurement and recognition of net interest on net liabilities/assets from defined-benefit remuneration schemes. Additional disclosures are also required on the characteristics and risks of such defined-benefit plans.

Explanatory notes to the consolidated balance sheet

(6) Cash and cash equivalents

€ THOUSAND	31/12/2012	31/12/2011
Cash in hand	171	137
Cheques	–	–
Bank balances	89,417	52,960
Total	**89,588**	**53,097**

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

(7) Trade account receivables

€ THOUSAND	31/12/2012	31/12/2011
Gross amount of trade accounts receivables	70,643	119,385
Impairment	–691	–751
Total	**69,952**	**118,634**

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

Receivables from related parties are disclosed under Note (42).

The H&R Group sells trade accounts receivable due in the short term to banks on a non-recourse basis; a transaction known as true factoring. To the extent that material opportunities and risks in connection with these receivables remain with H&R AG, they are still recognised in the balance sheet. As of 31 December 2012, receivables of €27.2 million were transferred and derecognised from the balance sheet. No receivables were sold in the 2011 financial year. In some cases the Group retains rights and obligations as part of these disposals; in particular the exchange rate risk for receivables transferred in foreign currencies. As of 31 December 2012 the carrying amount for the continuing involvement was €238 thousand. The carrying amount of the corresponding liability was €216 thousand.

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
31/12/2012	69,952	58,120	6,586	977	346	703	830	185
31/12/2011	118,634	108,685	6,202	994	348	486	631	17

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	2012	2011
Status as of 1/1	751	863
Additions	257	311
Used	–268	–75
Redemptions	–61	–356
Currency fluctuations	12	8
Status as of 31/12	**691**	**751**

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

TRADE ACCOUNT RECEIVABLES

€ THOUSAND	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
31/12/2012	2,591	27	–	12	16	250
31/12/2011	1,818	66	33	66	4	35

(8) Inventories

€ THOUSAND	31/12/2012	31/12/2011
Raw materials and supplies	51,410	61,082
Work in progress	49,860	48,055
Finished goods and merchandise	77,214	87,110
Advance payments on inventories	2,112	2,010
Total	**180,596**	**198,257**

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 change in finished products and merchandise and unfinished products results mainly from a reduction in inventories. The same decrease of €6,383 thousand in inventories is also recognised in the income statement (previous year: increase of €29,002 thousand).

The book value of inventories reported at actual cash value minus sales expenses amounted to €12,138 thousand in the reporting year (previous year: €12,386 thousand).

Value impairments of €1,590 thousand (previous year: €1,844 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.

(9) Other financial assets

	31/12/2012		31/12/2011	
	Total	of which long-term	Total	of which long-term
Loans	420	170	748	298
Receivable due from BP	2,422	2,422	2,003	1,633
Receivable due from SRS EcoTherm GmbH	1,661	1,187	1,391	1,247
other securities	1,254	1,003	1,152	907
other investments	1,055	1,055	1,055	1,055
other financial assets	227	3	662	4
Total	**7,039**	**5,840**	**7,011**	**5,144**

LOANS

The loans are mainly related to a loan of €250 thousands granted to a joint venture.

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 (€2,422 thousand) according to IAS 1.32.

The reimbursement claims developed as follows:

€ THOUSAND	2012	2011
Status as of 1/1	9,758	10,174
Expected income	461	471
Actuarial gains and losses	348	–350
Benefits paid	–517	–537
Status as of 31/12	**10,050**	**9,758**

The measurement of projected income was based on an interest rate of 3.9 % (previous year: 4.9 %).

The anticipated income is accompanied by the following realised values:

€ THOUSAND	2012	2011
Expected income	461	471
Realised income	809	121
Actuarial gains and losses	–348	350

The experience-related adjustments for the reimbursement claims in 2012 amounted to €347 thousand (2011: €–350 thousand, 2010: €857 thousand, 2009: €–24 thousand, 2008: €120 thousand).

OTHERS INVESTMENTS

Other investments mainly contain shareholdings in SRS EcoTherm GmbH, Salzbergen (€ 1,050 thousand).

The participating interests are recognised at cost 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 €252 thousand (previous year: €245 thousand) on the reporting date.

Of the other financial assets, €7 thousand had been individually value-adjusted as of 31 December 2012 (previous year: €7 thousand).

(10) Other assets

	31/12/2012		31/12/2011	
€ THOUSAND	Total	of which long-term	Total	of which long-term
Reinsurance	1,411	1,411	1,382	1,382
Receivables due to other tax	3,654	–	1,892	–
Deferred expenses	785	–	696	8
Other assets	1,371	120	973	137
Total	**7,221**	**1,531**	**4,943**	**1,527**

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.

(11) Property, plant and equipment

DEVELOPMENTS 2012

€ THOUSAND	Land and buildings	Technical equipment/ machinery	Other facilities/office equipment	Advance payments and plant under construction	Total
Acquisition and production costs					
Status as of 1/1/2012	47,600	311,901	18,849	9,637	387,987
Currency fluctuations	6	–125	1	–6	–124
Additions	1,043	23,834	1,229	9,178	35,284
Disposals	–	–1,126	–308	–63	–1,497
Transfers	44	5,630	122	–5,851	–55
Status as of 31/12/2012	**48,693**	**340,114**	**19,893**	**12,895**	**421,595**
Cumulative depreciation					
Status as of 1/1/2012	21,825	144,306	14,047	942	181,120
Currency fluctuations	–9	–88	–5	–	–102
Additions	1,943	18,979	1,664	–	22,586
Disposals	–	–822	–304	–	–1,126
Transfers	–	–	–	–	–
Status as of 31/12/2012	**23,759**	**162,375**	**15,402**	**942**	**202,478**
Carrying amounts					
Status as of 31/12/2012	24,934	177,739	4,491	11,953	219,117
Status as of 31/12/2011	25,775	167,595	4,802	8,695	206,867

DEVELOPMENTS 2011

€ THOUSAND	Land and buildings	Technical equipment/ machinery	Other facilities/office equipment	Advance payments and plant under construction	Total
Acquisition and production costs					
Status as of 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 31/122010	26,732	131,313	4,684	25,063	187,792

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 of further outstanding necessary approvals the possible utilisation options will be discussed and negotiations with potential cooperation partners will be resumed.

The additions in 2012 mainly relate to the refinery sites in Salzbergen and Hamburg. In Salzbergen investments were made in filter gas purification for the de-waxing facility and in new tank capacities. In Hamburg the additions mainly concerned investments in a cooling system for the de-waxing facility. In addition, expenses in connection with planned shutdowns were capitalised at both sites. The majority of additions to advance payments and plants under construction related to investments in extra hydrorefining capacity in Salzbergen and a new scraped wall chiller for de-waxing in the Hamburg refinery. Most of the reclassifications relate to investments in tank facilities which were recategorised as technical plants and equipment.

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:

	2012				2011			
€ THOUSAND	Technical equipment/ machinery	Office and operating equipment	Intangible assets	Total	Technical equipment/ machinery	Office and operating equipment	Intangible assets	Total
Acquisition costs								
Status as of 1/1	14,446	26	3,696	18,168	13,614	–	3,696	17,310
Additions	572	–	–	572	969	26	–	995
Disposals	–27	–26	–	–53	–137	–	–	–137
Status as of 31/12	**14,991**	**–**	**3,696**	**18,687**	**14,446**	**26**	**3,696**	**18,168**
Cumulative depreciation								
Status as of 1/1	5,424	3	3,512	8,939	4,670	–	2,773	7,443
Additions	816	–	184	1,000	878	3	739	1,620
Disposals	–6	–3	–	–9	–124	–	–	–124
Status as of 31/12	**6,234**	**–**	**3,696**	**9,930**	**5,424**	**3**	**3,512**	**8,939**
Carrying amounts								
Status as of 31/12	**8,757**	**–**	**–**	**8,757**	**9,022**	**23**	**184**	**9,229**
Status as of 1/1	9,022	23	184	9,229	8,944	–	923	9,867

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	**31/12/2012**	31/12/2011	**31/12/2012**	31/12/2011	**31/12/2012**	31/12/2011
Minimum lease instalments	685	533	1,400	1,869	–	–
Future financing costs from finance leases	90	88	83	154	–	–
Present value of finance lease liability	595	445	1,317	1,715	–	–

The major part of these payments is related to a contract to supply energy and water, which is treated as finance lease.

