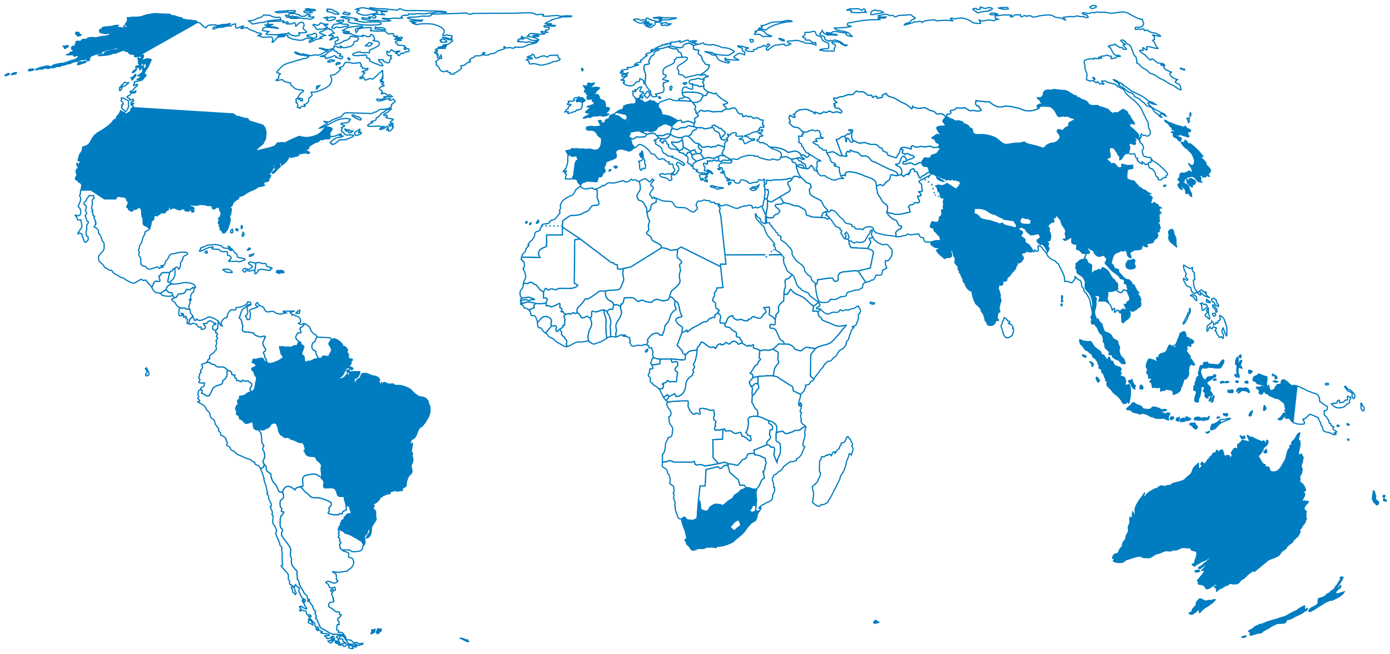
FINANCIAL REPORT 2021

Managing Change

H&R GmbH & Co. KGaA

Our
Mission Statement

As a Group with international operations, we focus on the manufacture of high-grade chemical-pharmaceutical specialty products. Our customers' needs are our top priority. They come from more than 100 different industries and benefit from 100 years of experience gleaned over time, comprehensive expertise and efficient production processes. We aim to successfully expand our global presence – and with this transform our business to make it more sustainable – over the next few years.



GLOBAL PRESENCE

Our
Business Model

RIGHT FROM THE START OF OUR PROCESSES, WE FOCUS ON THE END RESULT:

WITH OUR SPECIALTY PRODUCT MARKETING WE TAKE A CLOSE LOOK AT WHAT OUR CUSTOMERS NEED FROM US.

OUR CUSTOMERS RECEIVE CUSTOMIZED SPECIALTY PRODUCTS FROM US THAT HAVE BEEN TAILOR-MADE AT OUR SPECIALTY REFINERIES TO THEIR REQUIREMENTS.

PETROLEUM JELLIES **& WHITE OILS**

Turning crude oil, first, into base oil, and ultimately into cosmetics, is a long road. In between these two extremes lies a highly complex chemical process which H&R is continuously improving and enhancing. We use this multi-stage hydrogenation process to produce white oils. They are as clear as water and are used, by way of example, in cosmetics.

COSMETIC & PHARMACEUTICAL **SPECIALTIES**

In recent years, this H&R specialty business has successfully developed emulsifiers and bases for the cold processing of ointments, creams and lotions, among other things. Tailormade advice and recommended formulations give many pharmacies and pharmaceutical/cosmetic manufacturers security in formulating premium products.

WAXES **& EMULSIONS**

The H&R Group is focused on waxes. Based on our integrated raw material portfolio, we develop, produce and sell waxes and formulated waxes for specific industrial applications.

PROCESS **OILS**

More than a fifth of a car's fuel consumption stems from the rolling resistance of its tires. Reducing this figure is therefore nothing else than a practical example of climate protection. It has been scientifically proven that environmentally friendly plasticizers make a key contribution to improving the operating characteristics of state-of-the-art tires.

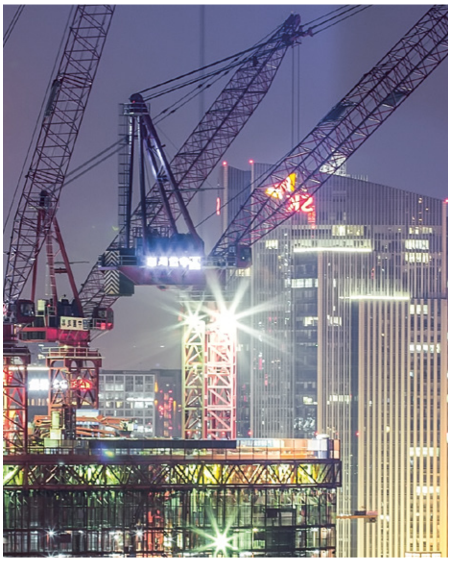
CABLE **FILLERS**

H&R is the world's leading provider of cable compounds for the energy and telecommunications sector. We offer unique application solutions for manufacturers, operators and installers of cables through an international network of manufacturing sites.

MINERAL-OIL TRADE **& INDUSTRY**

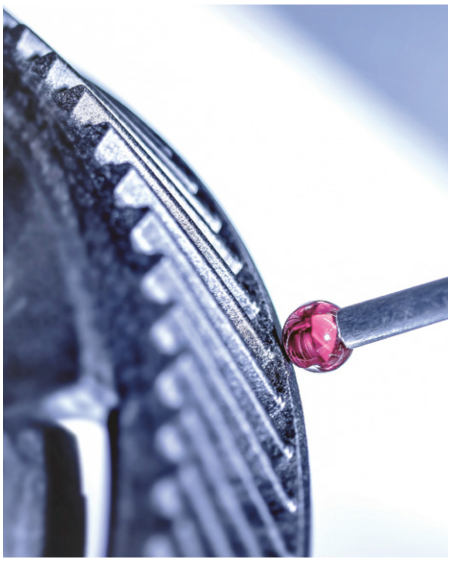
Modern, high-performance engines need top-quality motor oil in order to withstand the demands of daily use. H&R motor oils satisfy the requirements of the newest generation of engines and were manufactured for use by major manufacturers. They keep the engine clean, provide reliable protection against sludge build-up and reduce excessive wear and tear.

CONSTRUCTION **INDUSTRY**



Special water-based H&R waxes and oil emulsions made from natural waxes are used in industrial sectors such as paints and varnishes, paper and packaging, chemicals and blenders, construction industry and insulation materials, as well as in engineered woods.

PLASTICS



Full service – a claim we also live up to in the plastics product segment. Here, we precisely tailor the properties of the material to the level of stress the end product will be subjected to on a daily basis. This also applies to our lightweight precision gears, which are also used in dental drills.

Our
Key Figures 2021

H&R ended the 2021 financial year with the best result since the company's IPO. In view of a global economy that remained dominated by the effects of the Covid-19 pandemic, we generated sales revenue of nearly €1.2 billion and an EBITDA of €132.5 million.

T. 01 **THE H&R GROUP IN FIGURES**

IN € MILLION	2021	2020	Change (absolute)
Sales revenue	1,188.4	873.0	315.4
of which Chemical and Pharmaceutical Raw Materials Refining	745.3	524.6	220.7
of which Chemical and Pharmaceutical Raw Materials Sales	412.2	317.0	95.2
of which Plastics	43.6	40.1	3.5
Reconciliation	-12.8	-8.7	-4.1
Operating income (EBITDA)	132.5	55.8	76.7
of which Chemical and Pharmaceutical Raw Materials Refining	103.4	35.2	68.2
of which Chemical and Pharmaceutical Raw Materials Sales	29.1	25.9	3.2
of which Plastics	3.5	-0.4	3.9
Reconciliation	-4.3	-4.9	0.6
EBIT	81.6	-0.3	81.9
Earnings before income tax	73.4	-10.4	83.8
Consolidated net income	52.5	-7.8	60.3
Consolidated income attributable to shareholders	50.2	-9.0	59.2
Consolidated income per share (undiluted, in €)	1.35	-0.24	1.59
Cash flow from operating activities	37.4	60.1	-22.7
Equity ratio (in %)	46.7	46.5	0.2
Employees as of December 31 (absolute)	1,585	1,585	0

T. 02 **SUSTAINABILITY KEY FIGURES**

KG PER TON OF FEEDSTOCK	2021	2011 (Reference value)
CO_2 emissions (kg/t)	363.0	359.6
Waste (kg/t)	2.79	3.09
Wastewater (l/t)	711.9	861.2

1,188.4
MILLION EUROS IN SALES 2021

132.5
MILLION EUROS EBITDA 2021

1,585
EMPLOYEES 2021

CONTENTS

MANAGING CHANGE

How We Are Developing Our Business Model Step-by-Step

Good Base Oils Business Why we can't rely on this permanently.

In the past financial year, the base oils business generated a good contribution to income. A special situation on the market provided a basis for this. But our strategy clearly focuses on products from high-quality process stages.

Capacity shortages are behind the positive one-time effect in the base oils business, and the reason is simple – during the course of the pandemic, significantly more people stayed at home in 2021 for the second year in a row. They worked from home and went on vacation less. The demand for fuel fell, and with it, the production of multinational refinery operators. This led to atmospheric residue and vacuum gas oil left over from the fuel refinery processes no longer being passed on to the downstream base oil refineries in their usual quantities. As a result of this, many in-house base oil refineries were no longer able to be operated profitably. They stopped their production – and consequently also stopped supplying customers.

In contrast, we, the H&R Group, remained able to deliver. The major fuel refineries, which normally continue to add value internally, nevertheless continued producing atmospheric residue in the past year.

The Group achieved sales of

€1,188.4 million

in 2021, around 36.1% above the prior-year level.

Base Oil Production

The effects of the pandemic (decline in car and plane traffic) have led to a significant reduction in fuel and base oil production by the major refineries. By contrast, H&R was able to continue offering these products to the high-demand market and profit from good margins.

Find out more on page 72

Another advantage for us was and continues to be that we can use various sources for our input materials. Depending on requirements, our atmospheric residue comes from Western Europe, South America or also from eastern regions.

In a normal case, the base oils business is not very profitable. What is more, it is subject to a high degree of volatility in margins and prices. This could be seen last fall. With the withdrawal of the coronavirus restrictions, the need for mobility increased among the general public, and with it the demand for fuel. The refineries increased their production and started up their processing of lubricant capacities again, in order to produce base oils. As a consequence, with rising demand prices fell significantly in the second half of 2021.

It is clear to us that if we intend to reduce volatility and thereby strengthen the stability of our business, we need to produce fewer base oils.

Another reason for our gradual reduction of the base oil business is the general shift away from using fossil feedstocks as part of the green transformation. We are currently seeing this above all in the field of mobility. In Europe, Norway wants to stop registering new cars with internal combustion engines as early as 2025. Iceland, the Netherlands, Ireland, Slovenia, Sweden and Denmark have set the goal of bidding farewell to combustion engines from 2030. This transformation has the potential to affect us from two sides: No fossil fuels, no atmospheric residue. No combustion engines, no need for motor oils.

The consequence of this for us is that we need to change our processes and adapt our product mix – increasingly moving away from the high-volume base oil business toward a more specialized portfolio (including new feedstocks). We don't need to do entirely without fossil base oils. We can continue purchasing them as feedstock.

»In 2022, we want to focus more heavily on specialization and transformation once again.