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	**31/12/2012**	31/12/2011	**31/12/2012**	31/12/2011	**31/12/2012**	31/12/2011	**31/12/2012**	31/12/2011
Land and buildings	1,180	1,470	4,493	4,854	23,779	24,618	29,452	30,942
Technical equipment/ machinery	993	1,257	1,804	2,082	–	–	2,797	3,339
Office and operating equipment	2,388	1,643	6,080	3,420	–	9	8,468	5,072
Total	**4,561**	**4,370**	**12,377**	**10,356**	**23,779**	**24,627**	**40,717**	**39,353**

(12) Goodwill and other intangible assets

Intangible assets developed as follows during the 2012 financial year:

DEVELOPMENTS 2012

		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 1/1/2012	47,692	1,143	8,488	3,605	262	371	13,869	61,561
Currency fluctuations	8	–	–	9	5	–	12	22
Additions	–	176	1,218	15	–	–	1,411	1,409
Disposals	–	–	–130	–	–	–	–130	–130
Transfers	–	–	249	–	–	–194	55	55
Status as of 31/12/2012	**47,700**	**1,319**	**9,825**	**3,629**	**267**	**177**	**15,217**	**62,917**
Cumulative depreciation								
Status as of 1/1/2012	12,282	1,007	6,502	1,813	262	22	9,606	21,888
Currency fluctuations	–	–	–	–	5	–	5	5
Additions	–	78	1,025	172	–	8	1,283	1,283
Disposals	–	–	–130	–	–	–	–130	–130
Status as of 31/12/2012	**12,282**	**1,085**	**7,397**	**1,985**	**267**	**30**	**10,764**	**23,046**
Carrying amounts								
Status as of 31/12/2012	35,418	234	2,428	1,644	–	147	4,453	39,871
Status as of 31/12/2011	35,410	136	1,986	1,792	–	349	4,263	39,673

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 31/122010	35,382	50	2,105	1,685	–	196	4,036	39,418

GOODWILL

The goodwill item is composed as follows:

€ THOUSAND

Reporting segment	Cash generating unit (CGU)	31/12/2012	31/12/2011
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 Asia	435	428
Chemical-Pharmaceutical Raw Materials International	CGU Australia	922	921
Chemical-Pharmaceutical Raw Materials International	CGU South Africa	13,964	13,964
Total		**35,418**	**35,410**

A Foreign exchange effects resulted in an increase of €8 thousand in the carrying amounts for goodwill.

The annual impairment test for goodwill recognised on first-time consolidation is performed at the level of the relevant cash-generating units.

The value is measured by comparing the carrying amount of the cash-generating unit, including the goodwill attributable to it, with the recoverable amount for the cash-generating unit. In this context the recoverable amount is the value in use determined on the basis of discounted cash flows. If the carrying amount is higher than the recoverable amount for the division, the difference represents an impairment, which is recognised in profit or loss.

The projected cash flows for the cash-generating units are derived from the current planning by the H&R Group. The planning covers a period of five years. Cash flow for the period thereafter is extrapolated at a forecast growth rate of 1 % p. a.

The planning is based in particular on assumptions regarding future revenue, the cost-of-materials ratio and capital expenditure already begun, as well as on past experience and market expectations.

The crude oil price for the planning was calculated on the basis of market estimates by financial institutions and determined as us$110 per barrel (Brent). A stable margin for numerous end product prices was also assumed for all five plan years.

Cash flows were discounted using the average cost of capital, determined on the basis of market data. The after-tax discount rates used were 6.4 % for the Chemical-Pharmaceutical Raw Materials Domestic Segment (previous year: 5.8 %) and between 6.1 % and 10.3 % for the Chemical-Pharmaceutical Raw Materials International Segment (previous year: between 5.7 % and 9.9 %). This corresponds to pre-tax discount rates of 8.8 % to 8.9 % in the Chemical-Pharmaceutical Raw Materials Domestic Segment (previous year: 7.7 %) and of 7.8 % to 14.2 % in the Chemical-Pharmaceutical Raw Materials International Segment (previous year: 7.6 % to 13.5 %). Differences in the costs of capital for the individual cash-generating units stem largely from different assumptions and estimates regarding country risks, credit risks and inflation risks in the country where the cash-generating unit is based.

As the recoverable amount was always higher than the carrying amount, goodwill was not impaired for any of the cash-generating units.

Impairment testing for CGUs requires company management to make forward-looking valuation assumptions. As these valuation assumptions are subject to fundamental uncertainties, they may differ from the subsequent actual results. For the CGUs "Ölwerke Schindler" and "Australia", even minor changes in the valuation assumptions (WACC before tax, growth rate, margin per tonne of main product)

may mean that the recoverable amount falls below the carrying amount for the respective CGU and an impairment loss is incurred.

The table below shows the sensitivity of the valuation assumptions listed above. A change in the valuation parameters – as shown – means that an impairment of the individual CGUs can just about be avoided. In other words, any change in the valuation parameters beyond the limits shown would lead, all else being equal, to an impairment of the individual CGUs.

	CGU Ölwerke Schindler	CGU Australien
WACC before taxes	+0.21 percentage point	+1.09 percentage point
Growth rate	–0.28 percentage point	no effect
Margin main products	–0.69€/ton	–4.07€/ton
EBIT (effects of changed margins of main products)	€–0.3 million	€–0.1 million

The other CGUs are not affected by the sensitivities tested here in terms of the discount rate and growth rate.

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 2012 mainly relate to the purchase of new software licenses and the introduction of a new ERP – System in the plastic division in Coburg.

(13) Investments in associates

The equity interests shown, accounted for using the equity method, consist partly of a 50 % stake in the joint venture Westfalen Chemie GmbH & Co. KG and in its general partner Westfalen Chemie Verwaltungsgesellschaft mbH. Westfalen operates a hydrogen production and liquefaction plant at the Salzbergen site, from which the Salzbergen refinery purchases hydrogen for its own production. In addition, the joint venture HRI IT-Service GmbH was established in 2012 in Berlin, in which H&R AG has an interest of 50 % via its subsidiary H&R InfoTech GmbH.

The following amounts represent the 50 % share of joint ventures of the group:

€ THOUSAND	31/12/2012	31/12/2011
Assets		
Non-current assets	48	58
Current assets	227	228
Liabilities		
Non-current liabilities	–	–
Current liabilities	449	572
Net assets	**–174**	**–286**
Income	1,185	1,100
Expenses	–898	–811
Income after tax	**287**	**289**

The carrying amount of investments in associates developed as follows during the 2012 financial year:

€ THOUSAND	31/12/2012	31/12/2011
Carrying amount as at 1/1	777	488
Addition HRI IT Service GmbH	100	–
Partial result	287	289
Payment	–322	–
Carrying amount as at 31/12	**842**	**777**

(14) Liabilities to banks

Liabilities to bank are composed as follows:

€ THOUSAND	Book value 31/12/2012	Residual term up to 1 year	Residual term 2014 to 2017	as of 2018
Borrower's note loan	118,198	–	65,198	53,000
Other loans	85,053	69,598	11,705	3,750
Total	**203,251**	**69,598**	**76,903**	**56,750**
of which secured	15,000			

€ THOUSAND	Book value 31/12/2011	Residual term up to 1 year	Residual term 2013 to 2016	as of 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			

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 €33.0 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 any of the covenants are breached, 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.

Only a small portion of the syndicated loan was used in 2012. As of the reporting date the syndicated loan had not been used.

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.

FINANCIAL COVENANTS

The borrower's note loans and the syndicated loans as well as the bilateral loans include financial covenants relating to gearing and the equity ratio. A quarterly gearing test has been agreed with the banks, but since our earnings declined over the course of the year, they agreed to waive these tests as of 30 June and 30 September 2012. As of 31 December 2012 the gearing permitted for the syndicated loan was raised from 3.0 to 3.5, bringing it into line with the borrower's note loans.

For the 10-year tranche of the borrower's note loans amounting to €31.0 million, a third financial covenant relating to the interest coverage ratio was also agreed. As with the other two covenants for the borrower's note loans, this ratio is to be tested annually as of 31 December on the basis of the audited consolidated financial statements. As a formal breach of the interest coverage ratio occurred as of 31 December 2012, the non-current 10-year tranche is presented as current in the financial statements for 2012.

The terms of the syndicated loan and a KfW environmental loan with a nominal value of €50.0 million refer to the 10-year tranche. For this reason, the formal breach of covenant as of the reporting date 31 December 2012 meant that the non-current portions of these loans, amounting to €43.5 million, also had to be presented as current, because we did not have the unrestricted right as of 31 December 2012 to postpone the settlement of this obligation by at least twelve months after the reporting date. This situation had been rectified by the time the financial statements were published.

In view of the forecast fall in earnings, we asked investors in the 10-year tranche to approve a one-off waiver for the interest coverage ratio or alternatively to accept an early repayment of the loan. One investor with a stake of €10 million agreed to the one-off waiver after the reporting date, whereas the investors behind the remaining €21 million preferred the early repayment, as it corresponded more closely to their investment guidelines. Most of the tranches in the borrower's note were redeemed in early March 2013. The resulting early repayment penalty of €1,986 thousand was recognised as interest expense.

A financial covenant has been agreed for a current loan of €3.8 million, recognised under other loans, which defines a minimum enterprise value for the subsidiary of H&R AG that took out the loan. The covenant has been breached because the enterprise value fell below this limit. Furthermore the loan agreements pertain to the financial covenants for H&R AG, which means that their breach also constitutes a formal infringement of the subsidiary's loan agreement as of the reporting date. This has no effect on the balance sheet, as it is a current loan. So far the bank has not called in the loan.

CURRENCY

The majority of these loans were made in €.

COLLATERAL

In the previous year, one loan within the Plastics Division was secured by a land charge. The land charge was for €2.6 million and the carrying amount of the assets secured by the land charge was €2.3 million as of 31 December 2011. The loan was redeemed in 2012, which meant that the collateral was no longer required.

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 loan.

(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 1/12/012	14,061	3,132	30	3,049	20,272
of which long-term	4,091	2,008	–	1,052	7,151
Compoundings	19	48	–	–	67
Currency fluctuations	15	–	–	4	19
Used	–9,200	–207	–20	–2,059	–11,486
Released	–904	–	–10	–273	–1,187
Additions	5,418	–	–	2,929	8,347
Status as of 31/12/2012	**9,409**	**2,973**	**–**	**3,650**	**16,032**
of which long-term	4,269	1,922	–	1,052	7,243

The current portion of the provisions made as of 31 December 2012 is expected to result in cash outflows of €8,789 thousand in 2013. The remainder of €7,243 thousand will not result in cash outflows until 2014 onwards.

(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. Last payments from restructuring were made in 2012.

(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

€ THOUSAND	31/12/2012 Total	31/12/2012 of which long-term	31/12/2011 Total	31/12/2011 of which long-term
Borrower's note loan	32,986	–	31,000	31,000
Liabilities due to leasing	1,912	1,317	2,160	1,715
Liabilities against suppliers due to import turnover tax	9,079	–	–	–
Liabilities from derivatives	10,103	7,640	7,922	4,839
Other financial liabilities	448	83	2,081	27
Total	**54,528**	**9,040**	**43,223**	**37,581**

Leasing liabilities stem from finance lease agreements. Further information on finance leases is available in Note (11) Fixed assets.

Other financial assets include derivatives, which are explained separately under Note (37) "Reporting of financial instruments".

Liabilities due to borrower's loan notes are disclosed as short-term in total due to the breach of financial covenants. Further details can be found under Note (14).

(18) Other liabilities

€ THOUSAND	31/12/2012 Total	31/12/2012 of which long-term	31/12/2011 Total	31/12/2011 of which long-term
Liabilities due to other taxes	7,358	–	12,464	–
Deferred income	210	123	171	132
Other liabilities	797	–	921	–
Total	**8,365**	**123**	**13,556**	**132**

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 provisions by company:

€ THOUSAND	31/12/2012	31/12/2011
H&R Ölwerke Schindler GmbH, Hamburg	30,213	28,759
SYTHENGRUND Wasagchemie Grundstücksverwertungs-gesellschaft Haltern mbH, Haltern	5,774	6,090
H&R ChemPharm GmbH, Salzbergen	4,078	4,344
GAUDLITZ GmbH, Coburg	4,370	4,446
H&R AG, Salzbergen	3,721	4,175
Other companies	3,133	2,879
Total	**51,289**	**50,693**

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 2012:

€ THOUSAND	31/12/2012	31/12/2011
Group 1	20,163	19,001
Group 3	10,050	9,758

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 €7,620 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 €10,050 thousand, which also arose as part of the takeover of the specialty products business [see Note (9)]. The balancing receivable of €2,422 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	2012	2011
Status as of 1/1	50,693	49,938
Additions	3,175	3,591
Released/used	–3,067	–2,958
Neutral addition	1,043	437
Offsetted plan assets	–555	–315
Status as of 31/12	**51,289**	**50,693**
of which not financed via a fund	51,289	50,693

Payments totalling €2,701 thousand (previous year: €3,301 thousand) are anticipated for this financial year.

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

€ THOUSAND	2012	2011	2010	2009	2008
Present value	63,332	56,862	56,458	49,995	50,438
Unrealised actuarial gains and losses	–11,488	–6,348	–6,505	–1,129	–2,192
Past service cost	–	494	–15	–22	–29
Offsetted plan assets	–555	–315	–	–	–
Provision	**51,289**	**50,693**	**49,938**	**48,844**	**48,217**

The present value of the provision in the amount of €62,777 thousand is not covered by assets.

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 fair value of plan assets developed as follows:

€ THOUSAND	2012	2011
Status as of 1/1	315	–
Actual return	–8	–
Employer contributions	248	315
Status as of 31/12	**555**	**315**

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

€ THOUSAND	31/12/2012	31/12/2011
Current service cost	654	769
Past service cost	7	508
Acturial gains/losses	209	147
Interest cost	2,766	2,638
Changes in reimbursement rights	–461	–471
Addition (total)	**3,175**	**3,591**

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:

	31/12/2012	31/12/2011
Interest rate	3.9 %	4.9 %
Payment trend	0.0 %/ 0.6 %/ 4.0 %	0.0 %/ 0.6 %/ 4.0 %
Pensions trend	0.0 %/ 0.75 %/ 2.0 %	0.0 %/ 2.0 %
Pension age	60/61/ 63/65	60/61/ 63/65
Fluctuation probability	5.0 %/ 0.0 %	5.0 %/ 0.0 %

The method for determining the discount rate was modified compared with the previous year. Essentially the data portfolio was expanded (particularly to include bonds with at least a AA rating and to include risk-adjusted information on A-rated bonds). If the previous year's data set had been used, the discount rate would have been some 40 basis points lower and the DBO around €2.7 million higher.

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	2012	2011
Present value of the obligation as of 1/1	56,862	56,458
Current service cost	654	769
Increase/decrease of staff	–	–
Interest expense relating to the obligation	2,766	2,639
Current pension payments	–3,067	–2,958
Actuarial gains/losses	6,116	–46
Present value of the obligation as of 31/12	**63,331**	**56,862**

An experience-related adjustment to the present value of the pension obligations amounting to €–453 thousand was undertaken in the reporting year (2011: €846 thousand, 2010: €283 thousand, 2009: €–601 thousand, 2008: €–605 thousand).

(20) Subscribed capital

Subscribed capital of H&R AG was fully paid in at the reporting date and is set up as follows:

	€ THOUSAND	Shares	For issue by
Subscribed capital			
Ordinary shares	76,625	29,973,112	
Approved capital			
Approved capital 2011	1,000	391,166	30/5/2016
Approved capital 2012	37,313	14,595,390	30/5/2017

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.