*Thomas Gerber,
Chief Operations Officer*

Sustainable Chemical Specialty Products with NextGate Why this project holds a great deal of potential for us.

While many industrial companies are still talking about hydrogen as a sustainable fuel or its use as a process component, we are already starting up our second hydrogen application with NextGate. We intend to take advantage of our head start in hydrogen production, which began back in 2017, and position ourselves as a provider of climate-friendly and synthesis-based product solutions.

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NextGate

The NextGate project is a demonstration plant for the power-to-liquid process at the Neuhof site.

This project is currently one of only two similar projects in Germany.

Find out more on page 42

We have already been pursuing the vision of carbon-reduced production for more than ten years. And with our approach of using oil raw materials right down to the last drop, we are working on the realization of this goal on a daily basis. We set an important milestone in this direction several years ago with the construction of the hydrogen production plant at the site in Hamburg. We are using the hydrogen generated at this site as a process component in the hydrogenation of high-quality white oils. With the NextGate project, we are opening the door to additional opportunities for using our hydrogen.

NextGate is a demonstration plant, in which we are initially producing a synthesis gas from hydrogen and CO_2 and in additional steps use the Fischer-Tropsch process to extract liquid hydrocarbons. The process is largely sustainable as we produce the hydrogen in a dedicated electrolysis plant, for which we buy certified renewable electricity. The CO_2 originates from biogenic sources and is recycled instead of ending up in the atmosphere. At the plant, we can produce around 200 tons of e-fuels per year for shipping and aviation and around 150 tons of waxes for applications in the cosmetics, pharmaceuticals and food industries. Further processing of the waxes takes place in Salzbergen.

The production quantities of NextGate are still manageable for now at 350 tons per year. But the plant, currently one of two of this type worldwide, will prove that production on a larger industrial scale is also possible.

350 tons is definitely a good start. If we can be one of the first to offer products on a non-fossil hydrocarbon basis, we will have the attention of our customers. We can take advantage of this and actively offer our customers a product portfolio with climate-friendly quantities at an early stage.

Going forward, our cooperation with Nordic Electrofuel, which we agreed in January 2022 of this year jointly with our joint venture partner Mabanaft, will also help us with this. From 2024, our joint venture P2X Europe will purchase commercially relevant quantities of fuel and waxes from the Norwegian company. We will particularly market the quantities in the jet fuel business, but also in the chemical base materials industry. In the first phase, the Nordic Electrofuel demonstration plant will supply 8,000 tons of fuels and waxes per year. Later on, the annual production capacities will be gradually expanded to more than 800,000 tons. Through our cooperation with Nordic Electrofuel, we are strengthening the supply base of our joint venture and driving forward market penetration with carbon-reduced power-to-liquids products.

In the power-to-liquid demonstration plant in Hamburg, we have the opportunity today to produce synthesis-based raw waxes and fuels from renewable raw materials. On this basis, we can plausibly approach our customers with the offer of supporting them with the sustainable structuring of their supply chains.

200 t

of e-fuels and

150 t

of waxes are produced by the NextGate plant every year.

By using materials from sustainable sources, we create ‘green’ products.

Ulrike Vollrath, Head of Innovative Process Technologies

Synthesized, Bio-based, Recycled Our path to carbon neutrality.

We will also offer an application-specific product portfolio in the future, which is aimed at customer requirements. But the road to obtaining our products will also be even more sustainable. By 2035, we intend to make our production carbon neutral. For this, we are gradually introducing new feedstocks.

2022

10,000

tons of sustainably-sourced raw materials

2023

10%

sustainably-sourced raw materials

2030

70%

sustainably-sourced raw materials

2035

Carbon-neutral production in Germany

Find out more on page 23

The production of added-value specialty products has always been a guiding principle for our activities. For us, that means not wasting a drop in the processing of fossil feedstocks wherever possible, while at the same time ensuring that our products do not end up in short-lived applications or even being incinerated. In the future, we will increasingly replace parts of the fossil feedstocks with more sustainable alternatives. In this way, we intend to establish carbon-neutral production by 2035.

We pursue a three-pillar strategy when it comes to feedstocks. In the future, the previously dominant pillar of fossil feedstocks will be further reduced until it can eventually be replaced by non-fossil and renewable raw materials. For this, we are relying on the use of recycled, bio-based and synthetic products. We intend to produce the latter by using long-chain hydrocarbon compounds methanated from hydrogen and CO_2 in our refinery processes. We produce the hydrogen by means of water electrolysis with the aid of wind power/ electricity, which is certified as green electricity. The CO_2 originates from the fuel gas from thermal waste recovery, so it does not end up in the atmosphere. Wherever we are not able to achieve carbon neutrality, we take compensatory measures such as purchasing green electricity certificates.

From production sites to technology parks with various production processes

To the Shareholders

Dear Shareholders,
Dear Readers,
Dear Employees,

I had originally envisaged a different introduction to the Letter from the Executive Board in the 2021 Annual Report. But sometimes the politics of the day catch up with you. The management of the H&R Group considers the outbreak of war in Ukraine to be one of the greatest catastrophes of the 21st century. We care deeply about the fate of the people affected on both sides. As Europeans, we never imagined a new war could emerge in the midst of our society, where we all seemed to share the same ethical and moral principles.

We were mistaken. Our heartfelt sympathy goes out to all those who have to endure the effects of violence and displacement during this time. It is difficult to focus on day-to-day business with all that is going on.

With effect from May 1, 2001, the refinery site in Salzbergen was merged with WASAG Chemie AG into H&R WASAG AG. In the following year, almost exactly 20 years ago, the initial listing took place on the stock exchange. At that time, our company generated sales of nearly €200 million. Today, it is more than €1.1 billion.

The Group of companies, which has grown constantly over the last 20 years, is now comprised of 47 subsidiaries worldwide under the Group management of H&R GmbH & Co. KGaA. It supplies customers in industries that cover almost all areas of daily life and is proud of the commitment shown by around 1,600 motivated employees.

And we are also proud – and rightly so – of the 2021 operating income. At €132.5 million, it is the best result since the stock market listing – probably even in the company's entire history. Even taking the Hansen & Rosenthal Group founded in 1919 and the entire history of WASAG Chemie AG into account, a better year can hardly be found.

»We are proud of the 2021 operating income. At €132.5 million, it is the best result since the stock market listing.

Niels H. Hansen,
Sole Managing Director of H&R KGaA

The achievement of such a result was by no means clear at the beginning of 2021. We came out of the first year of the Covid-19 pandemic with a strong tailwind, but how long and with what strength this support would last was still uncertain. Ultimately, it lasted far into the summer.

We adjusted our income forecast accordingly and increased it to a previously unknown level. At the same time, we left no doubt regarding how this development was supported. Put very simply, the pandemic led to less traffic, as a result of which less fuel was needed and as a consequence of this the major lubricant manufacturers – downstream in the value chain – manufactured fewer products or no more products at all. However, we took advantage of positive market effects for ourselves and benefited from high demand and very good revenues until the middle of the year.

In the second half of the year, the pandemic situation eased noticeably due to the available vaccinations and brought people back to their jobs on site, on business trips or on vacation. The competition started conducting business again and Russian refineries particularly put large quantities on the European market. At the same time, raw materials became more expensive, meaning that companies like H&R felt higher pressure in the area of tension between the purchasing and sales markets.

This made it all the more crucial to continue on our path toward transforming the chemical-pharmaceutical industry in 2021. In doing so, we are not aiming for the decarbonization of our business, as hydrocarbons will continue to be the basis of our production processes. However, we will search for the carbon sources required for this away from fossil-based raw materials, thereby not just pursuing our own interests in a changed, carbon-neutral refinery system, but also addressing the requirements of our customers and customer industries for a sustainable and climate-friendlier product portfolio. Our production sites are to be turned into technology parks, which provide space for the new production processes to reach industrial maturity. This way, we intend to give realizable answers to the economic and social questions of the next few years and decades.

When we inaugurated our electrolysis plant several years ago, the production of hydrogen was observed quite skeptically by our investors and shareholders, as it primarily looked like a departure from the core business. But the exact opposite was the case. We expanded our business with significant sustainability components and with a plant for the production of synthetic fuels and waxes, we are adding another building block to our strategy in 2022. We publicly announced our target for the first time at the 2021 Annual Shareholders' Meeting. By 2030, up to 70% of our products are to be produced on the basis of bio-based, synthesized or recycled raw materials.
Why are we pursuing this goal?

Firstly, of course, these are economic objectives all on their own. The saying, "You shouldn't run after money, you should run towards it", fits quite appropriately. We see that sustainable products with a carbon-reduced climate footprint are increasingly desired by customers and consumers and recognize the clear benefit that we can supply the base materials for these products at an early stage and in relevant quantities. At the same time, we accept the responsibility that we have as a company in the chemical-pharmaceutical industry. Our impact on the climate and energy intensity, the origin of raw materials and product safety are important success factors, particularly in view of the current social and political situation.

Dear readers, the pandemic is nearly behind us. We had actually hoped for things to ease more this year. But that will most likely not be the case for the time being. The effects of the war in Ukraine on the global economy feel too massive. H&R will nevertheless not allow itself to be deterred from its path.

We hope that you will join us for some of the journey.

With kind regards,

Executive Board of H&R KGaA

Niels H. Hansen
Sole Managing Director

Salzbergen, March 2022

Company Representative Bodies

The representative bodies of H&R KGaA are comprised of people who combine entrepreneurial thinking with professional skills. They complement each other with their specific skills and diverse expertise, which they use to achieve our shared corporate objectives.

Executive Board

As the general partner with full personal liability, H&R Komplementär GmbH is responsible for managing H&R KGaA. It conducts business and runs the company. In the 2021 financial year, the Executive Board comprised:

Niels H. Hansen
Sole Managing Director

The Supervisory Board

The Supervisory Board of H&R KGaA is responsible for the supervision of the Executive Board. In financial year 2021, the Supervisory Board of H&R KGaA comprised the members listed below. The Chairman of the Supervisory Board of H&R KGaA is Dr. Joachim Girg.

Chairman of the Supervisory Board

Dr. Joachim Girg
Master of Business Administration, Managing Director of H&R Beteiligung GmbH

Members of the Supervisory Board

Roland Chmiel
Certified Public/Chartered Accountant, Partner in the law and accounting firm Weiss Walter Fischer-Zernin

Sabine U. Dietrich
Chartered Engineer, Member of the Supervisory Board of Commerzbank AG, Member of the Supervisory Board of MVV Energie AG

Sven Hansen
Businessman, Managing Partner of the H&R Group, Managing Director of Tudapetrol Mineralölerzeugnisse Nils Hansen KG

Dr. Hartmut Schütter
Consulting Engineer

Dr. Rolf Schwedhelm
Tax Attorney and Partner in the law firm Streck Mack Schwedhelm

Reinhold Grothus
Group Works Council Chairman for H&R GmbH & Co. KGaA, Works Council Chairman of H&R ChemPharm GmbH

Holger Hoff
Works Council Chairman of H&R Ölwerke Schindler GmbH

Harald Januszewski
Former employee and Works Council Chairman of GAUDLITZ GmbH

The Advisory Board

The Advisory Board of H&R KGaA consists of experts who contribute their expertise in the areas of finance and economics, industrial management and refinery technology on an advisory basis.

Eckbert von Bohlen und Halbach
Managing Director of Bohlen Industrie GmbH

Dr. Erwin Grandinger
Entrepreneur

Dr. Bernd Pfaffenbach
Secretary of State in the German Federal Ministry of Economics and Technology, retired

Dr. Mazdak Rafaty
Entrepreneur

Wilhelm Scholten
Managing Director of Ölfabrik Wilhelm Scholten GmbH

Dr.-Ing. Peter J. Seifried
Chemical Engineer, Independent Consultant

Dr. Gertrud Rosa Traud
Chief Economist of Helaba Landesbank Hessen-Thüringen

Dr. Joachim Girg,
Chairman of the Supervisory Board

Supervisory Board Report

Dear Shareholders, dear Readers,

After having to frequently report on negative influences and unforeseen events on our company's financial year in previous years, I very much hoped – or perhaps better, wished – that 2021 would be less eventful and consequently a year that could be better planned. As we now know, we have been proven wrong.

Covid-19 has not been overcome yet and has also continued to keep the world in suspense in 2021. However, the vaccines, which became available in the spring, had a positive impact from summer onwards. They helped to prevent the pandemic from worsening again and reduced its consequences – rising occupancy of intensive care beds and death figures – at the turn of the year 2021/2022. Difficulties within the global logistics chains and the supply of raw materials have thwarted the growth of many key industries in 2021. Important components for the production chains, particularly microchips, which had still been able to be acquired a few months previously in surplus production, have a sustainable influence on production processes and customer behavior. In Afghanistan, a war that lasted for more than 20 years came to an end and the new leadership in Kabul belongs to the same religious-political persuasion as that of 2001. Its replacement was one of the main reasons for this military operation. In Europe, and particularly here in Germany, we experienced weather events on an unprecedented scale, at least for the past several decades. After 16 years, the chancellorship of Angela Merkel – the most powerful woman in the world for many years – ended with a Bundestag election, the outcome of which brought a different result than was expected at the beginning of the election campaign. The list could go on and on: a change of presidency in the USA with a storm on the Capitol, deepening of the USA vs. China (economic) conflict, initial signs of inflation etc.

The times will continue to be very unsettled in the future. In fact, the uncertainties are likely to intensify. While writing these lines, the war in Ukraine started on February 24, 2022, with the attack by the Russian military and therefore an armed engagement between two independent countries on European soil occurred for the first time since the Second World War – with currently unpredictable consequences.

It almost seems grotesque that in this environment, H&R GmbH & Co. KGaA can present a result that is far beyond expectations. In many respects, it is the best result in our stock market and company history.

I. With EBITDA of €132.5 million, the previous year's figure was more than doubled. In parallel with the EBITDA figure, some of the other earnings figures improved even more significantly. Below the line, the consolidated income attributable to shareholders reached more than €50 million (exactly €50.2 million) after a negative result of €9 million in the previous year. Sales increased by more than a third in the 2021 financial year to €1,188.4 million.

II. The refineries were the key income drivers. But, in addition – and this is particularly encouraging – all of the segments of H&R GmbH & Co. KGaA (ChemPharm SALES and PLASTICS) showed a positive trend above the previous year.

III. In spite of the pandemic, the development of new sites was continued on an international level.

There are various reasons behind these figures. Firstly, the optimizations in our refinery processes and in refinery management, which have been continuously implemented for years, made a crucial contribution to the upturn in earnings. Improvements to our use of raw materials and the development of new supply sources partly compensated for problems with the supply. The sales side was able to make a crucial contribution to the improved earnings with margin improvements. Favorable market and competitive situations and a necessary portion of good fortune in several cases, provided support. But only hard workers are lucky. As shown by the declining figures at the end of the final quarter of 2021, at the turn of the year, H&R GmbH & Co. KGaA was already navigating "rougher" waters and, after the most recent developments, currently more stormy waters.

When reviewing the past financial year, the contribution of two decisive groups must not go unmentioned. Previously, my thanks to both of these groups have always been expressed at the end of my remarks.

First of all, I would like to highlight the group of people who bear the responsibility for the company and jobs. The management and sales partners of H&R GmbH & Co. KGaA showed in 2021 that they are able to accept and master new challenges in difficult times and under partly stressful conditions. Times like these are always times of opportunity, upheaval and new levels of success. And in this respect, very good work was performed in the 2021 financial year, without a shadow of a doubt.

Our company's workforce also deserves special thanks. Any uncertainties, fears and strains due to the Covid-19 pandemic in personal lives or other circumstances did not lead to any noteworthy consequences for the production processes and – where influenceable by H&R – for our supply chains to customers. In 2021, the focus of our company was also on our customers, and the reliability of supply and product quality continued to be the top priority. The increase in absences due to illness resulting from the Omicron variant at year-end did not cause any production constraints. Special thanks are due to all those who played a part in making this possible.

We live in a world that is shaped by paradigm shifts and reforms at the political, social and economic levels. Crude oil prices of over US$100, rising inflation and the ecological transformation of society and business cycles will increase costs while demand remains constant or declines at the same time. In addition to this, there are the costs of the pandemic and the consequences of the war in Ukraine. In order to, figuratively speaking, get the H&R ship back on course, additional efforts will be necessary by all parties involved, as well as significant investments. For this reason, after intensive talks, the Supervisory Board and the Executive Board unanimously came to the conclusion to again propose to the Annual Shareholders' Meeting that no dividend be paid and that the distributable profit be carried forward. Due to the volatilities on the commodities markets, the costs of the ecological transformation of our company and the unforeseeable consequences of the war in Ukraine, in our view, this proposal is appropriate and in the company's interests. The loan conditions for a KfW Entrepreneur Loan in the amount of €40.0 million to ensure the liquidity of the company even in the event of a prolonged or worsening Covid-19 pandemic, as mentioned in last year's Supervisory Board Report, also do not allow any dividend distributions to be made until it is repaid in full.

Key Focal Points of Supervisory Board Work

In the 2021 financial year, the work performed by the full Supervisory Board and its committees focused on the same five key topics, which also made up the majority of our work in the previous year. However, in contrast to 2020, the focus areas were different. The all-dominant topic was the **ongoing development of our refinery operating model** and the **transformation** to sustainable refinery production. But first, I want to mention the other four topics:

The top issue of the 2020 financial year also kept us busy in the 2021 reporting year on a regular basis. Due to the well-established processes, the discussions about the consequences of the **Covid-19 pandemic** were less intense than in the previous year. In addition to current updates, the managers of the international units reported regularly on the local situation in video links. The activities of the H&R systems only stopped temporarily in regions where closures of production premises were officially imposed. The production losses resulting from this were largely compensated for by other units of the Group. None of the sites showed major outbreaks of Covid-19 cases. However, regrettably, an employee of the H&R Group in South America died of Covid.

Health is closely associated with the next topic faced by our Supervisory Board, **safety.** First of all, the personal health and safety of employees and partners have top priority. However, plant and process safety at H&R sites is just as important. The main aim of the full Supervisory Board is still to achieve zero accidents at all H&R Group sites. Each meeting of the Refinery Technology and Strategy Committee began with an update on the topic of safety and this topic also took on a prominent position at the beginning of every regular Supervisory Board meeting.

The further expansion of our **international business,** our most stable earnings driver over the last decade, continued to have a high priority. Our medium-term objectives are to safeguard and, wherever possible, further step up our activities in our established locations, and to expand our sales activities in North and Latin America, Africa and India. We have placed a special focus on the South East Asian region. In 2021, a new site was acquired in the town of Lumit in Malaysia.

The business development and performance of **GAUDLITZ GmbH** was better in 2021 than in previous years. Initial positive business development, which was first seen in the second half of 2020, stabilized. Furthermore, restructuring measures and adaptations that were implemented in previous years showed visible results for the first time. It remains to be seen whether these are also sustainable. The further development of the supply chain issues on the automotive industry is likely to play a crucial role in this.

The **ongoing development of our refinery operating model** and the **transformation** to sustainable refinery production has now become a dominant topic. With the slogan "Oil is far too valuable to burn", Hansen & Rosenthal has been pursuing a strategy towards a "Green Refinery" for more than two decades. While the original starting point was the reduction, or ideally, the complete avoidance of by-products in the refinery process, over the years, with the advancing plans of projects combined under the terms of sustainability and energy transition towards a climate-friendly, ideally climate-neutral economy, additional crucial goals and measures have been added.

In order to achieve this overarching and longer-term goal, Hansen & Rosenthal has defined a strategic path under the acronym G.A.T.E., which figuratively refers to opening the "gateway to the future". In this context, the G stands for globalism. The letter A means user-driven ("Anwendergetrieben" in German). The T stands for TechnoVative, a combination of technology and innovation. Finally, the E stands for Eco², a multiplicative link between economy and ecology, or "Ecology x Economy".

G.A.T.E. is the H&R gateway to the future, but not "the" future itself. Concretely, this means that the "Green Refinery" can only be realized with additional efforts, innovations and investments. For these measures, the management of H&R GmbH & Co. KGaA has set ambitious goals for itself. In the current financial year 2022, 10,000 tons of sustainable raw materials are to be used in both refineries in Hamburg and Salzbergen for the first time. In the following year, this quantity will rise to 10% of our use of raw materials. At the beginning of the next decade, between two-thirds and three-quarters of the raw materials used are set to be sustainable, before complete climate neutrality is aimed for between 2030 and 2035.

In its second meeting of 2021, on March 17, 2021, the full Supervisory Board dealt exclusively with the strategic issues and the journey toward sustainable and economic production under the heading of "Where will H&R be in 3–5 years?". The production, sales, international business and administration areas were looked at separately and discussed with the managers responsible. Updates and reports on individual project progress took place in each subsequent meeting. The years ahead of us will remain challenging in the future. Due to social, political, technical and economic changes, the goals and the path that lies ahead must be constantly reviewed and adjusted.

Objectives and Composition of the Supervisory Board

Following the change of legal form in 2016, the activities performed by the Supervisory Board of our company have focused primarily on control functions and an advisory role. In contrast to companies with the legal form of a limited partnership (AG), the Supervisory Board of a limited liability company (KGaA) has no statutory co-determination rights when it comes to, e.g., major investment projects or defining the company's strategy, and no human resources competencies regarding the managing directors (e.g., their appointment or dismissal, extending, altering or terminating contracts, and dealing with matters relating to their remuneration). At H&R GmbH & Co. KGaA, this function is performed by an Advisory Board of the company acting as the general partner, which has been composed of independent members of the Supervisory Board since it was set up as part of the change in legal form. In this respect, the recommendations of the German Corporate Governance Code in the current version dated December 16, 2019, only apply to a limited extent or not at all to the legal form of a partnership limited by shares (KGaA).

The objectives and composition of the Supervisory Board are reviewed by us at regular intervals and are adjusted, or elaborated, as and when required. This last occurred at the meeting on March 30, 2022. Accordingly, the Supervisory Board of H&R GmbH & Co. KGaA is to be composed so as to ensure the qualified monitoring of, and provision of advice to, the Executive Board. All in all, its members should have the knowledge, skills and professional experience required to enable them to perform the duties incumbent upon a Supervisory Board of a capital market-oriented group of companies with international operations in the refinery segment, and in the business with chemical-pharmaceutical specialty oils and plastics, in a due and proper manner. The special features that apply to structures in which the company acting as the general partner is a family-run business must be taken into account within this context.

Supervisory Board members should have entrepreneurial/business experience in at least one of the areas listed in figure T.04, as well as general knowledge of the refinery segment or related areas. On the basis of their knowledge, skills and professional experience, they should be able to perform the duties incumbent upon a Supervisory Board member in a company with international operations and safeguard H&R Group's public image. At least one-third of the shareholder representatives should have long-standing international experience in the markets relevant to H&R. When proposing candidates to the Annual Shareholders' Meeting for election, attention should also be paid to an individual's personality, integrity, motivation, professionalism and independence.

At least two-thirds of the Supervisory Board members must be independent within the meaning of Section C.II. of the German Corporate Governance Code, as amended. In this respect, it is assumed that the fact that members represent the employees or have a contract of employment with the H&R Group does not call their independence into account. The Supervisory Board must not include more than two former members of the Executive Board of H&R GmbH & Co. KGaA. As a general rule, the members of the Supervisory Board should not be aged over 70. Exceptions can be made from this rule in justified individual cases. In general, the length of service on the Supervisory Board should not exceed 15 years or three terms of office.

The Supervisory Board of H&R GmbH & Co. KGaA would like to promote and strengthen a culture of diversity as a forward-looking foundation for our business. To us, diversity is a way of thinking that is characterized by mutual respect and open-mindedness. The Supervisory Board places particular emphasis in this regard on promoting women to leadership positions. According to the requirements set out in Section 96, paragraph 2 of the German Stock Corporation Act (AktG), the Supervisory Board should comprise at least 20% female members and at least 20% male members. The aim is to have achieved these objectives by the end of 2022 at the latest. As a matter of principle, the selection of Supervisory Board members should be based on professional criteria alone. An individual's skin color, religious affiliation, gender or sexual orientation are no reasons to exclude a particular candidate. In general, adhering to these quotas is seen as the joint responsibility of the shareholder and employee representatives.

When selecting a Supervisory Board member, care must be taken to ensure that the individual can devote the amount of time that is expected to be necessary to ensure the due and proper performance of their Supervisory Board mandate. Within this context, it is important to bear in mind, in particular, that at least five ordinary Supervisory Board meetings are held every year, all of which have to be prepared for in an appropriate manner, that sufficient time must be set aside for the review of the annual and consolidated financial statements and that members who are also appointed to one or several Supervisory Board committees will require additional time to perform these tasks. Furthermore, extraordinary meetings of the Supervisory Board or a committee may have to be held to address special issues.