The Executive Board is authorised – with the Supervisory Board's approval – to increase the company's share capital by 30 May 2017 by a maximum of €37 million 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 2012). In principle, the shareholders are to be granted subscription rights. The latest amendment (restriction on the issue of ordinary shares) was entered in the commercial register on 10 August 2012.

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 million 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). This authorization was not used in 2012 financial year by the executive board.

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 neither purchase any own shares in 2012 nor in the previous year.

(21) Capital reserve

Capital reserves include proceeds from the issuance of preference and ordinary shares in excess of their face value. As is the previous year, no corporate actions were carried out in 2012, with the result that the amount in capital reserves was unchanged at €18,599 thousand.

(22) Revaluation surplus

Revaluation surplus contains reserves for securities with a market value of €139 thousand (previous year: €70 thousand) and for cash flow hedges totalling €–4,740 thousand (previous year: €–3,821 thousand). Expenses after tax recognized outside profit and loss are related to reserves from cash flow hedges of €919 thousand (previous year: €3,144 thousand) and to the reserve for fair value measurement of securities of €69 thousand (previous year: income of €0,0 thousand).

(23) Retained earnings incl. net income

Retained earnings incl. net income amounted at reporting date to €126,862 thousand (previous year: €144,564 thousand). The most significant part thereof belongs to cumulated retained eanings of €124,479 thousand (previous year: €142,081 thousand).

The Annual Shareholders' Meeting of 31 May 2012 decided to allocate retained earnings from financial year 2011 to a dividend distribution of €0.60 per ordinary share. For a total of 29,973,112 dividend-bearing ordinary shares, this resulted in a payment of €17,984 thousand.

(24) Non-controlling interests

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

€ THOUSAND	2012	2011
Status as of 1/1	–46	3
Capital increase of subsidiaries	100	42
Acquisition of non-controlling interests	–	–
Currency conversion	0	0
Dividends	–24	–20
Share of results	–78	–71
Status as of 31/12	**–48**	**–46**

Explanatory notes on the consolidated income statement

(25) Research and development costs

In 2012, 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 2012 for research and development amounted to €2,072 thousand (previous year: €2,117 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 (35)].

(27) Other operating income

€ THOUSAND	2012	2011
Exchange rate gains from foreign currency items	7,621	10,007
Income from passing on costs	3,084	2,533
Income from services	2,749	2,766
Internally produced and capitalised assets	552	706
Income from release of provisions	1,307	1,676
Income from rents and leases	488	520
Income from commissions	543	516
Others	3,325	2,315
Total	**19,669**	**21,039**

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	2012	2011
Raw materials	874,041	862,066
Supplies	16,779	18,775
Trade goods	86,437	69,312
Expenditure for raw, auxiliary and operating materials and for purchased goods	**977,257**	**950,153**
Energy costs	38,239	36,247
Other outside services	1,864	922
Total expenditure on purchased services	**40,103**	**37,169**
Total	**1,017,360**	**987,322**

(29) Personnel expenses

€ THOUSAND	2012	2011
Wages and salaries	61,796	64,850
Social security payments	9,758	9,473
Defined benefit plan expenses	904	991
Defined contribution plan expenses	484	834
Other social expenses	32	76
Total	**72,974**	**76,224**

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

	2012	2011
ChemPharm National	642	640
ChemPharm International	196	216
Plastics	560	518
Others	43	43
Total	**1,441**	**1,417**

(30) Other operating expenses

€ THOUSAND	2012	2011
Freight costs, dispatch systems and other distribution costs	21,324	21,591
Third-party goods and services	16,952	16,465
Third-party repairs and maintenance	11,857	15,074
Loss from foreign currency translation	8,946	10,433
Rents and leases	8,281	7,576
Legal and consultancy costs, costs for year-end accounts and shareholders' meeting	7,363	3,274
Other personnel costs	4,054	4,872
Insurance premiums, fees and contributions	3,428	5,580
Commissions	3,547	4,427
Costs passed on	2,982	2,455
IT costs	3,069	2,528
Leasing costs	2,291	2,436
Travel expenses	1,424	1,562
Waste disposal	805	1,335
Slop volumes	745	712
Others	5,855	6,858
Total	**102,923**	**107,177**

(31) Net interest result

€ THOUSAND	2012	2011
Interest income from short-term bank deposits	369	310
Income from loans	28	76
Income from compounding non-interest-bearing long-term loans	–	370
Other interest and similar income	17	41
Interest income	**414**	**797**
Interest expense relating to loan interest	–10.450	–5.556
Interest expense from the compounding of pension provisions	–2.766	–2.639
Acceleration fee	–1.986	–
Credit commission	–970	–
Interest expenses from derivatives	–2.992	–2.830
Other interest and similar income	–3.537	–2.026
Interest expense	**–22.701**	**–13.051**
Net interest result	**–22.287**	**–12.254**

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

€ THOUSAND	2012	2011
Loans and Receivables (LaR)	409	423
Held-to-Maturity Investments (HtM)	–	–
Financial Assets Available for Sale (AfS)	–	–
Financial Instruments Held for Trading (FAHfT und FLHfT)	–2.988	–2.827
Financial Liabilities Measured at Amortised Costs (FLAC)	–16.490	–6.918

(32) Other financial result

€ THOUSAND	2012	2011
Derivate	–1.562	–1.403
Other financial expenses	–55	–39
Other financial income	19	27
Total	**–1.598**	**–1.415**

(33) 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	2012	2011
Income tax expense for the current year	4,593	17,296
Income tax expenses for the previous years	1,136	45
Deferred taxes	–4,526	1,276
Total	**1,203**	**15,975**

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 12,5 % and 30 %.

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.

In the reporting year deferred tax assets of €1,095 thousand have been recognised in entities although they have suffered a loss. The utilisation of the deferred tax assets is secured since there will be sufficient profits in future exceeding the effects on the result from the reversal of temporary differences.

In accordance with IAS 12.34, the tax effect of a loss carried forward as of the reporting date is recognised if it is sufficiently probable that there will be enough taxable profits to offset against the loss.

Deferred taxes of €5,074 thousand were recognised for losses carried forward at the H&R AG tax entity in 2012.

Besides the capitalised deferred tax losses carried forward, there are also corporation tax losses carried forward of €5,920 thousand (previous year: €5,248 thousand) and trade tax losses carried forward of €93 thousand (previous year: €93 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 €3,539 thousand (previous year: €3,172 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	2012	2011
Pre-tax earnings	**1,507**	**54,450**
Expected income tax expense 28.31 % (2011: 28.31 %)	**426**	**15,414**
Effects from tax rate differences	–502	104
Previous years' taxes	1,136	45
Tax effects from the reversing of deferred taxes	–432	–
Non-deductible operating expenses	851	1,092
Tax-free income	–894	–664
Other tax effects	618	–16
Actual income tax expense	**1,203**	**15,975**

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

€ THOUSAND	31/12/2012 Deferred tax assets	31/12/2012 Deferred tax liabilities	31/12/2011 Deferred tax assets	31/12/2011 Deferred tax liabilities
Intangible assets	1,318	3,995	1,857	3,636
Fixed assets	259	7,374	441	6,215
Financial assets	456	281	53	49
Inventories	708	304	1,230	582
Receivables and other assets	280	626	307	674
Pension provisions	2,278	3	922	1
Other provisions	649	66	1,788	68
Liabilities	2,876	290	2,264	748
Tax losses carried forward	6,102	–	39	–
Balancing	**14,926**	**12,939**	**8,901**	**11,973**
of which long-term	7,735	12,363	6,810	10,582
Netting	–12,471	–12,471	–3,089	–3,089
Total	**2,455**	**468**	**5,812**	**8,884**

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

€ THOUSAND	Deferred tax assets	Deferred tax liabilities
Status as of 1/1/2012	5,812	8,884
Release/addition	–3,870	–8,396
Neutral expense in equity	513	–
Currency conversion	–	–20
Status as of 31/12/2012	**2,455**	**468**

(34) Earnings per share

€ THOUSAND	2012	2011
Net profit/loss to shareholders in thousand €	382	38,546
Ordinary shares	29,973,112	29,973,112
Earnings per share undiluted in €	0.01	1.29
Earnings per share diluted in €	0.01	1.29

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 2012	2011	Chemical-Pharmaceutical Raw Materials International 2012	2011
External sales	919,184	907,323	254,137	249,583
Intercompany sales	33,041	35,852	–	40
Sales by segment	952,225	943,175	254,137	249,623
Depreciation	–19,012	–15,934	–1,783	–1,749
of which unscheduled	–	–	–	–
Interest income	32	135	306	688
Interest expenses	–14,425	–9,304	–1,358	–1,835
Result of at-equity reported shareholdings	287	289	–	–
Pre-tax earnings	–385	46,152	16,421	16,140
EBIT	14,007	55,321	17,473	17,287
EBITDA	33,019	71,255	19,256	19,036
Assets	393,061	442,518	87,225	94,757
Debts	75,794	60,906	19,622	24,940
Investments	30,813	37,910	1,774	1,349
Investments in associates	742	777	–	–

H&R AG generated sales of €420.0 million with one customer in the Chemical-Pharmaceutical Raw Materials Domestic Segment (previous year: €388.3 million).