T.03 **SUPERVISORY BOARD COMMITTEES OF H&R GMBH & CO. KGAA AND THEIR COMPOSITION AT THE END OF 2021**

COMMITTEE	MEMBERS
Audit Committee	CPA Roland Chmiel (Chairman)
	Sabine U. Dietrich
	Dr. Joachim Girg
	Dr. jur. Rolf Schwedhelm
Refinery Technology and Strategy Committee	Dr.-Ing. Hartmut Schütter (Chairman)
	Sabine U. Dietrich
	Dr. Joachim Girg
	Sven Hansen
Nomination Committee	Sven Hansen (Chairman)
	Dr. Joachim Girg
	Dr. jur. Rolf Schwedhelm
Committee for Related Party Transactions and Other Legal Issues	Dr. jur. Rolf Schwedhelm (Chairman)
	Holger Hoff
	Dr. Joachim Girg
	Sven Hansen
	CPA Roland Chmiel (substitute member)

General Information About Supervisory Board Activities

The Supervisory Board diligently and conscientiously performed the supervisory and advisory duties required by law, the Articles of Association and internal rules of procedure. During financial year 2021, the Supervisory Board and the Executive Board had a good, intensive working relationship. The Executive Board kept the Supervisory Board Chairman informed about all important issues on a regular basis and in a timely manner. The Supervisory Board and the Executive Board also stayed in close contact outside meetings in order to ensure a constant flow of information and an exchange of opinions.

Topics Discussed by the Full Supervisory Board

A total of seven Supervisory Board meetings were held in 2021. The attendance rate of the board members was 97%. There were two absences in 2021 – due to illness in one case and family reasons in the other. The attendance rate for the meetings of each of the four committees was 100%.

It is a well-established practice to hold each regular Supervisory Board meeting according to a specific schedule. In addition to the approval of the minutes of the last meeting, the Supervisory Board Chairman reports on his meetings with the Executive Board and other committee-related occurrences that have taken place since the last meeting. The committee chairs report on the meetings that have taken place in the meantime. After this, the current business activity of the company and possible deviations from the budget are discussed. The Board members are also informed about news from production and administration.

In 2021, five other topics were discussed at all meetings. In order to keep the number of repetitions to a minimum in the following list of meeting topics, these should be mentioned briefly in advance:

I) Further development of our refinery operating model and transformation to sustainable production – measures currently being implemented and their consequences.

II) Covid-19 pandemic – hygiene measures, vaccinations, level of illness/employees in quarantine, capacity utilization and maintenance of production and sales, further action.

III) Safety – safety records of our sites (employees and plants). As in previous years, the Chairman of the Supervisory Board again conducted safety tours at both refinery sites in Salzbergen and Hamburg in compliance with existing hygiene regulations.

IV) Expansion of international business – current projects and measures implemented.

V) GAUDLITZ GmbH in Coburg – implementation of the objectives after restructuring measures in previous years.

Insofar as one of the five points referred to was an explicit agenda item or meeting focus, it will not be discussed in further detail below.

T. 04 **PROFILE REQUIREMENTS WITHIN THE RECOMMENDATION C.1 OF THE GERMAN CORPORATE GOVERNANCE CODE FOR THE SUPERVISORY BOARD**

Name		Dr. Joachim Girg	Roland Chmiel	Sabine U. Dietrich	Reinhold Grothus
Age		**57**	**64**	**61**	**61**
Function		Chairman of the Supervisory Board; representative of the majority shareholder	Deputy chairman; independent financial expert	Independent member of the Supervisory Board	Employee representative; Group works council chairman H&R GmbH & Co. KGaA; works council chairman H&R ChemPharm Group, Salzbergen
Occupation/Professional Background		MBA	MBA; Certified public/chartered accountant	Graduate engineer	Chemical technician
Profile requirements	**Family-run SME, capital market operator**	x	x		
	Refinery business & petroleum specialty products; plastics			x	x
	Application research & product development				
	Production; marketing; sales/distribution; digitalization, sustainability			x	
	Internationality	x		x	
	Accounting & auditing	x	x		
	Controlling & risk management	x	x	x	
	Financing & capital market	x			
	Law & taxes		x		
Boards*		Audit Committee; RTS; Nomination Committee, LEGAL Committee	Audit Committee (Chairman), LEGAL Comitee (substitute member)	Audit Committee; RTS	none
On the panel since/elected until		September 2011/Annual Shareholders' Meeting 2022	May 2011/Annual Shareholders' Meeting 2027	May 2019/Annual Shareholders' Meeting 2025	2001/Annual Shareholders' Meeting 2022
Panel activity (# meetings/participation)		Meetings 7/7 Boards 22/22	7/7 14/14	7/7 15/15	6/7 –
Additional board functions		none	TW Beteiligung AG, Munich; member of the supervisory board	COMMERZBANK AG, Frankfurt; MVV Energie AG, Mannheim; member of the supervisory board	none

While the meetings in the first half of the year were predominantly held virtually online, there was more in-person attendance from the half-year point. Nearly all Board members were present at the meeting in Hamburg in October.

The meeting activities in the past financial year started on **January 27, 2021**. In the first Supervisory Board meeting in 2021, various internal and organizational topics were discussed intensively. The results of the self-assessment by the Board and the optimizations derived from this, as well as the task document of the Committee for Related Party Transactions and Other Legal Issues (LEGAL Committee) are particularly notable. Within the context of constituting the new committee, the internal rules of procedure of the Supervisory Board and the four committees were reviewed and adapted and newly created in the case of the LEGAL Committee. The Executive Board reported on the status of the work on the annual financial statements and provided

Sven Hansen	Holger Hoff	Harald Januszewski	Dr. Hartmut Schütter	Dr. Rolf Schwedhelm
53	64	59	77	66
Majority shareholder, entrepreneur	Employee representative; works council chairman H&R Ölwerke Schindler, Hamburg	Former employee representative; former works council chairman GAUDLITZ GmbH, Coburg	Independent member of the Supervisory Board	Independent member of the Supervisory Board
Industrial manager (degree in Business Administration)	Trained retail salesman	Plastics and rubber process mechanic	Certified engineer; Independent consultant	Attorney; specialist lawyer (tax law)
x				x
x	x	x	x	
x			x	
x			x	
x				
				x
				x
RTS; Nomination Committee (Chairman), LEGAL Committee	LEGAL Committee	none	RTS (Chairman)	Audit Committee; Nomination Committee, LEGAL Committee (Chairman)
August 2016/Annual Shareholders' Meeting 2022	September 2011/Annual Shareholders' Meeting 2012, May 2017/Annual Shareholders' Meeting 2022	May 2012/Annual Shareholders' Meeting 2022	May 2013/Annual Shareholders' Meeting 2023	May 2011/Annual Shareholders' Meeting 2027
7/7 14/14	7/7 6/6	6/7 –	7/7 7/7	7/7 15/15
none	none	none	none	Deutsche Anwalt Akademie Gesellschaft für Aus- und Fortbildung sowie Serviceleistungen mbH, Berlin; chairman of the supervisory board

an update on upcoming projects. One of the focus areas related to the expansion of capacities in South-East Asia, particularly in Malaysia. The agenda was rounded off by a presentation on sanctions law. Three lawyers joined in to present current European, British and U.S. regulations on sanctions and embargoes and described the situation in the relevant countries/regions. The managers of the national and international sales units of the company, who had specifically been invited to this agenda item, also took part in the subsequent discussion.

The second meeting was held on **March 17, 2021.** The meeting mentioned in the introductory words, under the heading of "Where will H&R GmbH & Co. KGaA be in 3–5 years?", dealt with the changes to be expected and the consequences derived from this for production, sales and administration. Various points, measures and projects from this were repeatedly discussed in subsequent meetings during the course of the year.

The third Supervisory Board meeting, which was held on **April 20, 2021,** was used to discuss the annual financial statements for 2020. After the necessary supporting documents had been discussed by the Audit Committee in its meeting on April 8, 2021, in the presence of the auditor, the documents were then made available to all Supervisory Board members from this date. Following extensive editing, the audit reports were debated with the auditors at the meeting. On the recommendation of the Audit Committee, the Supervisory Board approved the company's annual financial statements and the consolidated financial statements after a thorough review. The recommendations for the appropriation of earnings (carrying forward distributable profit) and to again propose that the Annual Shareholders' Meeting appoint Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Hamburg, as auditors of the financial statements and the consolidated financial statements, each received a unanimous resolution. Furthermore, the Board members looked at the 2020 non-financial statement, which was included for the first time as part of the sustainability report, and the 2020 subordinate status report. After the internal audit had again not revealed any need for additions or changes, the publication of the 2020 non-financial report in its submitted form was unanimously approved.

Upon recommendation of the Nomination Committee, the Supervisory Board also passed a unanimous resolution to propose Mr. Roland Chmiel and Dr. Rolf Schwedhelm to the Annual Shareholders' Meeting for election as members of the Supervisory Board. This recommendation was based on personality, integrity, commitment and previous trusting cooperation within the Board. In relation to the nomination of both gentlemen, the full Supervisory Board intensively discussed the composition of the Supervisory Board of H&R GmbH & Co. KGaA. Not all of the goals that it has set itself in this respect have been achieved yet. Particularly in light of the new appointment of five Supervisory Board members in 2022 – also including three employee representatives – the goal is being reinforced of achieving the intended 20% quota for the proportion of women as soon as possible. At the same time, the responsibility of both Supervisory Board benches for target achievement was renewed.

Finally, the Supervisory Board discussed the agenda for the Annual Shareholders' Meeting being held on July 9, 2021. The preparation of the presented agenda was also decided, as well as the initiation of all necessary steps for conducting a virtual Annual Shareholders' Meeting.

On **July 8, 2021,** the day before the Annual Shareholders' Meeting, the fourth meeting of the full Supervisory Board was held. In the first part of the meeting, the Executive Board reported on the current status of preliminary work and the expected procedure of the Annual Shareholders' Meeting. After this, an update was provided on the Covid-19 situation and preventative measures, as well as various measures for potential crisis scenarios being presented and discussed. The discussions were rounded off with measures for energy management. The Executive Board presented various projects for saving energy and reducing carbon emissions. In the second part of the meeting, an intensive exchange of ideas took place between the Supervisory Board members, without the Executive Board.

An update on the business situation of GAUDLITZ GmbH and an initial detailed interim statement on the activity of the LEGAL Committee formed the focus areas of the fifth Supervisory Board meeting held on **August 17, 2021.** After extensive restructuring measures in both of the previous years and the now completed capacity restructuring at the Coburg site, GAUDLITZ GmbH is currently in a new legal situation through the creation of a holding company structure. On the basis of this, the Executive board will further develop various forward-looking scenarios for a period of three to five years, which particularly take the core competencies and strengths of the subsidiaries into consideration. In this context, the Audit Committee Chairman reported on a visit to the company, which had taken place recently, and described his impressions. In summary, he determined a significant improvement in comparison to the previous years. Regarding the topic of the LEGAL Committee, the Supervisory Board members were informed about the previous work activities and results. The lawyer involved in the revision of the Supervisory Board's internal rules of procedure was also present and was available to the Board for questions. Finally, the Executive Board reported on a recent internal management conference on the global strategic direction of H&R GmbH & Co. KGaA. Megatrends, such as the transformation of mobility and goals of important countries for H&R in respect of climate neutrality and sustainability were presented and discussed. The selection of renewable raw materials and necessary technological adaptations for this will be particularly important for our company.

In the sixth Supervisory Board meeting – held on **October 12, 2021** – the Supervisory Board initially dealt with the Covid-19 situation at the company's national and international sites. While physical get-togethers and a significantly more eased situation has increasingly taken place since the mid-year point in Germany – in spite of positive cases even after vaccination – the international sites are showing significant regional differences. Overall, there were 19 positive cases up to the date of the meeting among the employees, including one serious case and one death. In total, 287 working days were lost due to illness or quarantine in the international business. As it does in Hamburg, Salzbergen and Coburg, H&R offers the employees in international units opportunities to be vaccinated at work, in cooperation with the local health authorities. The vaccination rate at the national and international sites is significantly above the respective national average, to some extent. Nevertheless, no complete vaccine protection can be obtained among the employees at the national or international level.

The second key topic of the meeting related to the continuation of the discussion on strategy. The first item on the agenda was the presentation of the new manager for international H&R sites in the western hemisphere (UK, Benelux, South Africa, and North and South America), with effect from January 1, 2022. This manager will also be responsible for international growth projects in the future. The Executive Board presented the H&R sustainability targets until 2030 to the full Supervisory Board. Transformation through a two-pronged approach is being aimed for. Behind this approach is the continuation of the previous business with new innovative processes and plants, with the simultaneous use of sustainable raw materials.

The series of meetings was concluded with the seventh session held on **December 9, 2021.** As in previous years, the agenda focused on a review of the current financial year, the 2022 budget, and the five-year mid-term planning. The updated statement of compliance and the implementation of the efficiency audit were discussed in detail and the former was also unanimously adopted. The Executive Board presented its goals within the scope of the further development of the strategy. By the end of the current decade, 70% of the products sold by H&R are to be produced from non-fossil raw materials and consequently will be bio-based, synthesized or recycled. The company intends to be climate neutral by 2035. In an intensive discussion, transformation methods in all three value-adding stages – specialty development/specialty production/ specialty sales – were discussed in detail. The intensive integration of the customers into the development/enhancement of their applications was also discussed thoroughly.

The Work of the Supervisory Board Committees

In 2021, a total of 22 committee meetings were held: two meetings of the Audit Committee; the Refinery Technology and Strategy Committee (RTS) met once; the newly created Committee for Related Party Transactions and Other Legal Issues (LEGAL Committee) met six times and the Nomination Committee met once. Six combined meetings of the RTS and the Audit Committee were also held. As in the previous year, the latter dealt with the consequences and effects of the Covid-19 pandemic, increasing flexibility, continued development and transformation of our refinery operating model and other investment projects relating to the “Green Refinery”. A particular focus of the meeting was on the topic of safety.

As in the previous years, no absence was recorded at any of the committee meetings in 2021, putting the attendance rate at 100%.

Audit Committee

The Audit Committee held a total of eight meetings in financial year 2021, six of which were held jointly with the Refinery Technology and Strategy Committee (RTS).

As is the case every financial year – one key topic of the committee’s work was discussion of the annual financial statements and the combined management report for H&R GmbH & Co. KGaA and the Group, the non-financial Group report, the sub-ordinate status report and the proposal for the appropriation of net income. These documents relating to the 2020 financial year were discussed in detail with the auditor and the Executive Board. The Audit Committee then gave the Supervisory Board its recommendations regarding approval of the financial statements for financial year 2020 and the proposal to the Annual Shareholders’ Meeting concerning the appropriation of the distributable profit as of December 31, 2020, and the election of the auditors for financial year 2021.

The Audit Committee’s work also particularly included issuing the audit engagement to the auditors elected for financial year 2021, defining the focal points of the audit and determining the auditing firm’s fees. The course and results of the audit of the financial statements were also followed, discussed and evaluated in a timely manner. Regarding the monitoring of the auditors’ impartiality, the Audit Committee implemented appropriate measures to ensure that it is notified in a timely manner of intended letters of engagement to the auditors and/or to members of the auditing firm’s network regarding non-audit services. After assessing the admissibility of such services and/or potential risks they might pose to the auditors’ independence, the letters of engagement were approved in advance in each case, provided that they were found to be unobjectionable.

The Audit Committee also dealt with individual aspects of the internal control system and the Group’s compliance and risk management system, the activity reports of the Internal Audit department, the regular reports on the risk situation and topics relating to data protection. Among these were issues relating to the internal and external reinforcement of personnel in the areas of IT security, data protection and compliance management, a compliance audit carried out at the refinery sites, as well as Group-wide IT authorization management and the certification of the H&R data center. The committee also took a close look at the preparation of the annual financial statements, personnel, and other reorganization measures in the Plastics division. Other topics of discussion included the development of the net assets, financial position and results of operations, as well as the liquidity situation, budget planning for the coming financial years from 2022, monitoring the quality of the audit of the financial statements, the effects of the Financial Market Integrity Strengthening Act (FISG) on the scope of activities and composition of the Audit Committee, the enhancement and external review of non-financial and sustainability reporting, and the statement of compliance with the German Corporate Governance Code (GCGC).

For the purposes of self-assessment of the Supervisory Board and its activities, the assessment procedure applied to date involving a detailed questionnaire was again conducted for financial year 2021. Support for this internal solution by external consultants for the 2022 financial year is planned.

On top of the committee meetings, the Chairman of the Audit Committee, the Executive Board, the Head of Finance, and the Head of Internal Audit held regular discussions to exchange information and coordinate their work. The Chairman also provided close support with the preparation and audit of the annual financial statements of H&R GmbH & Co. KGaA, the consolidated financial statements and the annual financial statements of individual Group companies, holding numerous discussions with the auditor in this regard. In addition, he visited the Group site in Coburg in July and at the end of November 2021, verified the implementation of the reorganization measures in the area of accounting, and discussed the preparation and auditing activities for the 2021 annual financial statements in detail with the employees responsible and the auditors.

Refinery Technology and Strategy

With a total of seven gatherings in the 2021 financial year, the Refinery Technology and Strategy Committee met with the Audit Committee six times. The committee members convened for a special meeting on March 2, 2021. The focus of the agenda for the latter was on procedures for the further minimization of emissions in our production sites. Additional meeting topics related to safety performance in the refineries in 2020 and production availabilities and the current demand situation.

In the six meetings held with the Audit Committee, in addition to the initially mentioned points of increasing flexibility, continued development and transformation of our refinery operating model and other investment projects relating to the “Green Refinery”, the following items were on the agenda in 2021:

- January 27: Restrictions and consequences on refinery operations in the Covid-19 pandemic. In particular, protecting employees, dealing with infected individuals, maintaining production and sales processes with restricted on-site presence, impact of remote working activities, and various pressures on the organization.
- March 16: Innovative process technologies and the safety workshops of the refinery workforce held in the first quarter of 2021.
- July 8: Energy management of the refineries and a detailed update on current projects.
- August 16: Alarm management in case of external hazards and a presentation on new processes for the sustainable (ecological) production of hydrocarbons.
- October 12 and December 9: Detailed review and target/actual comparisons of completed and current projects.

While the meetings in the first half of the year were held as virtual or hybrid events, the committee members predominantly met in person in Hamburg from July onwards. During the course of this, individual visits and safety tours were completed at OWS in the Port of Hamburg.

Committee for Related Party Transactions and Other Legal Issues

The committee met six times for meetings in the past financial year. With the exception of the first two meetings (virtual events), the members met physically in Hamburg on the four subsequent dates. The areas focused on in the first two meetings were detailed discussions about the legal environment of the committee work. External consultants were also called in for this.

The main content of the committee meetings was the subsequent identification of relevant related party transactions within the meaning of Section 111a AktG. An emphasis of this was on reviewing the standard market practice of the transactions during the ordinary course of business (Section 111a, paragraph 2 AktG) on the basis of spot checks taken from the respective business divisions. For this purpose, documents and contracts submitted by the Executive Board, as well as information and explanations from employees of the company, were evaluated and discussed in detail.

Furthermore, the committee dealt with the question of which formalized procedures are suitable for assessing on a regular basis, and whether transactions with related parties are taking place during the ordinary course of business and at standard market conditions. Discussions were conducted with the Executive Board on this topic. A procedure has been implemented in which all relevant transactions between related parties are provided to the committee in electronic form on a semi-annual basis. The committee then performs an in-depth review of a random sample of the underlying transactions.

Nomination Committee

The Nomination Committee met only once in the 2021 financial year, on April 19. After several preliminary discussions, the committee unanimously recommended to the full Supervisory Board that Mr. Roland Chmiel and Dr. Rolf Schwedhelm be nominated for election again by the Annual Shareholders' Meeting on July 9, 2021, on the basis of their professional and personal qualifications. Both gentlemen have belonged to the Board since 2012 and support important functions. Mr. Chmiel is a longstanding Chairman of the Audit Committee and Dr. Schwedhelm chairs the Committee for Related Party Transactions and Other Legal Issues. He is also a member of the Audit Committee and the Nomination Committee. The achievement of the quota for women set by the plenum itself continues to remain a high priority for the Supervisory Board of H&R GmbH & Co. KGaA. But we see this as a duty of both Supervisory Board benches.

Audit of the Annual and Consolidated Financial Statements, the Non-financial Group Report and the Subordinate Status Report

Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Hamburg, audited the annual and consolidated financial statements and the combined management report for H&R GmbH & Co. KGaA and the Group for financial year 2021 and issued an unqualified audit certificate for each.

The annual financial statements for H&R GmbH & Co. KGaA and the combined management report for H&R GmbH & Co. KGaA and the Group were prepared in accordance with the requirements of the German Commercial Code (HGB). The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the additional requirements as set forth in Section 315(a), paragraph 1 of the HGB. The auditors carried out the audit in accordance with Section 317 HGB and the generally accepted auditing principles promulgated by the Institute of Public Auditors in Germany (IDW). The Executive Board distributed the aforementioned documents to the Supervisory Board in good time.

The annual and consolidated financial statements and the combined management report were explained and discussed in detail by the auditor at the Audit Committee meeting on March 22, 2022. The audit reports by Grant Thornton were distributed to all Supervisory Board members and were reviewed thoroughly in the presence of the auditors at the Supervisory Board meeting on the financial statements held on March 30, 2022. The auditors reported on particularly important audit matters, the main findings of their audit and confirmed that the internal control and risk management system had no major weaknesses as far as the accounting process was concerned. In addition, the auditors talked about significant transactions and decisions that had been taken concerning accounting policies. At the plenary meeting, the Chairman of the Audit Committee gave an extensive report on the Audit Committee's review of the annual and consolidated financial statements.

Based on the recommendation by the Audit Committee and after our own audit of the annual and consolidated financial statements, we approved the results of the audit conducted by the auditors and ratified both the annual and the consolidated financial statements including the combined management and Group management report. The annual financial statements were therefore adopted.

The Executive Board's proposal regarding the appropriation of distributable profit has been deemed appropriate and approved by the Supervisory Board.

The Executive Board has prepared a separate non-financial Group report for the 2021 financial year – as part of a broader sustainability report – in accordance with the provisions set out in Sections 289b et seq. in conjunction with Sections 315b et seq. HGB. The Supervisory Board has commissioned a voluntary limited assurance audit in accordance with ISAE 3000 for the first time for the non-financial report for the 2021 financial year, which will be carried out by April 30, 2022, and also by Grant Thornton. The Audit Committee and the entire Supervisory Board will once again duly examine this report with regard to the correctness and appropriateness of the reporting. The report will then be published on the company website.

The report prepared by the Executive Board pursuant to Section 312 AktG on relationships with affiliated companies (subordinate report) was also audited by the auditor.

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 in accordance with our professional duties, we confirm that

1. the factual information provided in the report is correct,
2. the consideration paid by the company for the legal transactions listed in the report was not unreasonably high.”

On the basis of the auditor's report, the Supervisory Board examined the subordinate report with particular regard to completeness. The Supervisory Board endorses the closing statement made by the auditor and closing statement of the Executive Board contained in the subordinate report and has no objections to raise.

The Supervisory Board would like to thank the Executive Board, all employees and the employee representatives for their hard work, their personal contributions and their constructive collaboration for the good of the company in these challenging times.

Stay safe.

On behalf of the Supervisory Board

Dr. Joachim Girg, Chairman

H&R in the Capital Market

Capital Markets and Share Price Performance

Recovery of Global Economic Growth

The coronavirus pandemic remained formative in 2021 for the global economy and, consequently, for the stock markets. However, while lockdowns of entire key industries were the only means of confronting the pandemic in the first year, the developed vaccines and vaccination campaigns ensured that comparable restrictions were largely avoided in 2021. Global economic growth recovered markedly, also supported by the extensive economic and monetary policy support measures. The companies also benefited from this. Worldwide, their profits grew by more than 50%, thereby exceeding the comparable values prior to the coronavirus crisis.

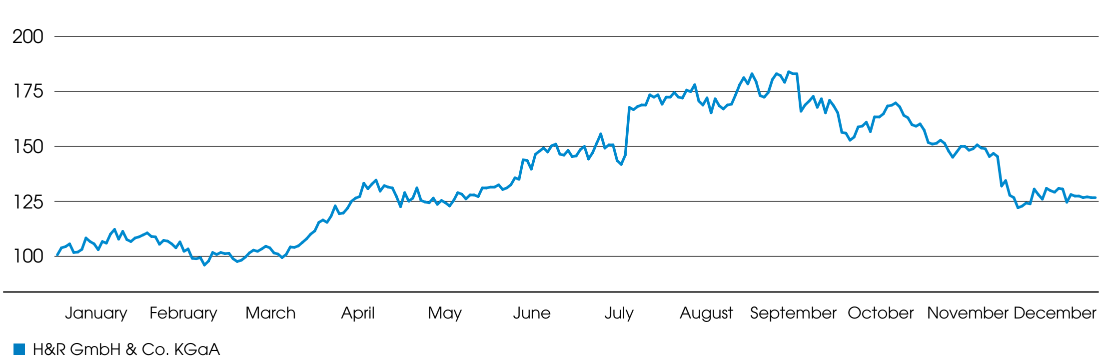
However, the high demand was met with significantly reduced supply, including severe supply chain problems and accelerated inflation as a result. With a rate of over 5% at year-end, companies and consumers were faced with price increases, the like of which had not been seen in 30 years. A significant proportion of the inflation rate was due to developments on the commodities markets. The prices for oil and gas in particular rose considerably towards year-end. However, overall, the year ended with successful economic data.