GEOGRAPHICAL INFORMATION

€ THOUSAND	Assets long-term 31/12/2012	31/12/2011	External sales 2012	2011
Germany	223,221	210,865	819,968	795,366
Rest of Europe	8,462	8,470	177,517	209,571
Rest of world	27,305	27,205	231,460	204,597
Total	**258,988**	**246,540**	**1,228,945**	**1,209,534**

RECONCILIATION FROM OPERATING RESULT OF SEGMENTS TO INCOME AFTER TAX

€ THOUSAND	2012	2011
Operating result of segments (EBITDA)	48,232	88,793
Reconciliation	1,029	348
Operating result of H&R AG (EBITDA)	**49,261**	**89,141**
Depreciation	–23,869	–21,022
Financial result	–23,885	–13,669
Income tax	–1,203	–15,975
Income after tax	**304**	**38,475**

	Plastics		Other activities		Reconciliation		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	55,624	52,628	–	–	–	–	1,228,945	1,209,534
	–	–	–	–	–33,041	–35,892	–	–
	55,624	52,628	–	–	–33,041	–35,892	1,228,945	1,209,534
	–2,129	–1,990	–945	–1,349	–	–	–23,869	–21,022
	–	–	–	–	–	–	–	–
	14	14	13,990	8,414	–13,928	–8,454	414	797
	–1,387	–859	–19,459	–9,508	13,928	8,455	–22,701	–13,051
	–	–	–	–	–	–	287	289
	–4,366	–469	–11,192	–7,722	1,029	349	1,507	54,450
	–2,977	349	–4,140	–5,186	1,029	348	25,392	68,119
	–848	2,339	–3,195	–3,837	1,029	348	49,261	89,141
	38,466	35,253	15,223	13,191	86,784	49,440	620,759	635,160
	8,708	8,022	39,855	45,663	254,359	254,488	398,338	394,019
	3,263	1,418	842	452	–	–	36,692	41,129
	–	–	100	–	–	–	842	777

(36) 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 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.

(37) Financial instruments

Financial instruments consist of 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 €1,001 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 fluctuations 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 flow 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 2012 and 31 December 2011. 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).

2012

	Nominal value		Currency	Maturity	Book values 31/12/2012 thousand €
Cash flow Hedges					
Interest rate swap	thousand €	40,000	€	to 2016	–4,008
Interest rate swap	thousand €	40,000	€	to 2018	–5,213
Currency forward	TMYR	2,500	MYR	to 2013	–36
Interest rate swap	thousand €	10,000	€	to 2014	–419
Interest rate swap	thousand €	5,000	€	to 2014	–214
Interest rate swap	thousand €	5,000	€	to 2014	–213

2011

	Nominal value		Currency	Maturity	Book values 31/12/2011 thousand €
Derivatives without hedge accounting					
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
Cash flow Hedges					
Interest rate swap	TUS$	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

The hedging relationships for the interest rate swaps recognised as cash flow hedges ceased to exist in the 2012 financial year, because the criteria for their effectiveness were no longer met. Until the time at which they ceased to be effective, changes in the fair value of the derivatives were recognised in comprehensive income. These negative changes in the fair value of the derivatives designated as cash flow hedges reduced comprehensive income by €1,929 thousand in 2012 (previous year: €4,863 thousand). The deferred taxes recognised on these fair value changes increased comprehensive income by €540 thousand (previous year: €1,376 thousand).

All subsequent changes in the fair value of the derivatives will be recognised immediately in profit or loss. As of 31 December 2012 the amount recognised in comprehensive income up to the end of the hedging relationship was €6,575 thousand. It will be reversed through profit or loss over the remaining life of the derivatives. In 2012 expenses arising from the reclassification to earnings for the period came to €656 thousand (previous year: €478 thousand). Correspondingly, pro rata deferred taxes amounting to €186 thousand (previous year: €135 thousand) were recognised as tax income.

In the 2012 financial year the net loss on financial instruments measured at fair value through profit or loss totalled €1,432 thousand (previous year: €2,075 thousand). The ineffective portion of cash flow hedges recognised in the income statement came to €–279 thousand (previous year: €–530 thousand). 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:

2012

€ THOUSAND	Carrying amount	Cash flows 2013 Interests	Cash flows 2013 Redemption	Cash flows 2014 Interests	Cash flows 2014 Redemption
Trade accounts payable	61,667	–	61,667	–	–
Bank borrowing	203,251	11,521	69,598	3,778	2,924
Finance lease liabilities	1,912	68	595	48	470
Liabilities from derivatives that do not qualify for hedge accounting	10,103	–	2,463	–	2,668
Other liabilities	42,513	1,557	42,430	5	30

2012

€ THOUSAND	Cash flows 2015–2017 Interests	Cash flows 2015–2017 Redemption	Cash flows 2018–2022 Interests	Cash flows 2018–2022 Redemption	Cash flows 2023 et seqq. Interests	Cash flows 2023 et seqq. Redemption
Trade accounts payable	–	–	–	–	–	–
Bank borrowing	8,829	74,088	1,576	56,641	–	–
Finance lease liabilities	35	847	–	–	–	–
Liabilities from derivatives that do not qualify for hedge accounting	–	4,462	–	510	–	–
Other liabilities	3	51	–	2	–	–

2011

€ THOUSAND	Carrying amount	Cash flows 2012 Interests	Cash flows 2012 Redemption	Cash flows 2013 Interests	Cash flows 2013 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 Interests	Cash flows 2014–2016 Redemption	Cash flows 2017–2021 Interests	Cash flows 2017–2021 Redemption	Cash flows 2022 et seqq. Interests	Cash flows 2022 et seqq. 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	–	–

NET RESULTS BY VALUATION CATEGORY

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

€ THOUSAND	2012	2011
Loans and Receivables (LaR)	–346	214
Held-to-Maturity Investments (HtM)	–	–
Financial Assets Available for Sale (AfS)	–	–
Financial Instruments Held for Trading (FAHfT und FLHfT)	–3,618	–3,054
Financial Liabilities Measured at Amortised Costs (FLAC)	–22	–399
Total	**–3,986**	**–3,239**

The total net result amounting €–3,986 thousand does not contain any interests or dividends.

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.

31/12/2012

		TUS$	TGBP	TZAR	TAUD	TTHB
Cash and cash equivalents	+	7,211	539	39,095	3,690	400,695
Trade accounts receivable	+	10,258	1,409	124,382	5,504	71,803
of which currency hedged	–	10,427	–	–	–	–
Trade accounts payable	–	5,022	421	108,847	1,126	154,962
Net exposure	**=**	**2,020**	**1,527**	**54,630**	**8,068**	**317,536**

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**

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$1.32/€ as of 31 December 2012, as against US$1.29/€ as of 31 December 2011. Assuming a realistic range of fluctuation of +/–10 % in the exchange rate on the reporting date, the impact in terms of profit (+) or loss (–) would be as follows:

	2012		2011	
€ THOUSAND	US$ 1,20/€	US$ 1,45/€	US$ 1,18/€	US$ 1,44/€
Impact (before taxes)	170	–139	1,023	–1,023

A sensitivity analysis for interest rate risk is performed for loans with floating interest rates. As of the reporting date 31 December 2012 all floating-rate loans were hedged against the effects of any changes in interest rates using appropriate instruments. The same applied in the previous year.

The hedging instruments are based on the 3-month euribor, which stood at 0.187 % as of the reporting date 31 December 2012. An increase in the 3-month EURIBOR of 100 basis points would have a positive earnings effect of €2,844 thousand (previous year: €1,553 thousand) on the hedged loans while a decline in the euribor of 100 basis points would have a negative earnings effect of €2,844 thousand (previous year: €1,553 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.

31.12.2012

			Balance sheet valuation acc. to IAS 39				
	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	89,588	89,588	–	–	–	89,588
Trade account receivables	LaR	69,952	69,952	–	–	–	69,652
Other financial assets							
Marketable securities	FAHfT	252	–	–	252	–	
Derivatives without hedging relationship	FAHfT	–	–	–	–	–	
Derivatives with hedging relationship		–	–	–	–	–	
Financial assets available for sale	AfS	2,057	–	2,057	–	–	
Other financial assets	LaR	2,308	2,308	–	–	–	2,308
Liabilities							
Trade accounts payable	FLAC	61,667	61,667	–	–	–	61,667
Bank borrowing	FLAC	203,251	203,251	–	–	–	210,990
Other financial liabilities							
Finance lease liabilities		1,912	–	–	–	1,912	
Derivative liabilities with hedging relationship		–	–		–	–	
Derivative liabilities without hedging relationship	FLHfT	10,103	–	–	10,103	–	
Other financial liabilities	FLAC	42,513	42,513	–	–	–	43,427
Loans and Receivables	LaR	161,848	161,848	–	–	–	
Held-to-Maturity Investments	HtM	–	–	–	–	–	
Financial Assets Available for Sale	AfS	2,057	–	2,057	–	–	
Financial Assets Held for Trading	FAHfT	252	–	–	252	–	
Financial Liabilities Measured at Amortised Costs	FLAC	307,431	307,431	–	–	–	
Financial Liabilities Held for Trading	FLHfT	10,103	–	–	10,103	–	

31.12.2011

			Balance sheet valuation acc. to IAS 39				
	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	–	

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:

€ THOUSAND	31/12/2012 Stufe 1	Stufe 2	Stufe 3
Assets			
Financial Assets Available for Sale	1,002	–	–
Financial Assets Held for Trading	252	–	–
Total	**1,254**	**–**	**–**
Liabilities			
Derivative liabilities without hedging relationship	–	10,103	–
Derivative liabilities with hedging relationship	–	–	–
Total	**–**	**10,103**	**–**

€ THOUSAND	31/12/2011 Stufe 1	Stufe 2	Stufe 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**	**–**

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.

(38) Open commitments

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

€ THOUSAND	31/12/2012	31/12/2011
Fixed assets	6,022	7,714
Intangible assets	37	80
Total	**6,059**	**7,794**

(39) Contingent liabilities

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

€ THOUSAND	31/12/2012	31/12/2011
Deposits for guarantees	1,187	1,187
Joint liability for pensions	81	110
Other contingent liabilities	–	2
Total	**1,268**	**1,299**

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. This circumstance is subject to a current surveillance by the board. Also negotiations with the county of Recklinghausen as the regulation authority are carried on to limit the risks of accountability to the current market value of the estate. An expertise is commissioned to calculate the current market value.

Part of the operating premises is rented. Clean-up obligations are required when the rental agreement is completed. Since claims 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 outflow 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.

(40) 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	31/12/2012	31/12/2011
due within one year	13,042	15,804
due > 1 year and < 5 years	14,664	11,522
due > 5 years	24,669	25,235
Total	**52,375**	**52,561**

Other financial liabilities mainly include a maintenance agreement with BIS Industrieservice Nord GmbH, Hamburg, and a long-term rental agreement with Hamburg Port Authority, Hamburg.

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.

(41) Governance bodies of H&R AG

EXECUTIVE BOARD

	Membership of supervisory or advisory boards
Niels H. Hansen Chairman of the Executive Board (since 1/1/2012) Hamburg	Advisory board of H&R ChemPharm GmbH, Salzbergen (until 12/1/2012)
Luis Rauch Chief Financial Officer (since 1/1/2012) 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 (until 31/5/2012) 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 (until 10/2012) Member of the Supervisory Board of Patrio Plus AG, Hamburg Member of the Supervisory Board of wcm Beteiligungs- und Grundbesitz AG, Frankfurt am Main
Dr Joachim Girg Chairman of the Supervisory Board (from 31/5/2012) Managing director of H&R Beteiligung GmbH, Hamburg	Advisory board of H&R ChemPharm GmbH, Salzbergen (until 12/1/2012)
Roland Chmiel, Vice-Chairman of the Supervisory Board (from 1/11/2012) Auditor, Partner of Partnership Weiss-Walter-Fischer-Zernin, Munich	Member of the Supervisory Board of Togal Werk AG, Munich
Nils Hansen Managing partner of companies of 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 Rolf Schwedhelm, 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
Volker Woyke Vice-chairman (from 31/5/2012 to 31/10/2012 (†)) Chartered engineer, Hamburg	
Anja Krusel (from 31/5/2012) CFO of Microsoft Deutschland GmbH, München	

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	
Harald Januszewski (from 31/5/2012) GAUDLITZ GmbH, Coburg	
Holger Hoff (until 31/5/2012) Chairman of the Works Council H&R Ölwerke Schindler GmbH, Hamburg	

(42) Disclosures of relationships with related parties according to IAS 24

Transactions with related parties were carried out on arm's-length terms.

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	**2012**	2011	**2012**	2011
Supplies of chemical pharmaceutical	420,012	388,349	9,122	9,093
of which Salzbergen	251,012	254,333	–	–
of which Hamburg	155,266	122,119	–	–
Incidental expenses from the supply relationship (freight costs, toll charges etc.)	177	170	5,395	7,122
Commission fees	699	621	2,234	2,796
Other services and third party costs (IT services, personnel costs etc.)	1,918	1,612	2,481	873

All companies of the majority shareholder Nils Hansen, including H&R Beteiligung GmbH as the controlling company, are pooled under Hansen & Rosenthal (H&R). The only transaction with H&R Beteiligung GmbH was the payment of a dividend by H&R AG in the amount of €9,003 thousand (previous year: €9,753 thousand).

The supply of goods for chemical-pharmaceutical products from the Salzbergen site takes place under a long-term distribution and supply contract, by which the relevant Hansen & Rosenthal company purchases the products and then resells them to end customers in its own name and for its 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 2012:

	Receivables from Hansen & Rosenthal		Liabilities to Hansen & Rosenthal	
€ THOUSAND	31/12/2012	31/12/2011	31/12/2012	31/12/2011
Goods and services	14,701	28,894	631	929
Other services	7,212	5,575	–	23
Total	**21,913**	**34,469**	**631**	**952**

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 (€7,106 thousand, previous year: €5,564 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	2012	2011	2012	2011
Purchase of hydrogen and steam	–	–	1.684	1.539
Interest income	11	20	–	–
Rental income	41	41	–	–
Services	232	228	–	–
Total	**284**	**289**	**1.684**	**1.539**

The following receivables and liabilities existed as of 31 December 2012:

	Receivables from joint ventures		Liabilities to joint ventures	
€ THOUSAND	31/12/2012	31/12/2011	31/12/2012	31/12/2011
Goods and services	242	180	176	156
Other services	252	455	–	–
Total	**494**	**635**	**176**	**156**

The following services were rendered for members of management bodies, or utilised by them:

The fees paid in 2012 and third party costs invoiced as part of the consultancy contract with Idunahall Verwaltungs-Gesellschaft m.b.H. totalled €60 thousand (previous year: €84 thousand).