H&R Share Price Recovers Strongly Over the Course of the Year

Joy and sorrow were closely intertwined for H&R KGaA's shares once again last year. Based on the price of €5.57 at the start of the year, the share attempted to break through the €6.00 mark sustainably in the first quarter. However, this was only achieved in April, with the breakthrough simultaneously ringing in a strong recovery of H&R shares until mid-September. On September 15, the maximum price for the year reached €10.25. This development was primarily supported by outstanding figures for Q2 2021. In the subsequent months, H&R repeatedly adjusted its expectations for the full year upwards again, but appeared to still not fulfill the expectations of the investors, who hoped for even better performance. Although we held out for a record result, the price was put under pressure. At year-end, the shares ended trading at €7.02, which was a gain of 26%.

G. 01 **PERFORMANCE OF THE H&R SHARE**

(INDEX 4.1.2021=100)



T. 05 **BASIC DATA ON THE H&R SHARE**

ISIN/WKN	DE000A2E4T77/A2E4T7
Abbreviation	2HRA
Type	No-par bearer share
Listings	Official Market in Frankfurt (Prime Standard), Hamburg and Düsseldorf, freely traded in Stuttgart and Munich
Indices	Prime Standard All Share, Classic All Share, Prime Chemicals and Prime IG Specialty Chemicals, DAXPlus Family Index
Designated Sponsor	Oddo Seydler Bank AG; Baader Bank AG

Number of Shares, Market Capitalization and Trading Volume

The number of company shares issued totaled 37,221,746 as of December 31, 2020.

As a company in the Prime Standard segment, H&R KGaA meets exacting disclosure and transparency standards. The share price can be obtained from the trading systems and the financial press.

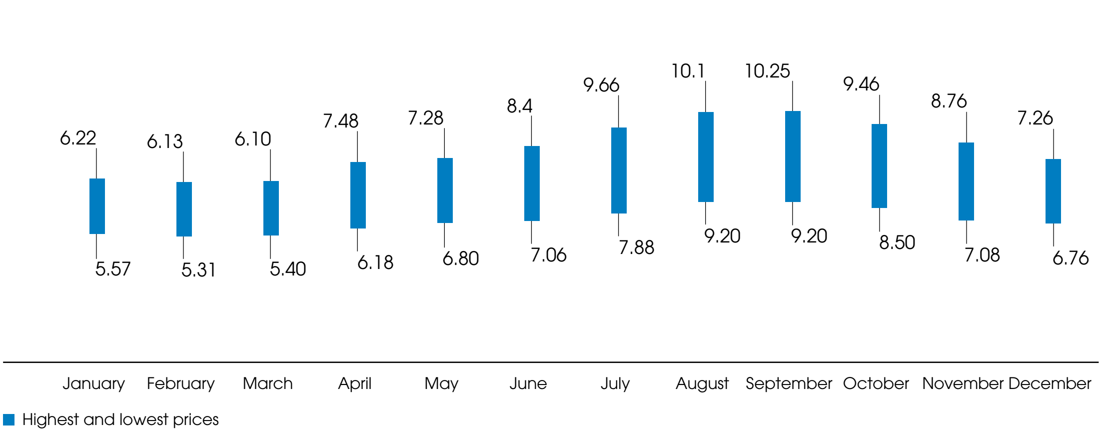
During the past year, interest in our shares was significantly higher than in the previous year, with around 5.8 million shares in total being traded on Xetra alone. Another 3.1 million shares changed hands via Tradegate, Deutsche Börse's platform for private investors. There were therefore approximately 8.9 million traded shares in 2021, compared to 7.1 million in 2020. In terms of daily volumes and closing prices, the total trading volume resulting from this stood at around €69.2 million (previous year: €35.6 million).

T. 06 **KEY SHARE DATA/XETRA CLOSING PRICES**

	2021	2020	2019	2018	2017
Number of shares on December 31	37,221,746	37,221,746	37,221,746	37,221,746	36,536,553
Earnings per share	€1.35	€-0.24	€-0.04	€0.59	€0.88
Highest price for the year	€10.25	€6.23	€7.99	€15.40	€15.91
Lowest price for the year	€5.31	€3.56	€4.93	€5.78	€11.49
Price on December 31	€7.02	€5.47	€5.22	€6.09	€14.60
Market capitalization on December 31	€261.3 million	€203.6 million	€194.3 million	€226.7 million	€553.4 million
Average daily trading volume	€270 thousand	€316 thousand	€162 thousand	€228 thousand	€436 thousand

G. 02 **HIGHEST AND LOWEST PRICES OF THE H&R SHARE, FULL YEAR 2021/XETRA CLOSING RATES**

IN €



Shareholder Structure

We were not informed of any changes in the shareholdings of our majority shareholder in the financial year under review. According to an informal notification, the share of the company's share capital that is attributable to Mr. Nils Hansen corresponds to a total of 61.42% of the voting rights.

According to an informal notification, the stake in the share capital held by Mr. Wilhelm Scholten on December 31, 2020, was unchanged at 6.06%. 5.45% of this was held via Wilhelm Scholten Beteiligungen GmbH and the remaining 0.61% was held via Ölfabrik Wilhelm Scholten GmbH and a subsidiary.

The remaining 32.5% of H&R shares were in free float as of December 31, 2020. Of these, around 4.1% were in turn held by institutional investors.

Investor Relations

The 2021 reporting year again presented listed companies with numerous challenges. For example, important conferences and meetings were canceled or could not be attended – the priority of protecting people's health was reason enough for physical meetings to be precluded. At the same time, the convening of larger groups was prevented by changing legal parameters which were not always uniform. Accordingly, the 2021 Annual Shareholders' Meeting was again conducted as a virtual event. Overall, our company also acted like society in general and kept personal interactions to a minimum. Nevertheless, we took part in a capital market conference again and attended the Baader Investment Conference virtually. Management and the IR department also fielded an especially large number of telephone calls from investors, who were quite keen to receive information about the company.

Finally, we routinely provided information to our target groups through the quarterly reports and company press releases.

In 2021, analysts from Kepler Cheuvreux, Commerzbank, DZ Bank and Baader Bank covered our shares.

T. 07 **RESEARCH COVERAGE OF THE H&R SHARE**

Kepler Cheuvreux
Baader Bank
DZ Bank
Commerzbank

We Would Like to Hear From You

Interested parties can download our company reports at any time from the Investor Relations section of our website, www.hur.com.

We would also be happy to send you a printed copy on request.

We also keep our target groups informed about current developments at our company through our e-mail newsletter. You can register for these publications at the Investor Relations section of our website.

Should you have any questions or suggestions, please contact us at:

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Combined Management and Group Management Report of H&R GMBH & CO. KGAA

Group Fundamentals

Corporate Structure and Business Model

Sectors and Organizational Structure

The H&R Group organizes its operating activities into two business divisions: Chemical-Pharmaceutical Raw Materials and Precision Plastic Parts. We also have three business segments: ChemPharm Refining, ChemPharm Sales and Plastics.

Our ChemPharm Refining segment includes the two German specialty production sites in Hamburg and Salzbergen. We operate these sites with the aim of achieving as high a percentage as possible of output consisting of hydrocarbon-based specialty products such as label-free plasticizers, paraffins and white oils. During the course of our production processes, we create approximately 800 different products that are used in almost every area of life.

Our ChemPharm Sales segment is comprised of numerous plants for additional processing as well as our distribution sites worldwide.

In the Plastics segment, we manufacture our precision plastic parts at our locations in Coburg, Czech Republic and China. The customers buying our Plastics products include the automotive industry, the medical technology industry and other traditional industrial sectors.

Group´s Legal Structure

As the Group’s holding company, H&R GmbH & Co. KGaA (hereinafter referred to as H&R) is in charge of the management of our business operations. The holding company is responsible for the Group’s strategic focus and its financing activities. In addition, it provides various management functions and services for our subsidiaries.

At the end of the reporting period, there were 47 consolidated subsidiaries (December 31, 2020: 44). The list of shareholdings can be found in the notes to the consolidated financial statements under “Scope of Consolidation and Holdings”.

The ChemPharm Refining segment, which primarily consists of the specialty refineries in Germany, has a functional management structure. Managerial staff within this segment have cross-site responsibility for key functions such as raw materials purchasing, project management, accounting, and sales/distribution.

In the ChemPharm Sales segment, which does not possess any specialty refineries of its own, the responsibility for all functions is held by local managing directors. These report from the sites to a regional managing director, who in turn reports to the Group’s Executive Board.

There are two management levels at the Plastics segment: managing directors at the international sites report to the Divisional Executive Board, which is also responsible for managing the production plant in Coburg, Germany.

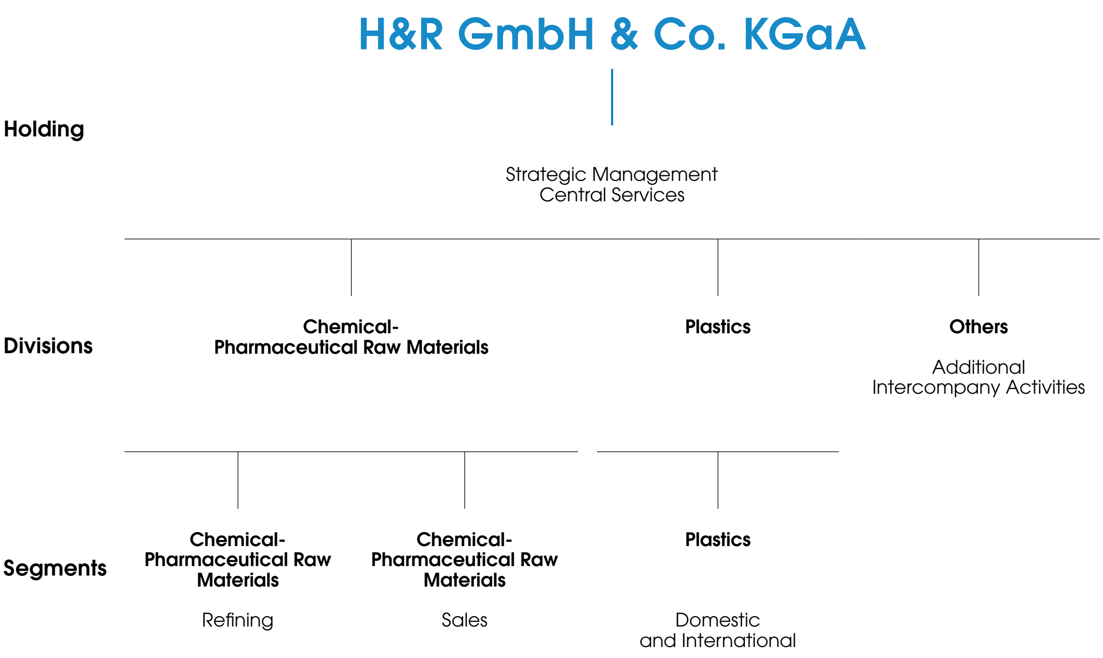
Sites

At year-end 2021, our Group employed 1,585 people worldwide unchanged. The following overview shows our most important sites with more than 25 employees:

T. 08 **MAIN SITES IN THE H&R GROUP**

Continent	Country	City	Division	Employees
Africa	South Africa	Durban	ChemPharm	57
Asia	China	Wuxi	Plastics	109
		Ningbo/ Daxie	ChemPharm	121
		Fushun	ChemPharm	96
	Thailand	Bangkok/ Si Racha	ChemPharm	69
Europe	Germany	Hamburg	ChemPharm	310
		Salzbergen	ChemPharm	407
		Coburg	Plastics	122
	Benelux	Nuth	ChemPharm	28
	United Kingdom	Tipton	ChemPharm	44
	Czech Republic	Dačice	Plastics	85

G. 03 **OVERVIEW OF GROUP STRUCTURE**



Main Products, Services and Business Processes

In our domestic specialty refineries in the ChemPharm Refining segment, we are currently primarily using petroleum-based raw materials; however, in addition to this, bio-based and synthesized products are also already being used as feedstock. The feedstocks are used to produce approximately 800 hydrocarbon-based specialty products: process oils, technical and medical white oils, paraffins and wax products. By-products and co-products produced as part of our processes are either processed to produce other high-quality specialty products or are used in bitumen to build roads. Another part of it is sold on to other types of refineries as feedstock. At special filling facilities, we also mix lubricants based on well-known end customers' formulations.