SUPERVISORY BOARD AND EXECUTIVE BOARD

For fulfilling their tasks, the members of the Supervisory Board received a total of €1,179 thousand (previous year: €2,043 thousand). Of this sum, the performance-related element of the remuneration accounted for €182 thousand (previous year: €813 thousand). Former members of the Executive Board and their surviving dependants received a total remuneration of €242 thousand (previous year: €273 thousand). For former members of the Executive Board and their surviving dependants, the required value for pension commitments totalled €3,291 thousand (previous year: €3,223 thousand).

In the financial year, members of the Supervisory Board received a total of €285 thousand (previous year: €366 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	
	2012 IN €	2011 IN €	**2012**[1] IN €	2011 IN €	**2012** IN €	2011 IN €
Niels H. Hansen	356,837	296,000	80,763	–	437,600	296,000
Luis Rauch	418,218	–	57,688	–	475,906	–
Detlev Wösten (since 1/8/2011)	221,054	83,771	43,601	62,500	264,655	146,271
Gert Wendroth (until 31/12/2011)	–	475,739	–	400,000	–	875,739
Andreas Keil (until 31/12/2011)	–	374,897	–	350,000	–	724,897
Total	**996,109**	**1,230,407**	**182,052**	**812,500**	**1,178,161**	**2,042,907**

[1] In the financial year 2012, the members of the Executive Board renounced variable remuneration components of €82,782 to which they were entitled (which includes the entire sustainability component of €79,500).

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.

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.

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 Supervisory Board activities		Variable remuneration		Total	
	2012 IN €	2011 IN €	**2012 IN €**	2011 IN €	**2012 IN €**	2011 IN €	**2012 IN €**	2011 IN €
Bernd Günther[2] (Chairman)	24,918	60,000	7,268	17,500	–	17,800	32,186	95,300
Dr Joachim Girg[3] (Chairman)	47,541	8,082	11,107	740	–	5,706	58,648	14,528
Roland Chmiel[4]	21,639	24,137	12,910	12,500	–	17,800	34,549	54,437
Nils Hansen	20,000	20,000	13,811	15,740	–	17,800	33,811	53,540
Dr Rolf Schwedhelm	20,000	24,192	3,770	5,000	–	17,800	23,770	46,992
Volker Woyke[5]	20,847	6,411	4,980	1,479	–	5,706	25,827	13,596
Anja Krusel (since 31/5/2012)	11,694	–	3,689	–	–	–	15,383	–
Reinhold Grothus	20,000	20,000	1,230	–	–	17,800	21,230	37,800
Holger Hoff (until 31/5/2012)	8,306	6,411	–	–	–	5,706	8,306	12,117
Harald Januszewski (since 31/5/2012)	11,694	–	–	–	–	–	11,694	–
Rainer Metzner	20,000	20,000	–	–	–	17,800	20,000	37,800
Total	**226,639**	**189,233**	**58,765**	**52,959**	**–**	**123,918**	**285,404**	**366,110**

[1] Amounts without attendence fees
[2] Chairman until 31/5/2012
[3] Vice-Chairman until 31/5/2012; Chairman since 31/5/2012
[4] Vice-Chairman since 1/11/2012
[5] Vice-Chairman from 31/5/2012 until 31/10/2012 (†)

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 €259 thousand in the 2012 financial year (previous year: €197 thousand). Further details are provided in the remuneration report, which forms part of the management report.

With effect from 1 October 2012 H&R AG established an Advisory Board, which advises the Executive Board. Expenses of €15 thousand were incurred for the activities of the Advisory Board in 2012.

The following receivables and liabilities existed as of 31 December 2012:

SERVICES

€ THOUSAND	Receivables from members of management bodies		Liabilities towards members of management bodies	
	31/12/2012	31/12/2011	31/12/2012	31/12/2011
Goods and services	–	–	–	–
Liabilities from Executive Board bonuses	–	–	–	–
Other services	–	2	417	392
Total	**–**	**2**	**417**	**392**

(43) 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 2012. It is published on the Internet at www.hur.com and is included in this annual report.

(44) Group audit expenses recorded as expenditure in the financial year

The following fees for services of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft were recognized as expenses:

€ THOUSAND	2012	2011
Audits	338	338
Other certification or evaluation services	–	13
Tax consultancy services	3	5
Other services provided for the parent company or subsidiaries	130	–
Total	**471**	**356**

Audit fees include the amounts paid for auditing the consolidated financial statements and for the statutory audits of the financial statements of H&R AG and its subsidiaries. Other services mainly consist of fees for project-related advisory services.

(45) 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

(46) 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. Further important basic parameters with regards to our capital structure are net debt and 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 borrowers loan notes, the syndicated loans and the bilateral loans H&R AG is obliged to meet the financial covenants that are connected to the relation of net debt to operational result (EBITDA) and the financial equity ratio. These financial covenants were not met at the reporting date. Further information can be found in Note (14).

CAPITAL STRUCTURE

€ MILLION	2012	2011	2010	2009	2008
Net debt/ EBITDA	3.17	2.15	1.08	1.79	2.00
Equity ratio in %	35.8	38.0	42.5	39.3	38.2
Net gearing in %	70.4	79.4	49.2	64.7	62.0

LIQUIDITY RISKS

The H&R Group ensures that it has sufficient liquidity by monitoring its liquidity status daily and by means of financing facilities that have not been used in full. Compliance with financial covenants is a crucial part of the financing agreements. In the reporting period, our business performance meant that we missed our net debt target on two occasions. After talks with the syndicate banks, the agreements were altered accordingly and the banks waived their right to determine breaches of covenant as of 30 June 2012 and 30 September 2012 and to call in the loan. As of 31 December 2012 the gearing permitted for the syndicated loan was raised from 3.0 to 3.5, bringing it into line with the borrower's note loans. As a purely precautionary measure we have also agreed a waiver for the 1st quarter of 2013, although no breach of the covenant is expected. It was agreed to increase the debt multiple for the 2nd quarter and as of 30 September 2013. Compliance with the financial covenants remains a crucial part of the financing agreements in 2013 too. If these

covenants were to be breached again and could not be renegotiated this would jeopardise the continued existence of the Group. We are countering the risk of a repeated breach of financing conditions by means of an extensive, and in the opinion of the Executive Board, sustainable series of activities to reduce debt and improve earnings. They comprise the greater use of factoring, a modified commission model for our distribution partners which improves margins for H&R AG, converting the Salzbergen site to contract processing and an optimised financing structure.

DEFAULT RISKS

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. Trade credit insurance has also been taken out for a number of major customers.

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.

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 not 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 (37).

(47) Equity holdings

	Division	Shareholder's equity € THOUSAND	Holding in %	Net profit/loss € THOUSAND
Fully Consolidated Subsidiaries				
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	4,207	100	–107
H&R ChemPharm (UK) Ltd., Tipton, UK	b	10,139	100	1.221
H&R Czechia s.r.o., Prag, Czech Republic	b	270	90	272
H&R ANZ Pty Ltd., Victoria, Australia	b	14,485	100	1.482
H&R Global Special Products Co. Ltd., Bangkok, Thailand	b	80	100[1]	757
H&R Malaysia Sdn. Bhd., Port Klang, Malaysia	b	5,204	100[1]	644
H&R ChemPharm (Thailand) Ltd., Bangkok, Thailand	b	31,304	100	7.860
H&R WAX Malaysia Sdn. Bhd., Batu Caves, Malaysia	b	628	100	–371
H&R South Africa (Pty) Limited, Durban, South Africa	b	10,067	100	1.776
H&R South Africa GmbH, Hamburg	b	14,025	100	PLTA[2]
H&R South Africa Sales (Pty) Limited, Durban, South Africa	b	2,496	100	348
H&R Grundstücksverwaltungs GmbH, Salzbergen	a	7,931	98,68	327
H&R Grundstücksverwaltungs-Beteiligungs-gesellschaft mbH, Salzbergen	a	–113	74,04	–26
GAUDLITZ GmbH, Coburg	c	4,583	100	PLTA[2]
GAUDLITZ Precision Technology (Wuxi) Co., Ltd., Wuxi, China	c	2,383	100	85
GAUDLITZ Precision s.r.o., Dačice, Czech Republic	c	–809	93,51	–1.511
GAUDLITZ Grundstücksverwaltungs-Beteiligungsgesellschaft mbH, Coburg	c	14	100	–10
WANO Entertainment GmbH, Liebenburg	d	4,838	100	10
SYTHENGRUND WASAGCHEMIE Grundstücks-verwertungsges. Haltern mbH, Haltern	d	3,833	100	PLTA[2]
B.-H. Beteiligungs- und Handelsges. mbH, Salzbergen	d	4,236	100	–20

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 2012.

	Division	Shareholder's equity € THOUSAND	Holding in %	Net profit/loss € THOUSAND
Financial assets shown by the equity method				
Westfalen Chemie GmbH & Co. KG, Salzbergen	a	1	50	524
Westfalen Chemie Verwaltungsgesellschaft mbH, Salzbergen	a	63	50	0
HRI IT-Service GmbH, Berlin	d	100	50	0
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		11,070	10	3,797
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 2012.

(48) Events after the reporting date

In view of last year's performance, the company has updated its business policies. Events after the reporting date expected to have a significant effect on the earnings, financial and asset position of the H&R Group therefore include in particular the matters described in the risks report and forecast from page 98 (waiver application) and steps to manage working capital (factoring, inventory and stock management, payments on account).

(49) Approval of the financial statements

The financial statements were approved by the Executive Board on 23 April 2013, and released for publication.

Salzbergen, 23 April 2013

The Executive Board

N. H. Hansen L. Rauch D. Wösten

(50) 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, 23 April 2013

The Executive Board

N. H. Hansen L. Rauch D. Wösten

Auditor's Report

We have audited the consolidated financial statements prepared by the H&R Aktiengesellschaft, Salzbergen, comprising the statement of financial position, the income statement and statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the H&R Aktiengesellschaft, Salzbergen, for the business year from January 1 to December 31, 2012. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB 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 consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated 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 annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company´s Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the 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 consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Without qualifying our opinion we draw the attention to the fact that the existence of the group/company is subject to going concern risks which are shown in the management report in section "finance risks/liquidity risks". The management board elaborates that the going concern assumption is dependent on specific measures to meet the relevant covenants on the loan facilities of H&R AG (group). These measures are specified within the section "Individual steps to increase planning visibility, reduce debt and improve earnings".

Hamburg, 25 April 2013

PRICEWATERHOUSECOOPERS
AKTIENGESELLSCHAFT
Wirtschaftsprüfungsgesellschaft

Signed:

Niklas Wilke	ppa. Christoph Fehling
Wirtschaftsprüfer	Wirtschaftsprüfer
(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.

CONCAWE STANDARD
Safety figures LWIF (lost workday injury frequency) and LWIS (lost workday injury severity). The LWIF figure shows the frequency of accidents (number of work accidents with at least 1 day lost for every 1 million working hours). The LWIS figure shows the severity of accidents (number of days lost per work accident).

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.

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.

GROUP I REFINERY
Refineries can be divided into various groups (Groups i to iv). This is done by reference to various properties of the base oil, such as the sulphur content and the viscosity index.

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.

PLASTICISERS
Product of special refinery production: extracts are used as softening agents in the rubber and caoutchouc industry (in particular in tyre production).

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.

List of graphics and tables

6-year overview H&R Group key figures (IFRS)

		2012	2011	2010	2009	2008	2007
Sales volume (main products)[1]	KT	839	872	932	812	775	767
Sales	€ MIO.	1,228.9	1,209.5	1,056.8	762.3	1,035.2	797.9
Operating income (EBITDA)	€ MIO.	49.3	89.1	103.4	65.6	51.2	92.7
EBIT	€ MIO.	25.4	68.1	82.0	44.7	34.9	79.2
Earnings before taxes	€ MIO.	1.5	54.5	73.6	36.2	23.8	73.0
Net income before minority interests	€ MIO.	0.3	38.5	52.0	25.1	9.6	51.6
Net income after minority interests	€ MIO.	0.4	38.5	52.0	25.0	9.5	52.0
Consolidated earnings per ordinary share (basic)	€	0.01	1.29	1.74	0.83	0.32	1.72
Dividend per ordinary share	€	0.00	0.60	0.65	0.45	0.40	0.80
Market capitalisation as at 31/12	€ MIO.	354.4	496.1	630.9	449.0	326.7	553.0
Balance sheet total	€ MIO.	620.8	635.2	532.4	462.4	432.5	398.3
Net working capital	€ MIO.	188.9	265.0	202.2	161.9	141.1	133.4
Shareholders' equity	€ MIO.	222.4	241.1	226.4	181.7	165.4	173.3
Equity ratio	%	35.8	38.0	42.5	39.3	38.2	43.5
Net financial liabilities	€ MIO.	156.5	191.3	111.5	117.6	102.5	56.1
Net gearing	%	70.4	79.4	49.2	64.7	62.0	32.4
Operating cash flow	€ MIO.	84.7	–11.8	52.1	21.5	16.0	39.6
Free cash flow	€ MIO.	50.9	–54.2	19.3	–2.1	–28.9	45.8
Return on capital employed (ROCE)	%	5.3	15.2	21.7	13.0	10.4	27.6

[1] Chemical-Pharmaceutical Raw Materials Division

Adjusted key figures[1] (IFRS)

		2012	2011	2010	2009	2008	2007
Adjusted operating income (EBITDA)	€ MIO.	49.3	89.1	103.4	65.6	73.2	78.9
Adjusted EBIT	€ MIO.	25.4	68.1	82.0	44.7	56.9	65.4
Adjusted pre-tax earnings	€ MIO.	1.5	54.5	73.6	36.2	45.8	59.8
Adjusted EBITDA margin	%	4.0	7.4	9.8	8.6	7.1	9.9
Adjusted return on equity	%	0.1	16.3	25.6	14.4	17.4	24.8
Adjusted return on capital employed (ROCE)	%	5.3	15.2	21.7	13.0	16.7	22.8

[1] Key figures for 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


www.hur.com

Our Financial calendar is updated continuously. Please visit our website www.hur.com in the Investor Relations section for the latest events.

20 February 2013	**Publication of Preliminary Figures 2012 Press and Analysts' Conference**
26 February 2013	Anlegerforum Bad Mergentheim – Event for private investors, SDK
11 April 2013	Equity-Market-Conference Baden-Baden, BANKHAUS LAMPE
18 April 2013	Investment Conference Düsseldorf, WGZ
26 April 2013	**Publication of Final Figures 2012**
14 May 2013	**Publication of Q1 Report 2013**
23 July 2013	**Annual Shareholders' Meeting Hamburg**
14 August 2013	**Publication of Q2 Report 2013**
27 August 2013	Chemicals & Life Sciences Conference Frankfurt, COMMERZBANK
24 September 2013	German Investment Conference München, UNICREDIT
14 November 2013	**Publication of Q3 Report 2013**
11–14 November 2013	Deutsches Eigenkapitalforum Frankfurt
27–28 November 2013	Hamburger Investment Conference Hamburg, BANKHAUS LAMPE

Contact

If you should have further questions concerning our company or if you would like to sign up for the company mailing list, please contact our Investor Relations Team:

H&R AG
Investor Relations
Am Sandtorkai 50
20457 Hamburg
Germany
www.hur.com

TIES KAISER
Phone: +49 (0) 40-43218-321
Fax: +49 (0) 40-43218-390
Email: ties.kaiser@hur.com

TANJA HEMKER-PASSLACK
Phone: +49 (0) 40-43218-301
Fax: +49 (0) 40-43218-390
Email: tanja.hemker.passlack@hur.com

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.

Imprint

Published by:
H&R AG
Neuenkirchener Straße 8
48499 Salzbergen
Germany

Concept/Design:
Kirchhoff Consult AG, Hamburg, Germany

Portait-Illustrationen:
Lyndon Hayes

Translation
EnglishBusiness AG

This annual report was published on
26 April 2013.

H&R AG
Neuenkirchener Strasse 8
48499 Salzbergen
Germany

Phone: +49 (0)59 76-9 45-0
Fax: +49 (0)59 76-9 45-308

Email: info@hur.com
Website: www.hur.com