In the production plants of the ChemPharm Sales segment, our production focuses on environmentally friendly label-free plasticizers and wax emulsions. Partnerships with local producers around the world allow us to avoid building our own refinery capacities.

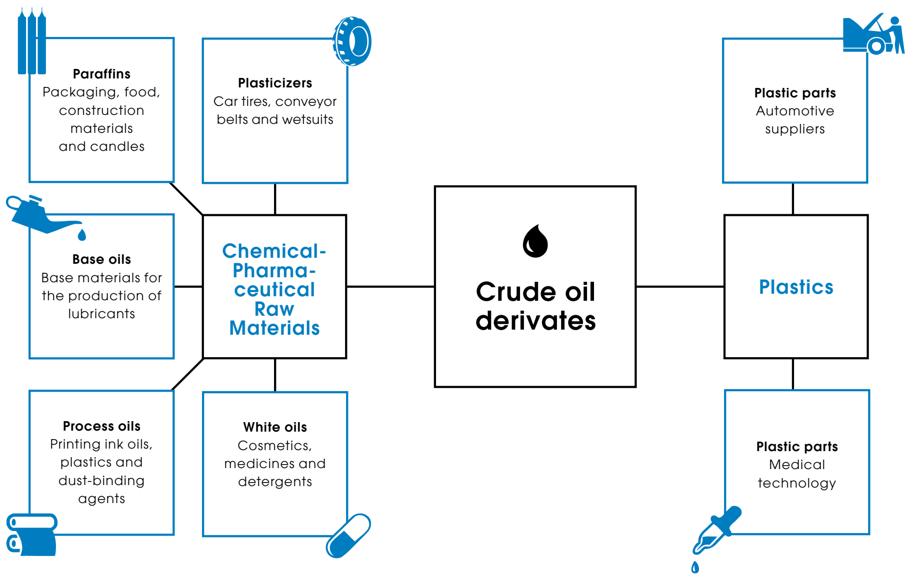
In the Plastics segment, we manufacture precision plastic parts, as well as components and medical consumables.

Objectives and Strategy

Key Sales Markets and Competitive Situation

The basis of our production of chemical-pharmaceutical specialty products are hydrocarbons from fossil-based, synthetic or bio-based sources. We mainly source our fossil-based raw materials from other refinery operators. Bio-based and synthetic products originate from our network of partners, from sources available on the market and from own production. Consistently focusing on the customers' applications, we generate

G. 04 **CRUDE OIL SPECIALTIES**



chemical-pharmaceutical specialty products from these. Over the decades, we have developed a solid market presence.

Our specialty products include, among others, environmentally friendly label-free plasticizers, which are used in the rubber blends of well-known car tire manufacturers as well as in additional rubber products. Our main competitors in this product area are the major oil companies.

Our paraffins are used for a wide variety of applications. With their water-repellent properties, paraffins lend themselves well to applications in the food, packaging and construction industries.

With regard to white oils, we are sure that we are able to reliably meet high quality standards. Our technical white oils are used in industrial sectors. Our medical white oils are found, among other applications, as components in cosmetic products such as creams and ointments.

We sell the vast majority of our base oils to lubricant manufacturers as raw materials. Using additives, we further process a small quantity of these base oils into ready-made lubricants.

2021 was the second year that was dominated by the COVID-19 pandemic. In principle, the recovery trend that has returned in many of our customer industries has continued during this time. At the same time, we found ourselves faced with a market situation in which many of the major producers were particularly unable to meet the high demand in the area of base oils. This made the demand for products from producers who were able to deliver even higher. This included H&R, which was able to profit from good margins and prices under these conditions.

In several areas, the bottlenecks were intensified due to logistical challenges. The closures of many Chinese ports due to the coronavirus led to delayed handling as well as loading and unloading, and increased supply bottlenecks with shipping containers. Below the line, the adequate fulfillment of their requirements was most important for nearly all of our customers.

The customers of our Plastics division can be divided into three customer groups: the automotive industry, the medical technology sector and industry. 2021 remained a challenging year, above all, for the automotive industry. Due to the technological change adopted by nearly all major nations from the internal combustion engine to e-mobility, the sector is already under significant pressure. In the past year, it also had significant logistical problems to deal with. A shortage of raw materials for plastic parts and bottlenecks with the supply of computer chips left many production lines at a standstill or only working to a limited extent. As the automobile manufacturers predominantly passed this pressure on unfiltered to the suppliers and component manufacturers, GAUDLITZ GmbH was once again faced with difficult tasks.

Legal and Economic Factors

Economic Factors

An economic factor of major importance in the past financial year was once again the coronavirus pandemic and the consequences of this. In contrast to the previous year, German and European companies from the key industries were largely spared from closures. However, in Asia's growth markets, many countries found it difficult to tackle the pandemic or reacted to local outbreaks of the virus with regional lockdowns, in some cases. As a consequence of this, they thwarted important trading flows and interrupted some supply chains over the long term.

Prices of the fossil-based hydrocarbons used as the primary feedstock at our specialty refineries in Germany up to now are closely correlated with the current price of crude oil. However, in the past year, the price changes were predominantly passed on without a delay, as a consequence of the high demand. Overall, we profited from so-called "windfall effects" (positive inventory (raw materials, work in progress and finished products) price changes compared to the previous month) in 2021 of around €16.7 million.

This is closely related to currency translation effects. The price of crude oil worldwide is denominated in US dollars, meaning that H&R is directly affected by fluctuations in this reserve currency and the corresponding currency translation effects, due to its high requirements for raw materials and the fact that raw material supplies are sourced internationally. In the Plastics segment, too, we may see currency translation effects due to the multinational distribution of sites across Germany, China, the United States and the Czech Republic. These effects were of an insignificant magnitude in financial year 2021.

Legal Factors

In addition to compliance with the rule of law in general, licensing issues are paramount for H&R, such as regarding the operation of plants or the Regulation on the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH).

Tackling the pandemic also gave rise to additional aspects that needed to be observed. In addition to "soft" factors, such as those to be observed as recommendations for day-to-day handling and in the interest of own safety, concrete legal requirements entail new duties. An example of this was the recording and consistent follow-up of the "3G rule at the workplace" in 2021. This led to increased expenses for administration and staff.

Objectives

Across all of its divisions, H&R strives to achieve sustainable and commercially successful development in its income. We have set ourselves the ambitious goal of producing around 70% of our main products on the basis of renewable resources by 2030. In doing so, we are following a comprehensive approach, which goes beyond the pure raw material aspect/increased use of bio-based or synthesized products. We also intend to drive forward the approach towards increased sustainability through the efficient use of water, energy and heat. We also intended to continuously develop our expertise in this field, in order to successfully continue on the path towards increased sustainability.

With regard to our segments in the Chemical-Pharmaceutical Raw Materials division, we are taking account of the goals described above through the "Green Refinery" model.

We intend to build further on our operational strengths in international business through additional production partnerships and the targeted expansion of our further processing and distribution sites.

Strategy

The umbrella term used to describe our strategic approach is G.A.T.E., referring to a "gateway to the future". In line with our goal of achieving further international expansion, we see ourselves as a company that thinks globally. At the same time, we are building regional connections and we operate at a local level. The most important driver of our economic activity is our proximity to the market, which enables us to always act with a deep understanding of our customers' specifications and needs in a user-oriented manner. We also remain "technovative" by ensuring that our sites are always on the cutting edge of technological development and by keeping a close eye on innovative process and product solutions. We successfully combine economy and ecology, acting in an economically prudent way, with full awareness of the resources we are using. Eco^2, i.e., "ecology x economy", increases the potential in both areas exponentially while representing a key step toward sustainability.

We still regard the selection of our raw materials as the factor with the greatest leverage. In this respect, we have been pursuing a "three-pillar strategy" for several years. It describes the path away from fossil base materials towards more bio-based and synthesized products. The objective is a sustainable supply of raw materials with renewable hydrocarbons, which have the same properties as crude oil, without its fossil-based DNA. Therefore, H&R is not only aiming for decarbonization of its production processes, but intends to change the source of carbon instead. By strategically enhancing our refinery operating model, water, electricity and recycled base materials are to become the basis of our expanded feedstock and by-product portfolio and be more climate-friendly, market-driven and consistent specialty products at the end of the value chain.

Status of the Realization of the Strategic Objectives in View of the Coronavirus Pandemic

We generally adhered to our objectives and the strategy, even in the now two years of the coronavirus pandemic. To some extent, we even progressed the implementation of our plans with more momentum than originally planned. We are of the opinion that there are no alternatives to topics such as sustainability, resource conservation and the efficient use of resources; in other words, objectives which are important not only to the company, but also sociopolitically.

In the past financial year, the beginning of the realization of the NextGate project certainly had particular significance. By means of the synthesis process, the hydrogen produced by us will be combined with green CO_2 and from mid-2022, e-fuels and e-waxes are to be produced at full capacity in a commercially viable quality. This pilot project is currently one of only two similar projects in Germany and in addition to initial relevant product quantities, it will also provide important findings about scaling the production of e-fuels.

Nonetheless, we were unable to implement our endeavors regarding "addition to the raw material base" to the degree we had hoped to in 2021. We were, for example, only partially successful in securing supplies of new raw materials as the suppliers – primarily refineries with a different production focus – could only provide these components to a limited degree, if at all. As such, this aspect of our objective of continued specialization came under pressure in the reporting year.

Nonetheless, fewer by-products were ultimately combusted again this time. Thanks to target-oriented sales/distribution and customers requesting specific compositions of certain by-products, we succeeded in selling more of these components to other refinery customers. Instead of being used for combustion, for example as marine diesel oil, these components, which are known as cracker feed, were converted into other value added products. For 2021, the share of co-products, which were able to be sold in higher-quality applications, was at over 88.9%.

Company Control

Internal Management System

The Group is managed based on the comprehensive reporting of key performance indicators and ratios that look at the areas of profitability, liquidity, the capital structure and operating performance. In addition to this, we monitor both company-specific and macroeconomic early indicators. At the production level, this includes data relating to plant availability, throughput volumes and quality parameters. In sales and distribution, we draw on sales volume statistics, general market data and macroeconomic early indicators for their management.

The management 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 areas such as raw materials purchasing, project management and sales/distribution.

Control Parameters

In recent years, we have shifted the focus of our control instruments to a more intensive examination of short-term performance parameters in response to constant changes in the overall global economic situation. We measure and control profitability, in particular through contributions to income. Manufacturing planning is based on optimizing contribution margins; the segments are controlled using EBITDA and EBT figures.

H&R KGaA's presentation of EBITDA refers to earnings before net interest income, income taxes, other financial income, depreciation and amortization, and impairment of intangible assets and property, plant and equipment.

H&R KGaA calculates EBITDA as follows:

Consolidated income
+/–
Income taxes
+
Financing expenses
–
Financing income
+
Depreciation, impairments and amortization of intangible assets and property, plant and equipment
= EBITDA

Although operating income/EBITDA is not an earnings figure defined by IFRS, but rather an alternative performance indicator, H&R KGaA's Executive Board considers EBITDA to be a major and, indeed, the most significant indicator of Group earnings. For the H&R KGaA Group, EBITDA is the relevant operating income figure that illustrates the income needed to cover the Group's ongoing (maintenance) capital expenditure. This cover is of critical importance for the company's capital-intensive business model.

T. 09 **RECONCILIATION OF OPERATING INCOME (EBITDA) TO CONSOLIDATED INCOME (IFRS)**

IN € MILLION	2021	2020
Operating income (EBITDA) of H&R GmbH & Co. KGaA	132.5	55.8
Depreciation and amortization of intangible assets and property, plant and equipment	-50.9	-56.1
Financing income	0.7	0.5
Financing expenses	-8.9	-10.6
Income taxes	-20.7	2.6
Consolidated income	52.5	-7.8

We calculate the EBT as income before tax.

The long-term WACC (weighted average cost of capital) performance indicator, which consists of the weighted capital costs of our equity and borrowings, is used in medium- and long-term planning, for example, for the evaluation of investments and calculation of the holdings' carrying amounts and impairment tests.

The profitability ratio ROCE (return on capital employed) is also used in the medium- and long-term planning. The ROCE compares earnings before interest and taxes to the average committed capital necessary for operations.

Liquidity. Our free cash flow is essentially determined by operating income (EBITDA), the change in net working capital (total of inventories and trade receivables less trade payables) and capital expenditure. Because of our business model, our cash flow is generally quite volatile. This is attributable to changes in our net working capital, in particular when deliveries of raw materials for our specialty refineries occur around the same time as the reporting dates. By constantly monitoring our free cash flow, we can reliably detect any issues requiring action so that we can respond accordingly. This will allow us to ensure the financial stability of the H&R Group in the future, too.

T. 10 **CHANGE IN FREE CASH FLOW**

IN € MILLION	2021	2020	2019	2018	2017
Cash flow from operating activities	37.4	60.1	95.9	23.3	46.2
Cash flow from investing activities	-48.6	-38.1	-75.1	-69.7	-58.1
Free cash flow	-11.1	22.0	20.8	-46.5	-11.9

The starting point for calculating and reporting cash flow from operating activities in 2021 was, first of all, the significant year-over-year improvement in consolidated income of €52.5 million (December 31, 2020: €-7.8 million). With this as a basis, we generated cash flow from operating activities of €37.4 million with a decrease in depreciation and amortization and a significantly increased cash flow from operating activities (December 31, 2020: €60.1 million). The investing activity was around 28.0% higher in the past financial year, amounting to €-48.6 million. The free cash flow, which declined from €22.0 million to €-11.1 million, presented itself as being under pressure accordingly.

Capital Structure. We aim to have a balanced capital structure that provides leeway for the strategic development of the Group while optimizing the cost of capital for our equity and borrowings. Our loan agreements require us to comply with two financial covenants. These relate to our equity base and net gearing in relation to operating income (EBITDA).

Another control parameter relating to our capital structure is net gearing, which is the ratio of our net financial debt to equity. With the ratio of debt to operating income improving slightly in the course of 2021 and equity being lower, this metric changed from 35.3% to 39.9%.

T. 11 **CAPITAL STRUCTURE**

	2021	2020	2019	2018	2017
Net debt/EBITDA	1.13	2.25	2.42	1.38	0.55
Equity ratio in %	46.7	46.5	43.3	48.9	51.7
Net gearing in %	39.9	35.3	37.4	28.9	16.0

Operating Performance. We regularly measure our operating business based on sales, on the basis of absolute earnings indicators such as EBITDA, EBIT, and EBT, as well as by sales volumes for our chemical-pharmaceutical specialty products. The trend in the crude oil price, which is invoiced in US dollars, always has a direct impact on the cost of materials, which affects H&R KGaA's sales revenues for reasons related to the business model. On its own, our revenue is therefore only of limited use as a performance indicator.

We calculate the sales and EBITDA figures both for the individual segments and for the Group as a whole. Together with the consolidated net debt, they constitute the main relevant control parameters used by our company.

T. 12 **INCOME AND VOLUME TREND**

IN € MILLION	2021	2020	2019	2018	2017
Sales volume of core products in kt[1]	869	805	815	836	832
EBITDA	132.5	55.8	52.9	74.7	97.9
of which REFINING	103.4	35.2	29.2	46.0	63.7
of which SALES	29.0	25.9	30.7	30.1	34.4
of which PLASTICS	3.9	-0.4	-4.9	3.0	3.7
EBIT	81.6	-0.3	7.4	40.6	54.8
EBT – income before tax	73.4	-10.4	-1.2	33.7	46.2

[1] Chemical-Pharmaceutical Raw Materials division.

Research and Development

Focus of Our R&D Activities

One focal point of our research and development (R&D) activities is on boosting the efficiency of our production processes, thereby increasing the value we create.

The corresponding research activities are carried out by H&R itself and managed on the divisional level. In addition to traditional laboratories for materials testing and improvement for the refinery sites, we also have a department for Innovative Process Technologies. It deals with the implementation of new procedures and processes and integrates important demonstration plants into our process flows. H&R intends to provide the “proof of concept” for large-scale industrial use of new and sustainable technologies.

Chemical-Pharmaceutical Raw Materials. Our products, which total around 800, are used as feedstock in almost all areas of life. As a result, there is considerable potential for developing new, and improving existing, products. Our sales/distribution staff and partners are an important source of ideas for product innovation; thanks to the customer relationships they have developed over a long period of time, they have an excellent feel for clients’ changing needs.

We are also researching processes that could increase the yield of specialty products from our raw materials and further improve the level of added value at our specialty refineries. The results of this research work have influenced our investment planning.

Plastics. The use of increasingly sophisticated technologies in vehicles to reduce fuel consumption and carbon emissions is leading to a growing demand for lightweight and simultaneously complex plastic parts. We often develop such parts – which consist of several different materials – in cooperation with our customers. In light of the increasing trend toward e-mobility, we expect the intended range optimization in this sector to lead to the further and accelerated substitution of metal with plastic parts. We also expanded our research and development work in the field of medical technology – an increasingly important market segment for the Plastics division.

R&D Expenses

The importance of our research and development activities has been reflected in our consistent spending in this area.

At just over €2.5 million, R&D spending was approximately on a par with the previous year. Our R&D ratio, defined as R&D expense divided by sales, was below the previous year, at 0.21%, due to the significant increase in sales.

T. 13 **RESEARCH AND DEVELOPMENT COSTS**

IN € THOUSAND	2021	2020	2019	2018	2017
Research and development costs	2,520	2,795	2,801	2,695	2,423
of which ChemPharm	2,031	2,240	2,216	2,170	2,160
of which Plastics	489	555	585	525	263
as % of annual sales	0.21	0.32	0.26	0.24	0.24

Report on Economic Position

Trends in the Business Environment

Macroeconomic Conditions

After the new infection waves initially delayed recovery at the beginning of 2021, gross domestic product grew significantly after the infection numbers abated in spring. However, supply bottlenecks with preliminary products in the manufacturing sector during the year impeded production. Only consumer-related service sectors grew significantly. In the winter half-year of 2021/2022 recovery slowed down significantly. It is therefore assumed that the increase in infection numbers and the introduction of stricter rules of conduct will have a significant influence on gastronomy and service industries. The supply bottlenecks also burdened production in the manufacturing sector. In total, the DIW quantifies the growth of gross domestic product for 2021 at 2.7% at the beginning of 2022; the Kiel Institute for the World Economy expects around 4.0% at the same time for 2022.

The statistical office of the European Union (eurostat) most recently quantified strong economic growth at 5.2% for the euro area. In contrast, the EU assesses the prospects for 2023 more cautiously. Due to the high inflation, expensive energy and problems with the supply chains, the Commission puts growth at 4.0%.

The recovery of the global economy continued at the end of 2021, although the pandemic flared up again. In the opinion of the International Monetary Fund (IMF), the global economy will grow by 4.9% in 2022, following growth of 5.9% in 2021. The organization has slightly decreased its expectations from the summer. Supply problems (raw materials and logistics) in the advanced economies were the reason for the slightly more conservative forecast. Globally, the fast spread of the Delta and Omicron virus variants increased uncertainty about how quickly the pandemic could be overcome. Political decisions have become more difficult and the scope for action is limited.

The euro, which is the functional currency used to calculate the earnings trend at H&R KGaA, made a strong start to the financial year against the US dollar, with a total rate of US$1.22. It dropped slightly in the subsequent period, only to reach the level of the beginning of the year for the last time in the middle of the year. In the second half of the year, the euro dropped continuously and was last traded at €1.13.

Crude oil prices (all data refer to the daily closing prices for a barrel of North Sea Brent) rose significantly if we analyze the prices that applied at the beginning and end of the year. Starting from around US$53 at the beginning of the year, the price grew significantly. In mid-2021 it was already at US$75, and by the end of October it had climbed to its high of more than US$85. It was trading at US$79 for a barrel of Brent at the end of the year. We had originally assumed a significantly lower average annual price of US$50 per barrel of North Sea Brent for budget year 2021.

G. 05 **EXCHANGE RATES US$ PER € IN 2021**

(CLOSING RATE US$ PER €)

Industry-specific Climate

In spite of the coronavirus pandemic and supply bottlenecks, as well as recent soaring rise in prices for energy and raw materials, the chemical-pharmaceutical industry achieved a strong balance sheet in 2021. According to the German Chemical Industry Association (VCI e.V.), production grew by 4.5% across nearly all product sectors in comparison to the previous year, with sales rising by 15.5% to around €220 billion, thanks to a sharp rise in producer prices.

At the same time, the industry faces major challenges, in order to fulfill the EU Commission Green Deal targets, particularly as the Green Deal covers far more than climate and energy policy. It also influences chemicals policy, the circular economy, questions relating to the bioeconomy and other material topics for the chemical-pharmaceutical industry (innovation, renewable energy supply, being open to all types of technology, level playing field).

Overview of Business Development and Performance

In 2021, H&R sold a total of 868,512 tons of core products from its Chemical-Pharmaceutical Raw Materials division (2020: 804,523 tons) to outside buyers. Due to a combination of volume and price factors, it generated higher sales than in the previous year, at €1.19 billion (2020: €0.87 billion). Considerably more needed to be spent on raw materials than in the previous year, at €901.6 million (2020: €634.3 million). Overall, demand by our customers remained high in 2021. In the Plastics segment, demand fluctuated with the volatile situation in the automotive sector. The sector still contributed higher sales than in the previous year. All in all, the operating income (EBITDA) generated by the Group amounted to €132.5 million (2020: €55.8 million).

Events With a Major Impact on Business Development and Performance

Overall, the Group's €1,188.4 million of sales was around 36.1% above the prior-year level (2020: €873.0 million). Customers' high demand was decisive for sales development. It was possible to pass on the higher raw material costs to these customers without any delays or compromises. Consolidated income from operations was particularly boosted by the good price and margin situation for base oils.

Comparison of Actual Business Development and Performance With the Forecast Made in the Previous Year

The expectations with which H&R KGaA started financial year 2021 were based on the assumption that developments would be more positive than in the previous year. We predicted rising sales and operating income (EBITDA) ranging between €60.0 million and €75.0 million in comparison to 2020.

It was never in question that we would achieve this goal. At the mid-year point, the targets were initially raised to a corridor of €95.0 million to €115.0 million in view of the expected half-year result and were revised to "a minimum of €115.0 million with potential of up to another 10%" shortly afterwards.

In fact, our earnings curve was similar to a parabolic flight, which reached its peak in the summer and fell slightly thereafter. Nevertheless, earnings remained at a very good level, and we were optimistic of actually reaching the earnings target on the basis of the continuing good performance.

Total sales revenue ultimately reached €1,188.4 million. At €132.5 million, the EBITDA recognized in the consolidated income statement for the financial year was once again above our projected range.

The consolidated income attributable to shareholders, which we did not, however, forecast, came to €50.2 million for 2021 (2020: €-9.0 million).

T. 14 **FORECAST FOR FINANCIAL YEAR 2021**

Forecast date	Publication of the 2020 annual report	Insider report dated June 2021	Publication of preliminary half-year figures for 2021	Publication of preliminary figures for Q3/2021	Actual value
Total sales	"€900.0 million to €1,100.0 million"	not defined	not defined	not defined	€1,188.4
Sales in ChemPharm Refining	"≥ €594.0 million"	not defined	not defined	not defined	€745.3
Sales in ChemPharm Sales	"≥ €279.0 million"	not defined	not defined	not defined	€412.2
Sales in Plastics	"≥ €27.0 million"	not defined	not defined	not defined	€43.8
EBITDA at Group level	"between €60.0 million and €75.0 million"	"between €95.0 million and €115.0 million"	"minimum of €115.0 million"	"€115.0 million plus up to 10%"	€132.5

In the Chemical-Pharmaceutical Raw Materials division, sales were above the prior-year level at €1,157.5 million due to price-related factors (2020: €841.7 million). Overall, the revenue of the segments was also above the forecasts from the beginning of the year. On the earnings side, the ChemPharm Refining segment pushed the business division forward. Instead of the figure of at least €39.0 million of EBITDA expected at the start of the year in the forecast report, our refinery sites generated a total of €103.4 million. The international activities of the ChemPharm Sales segment contributed another €29.0 million to the operating income.

The Plastics division also showed more stable development. In spite of the difficulties in the automotive industry due to chip shortages and the interruption of logistics chains from Asia, at €43.8 million, the segment achieved sales revenues above the level of the previous year (2020: €40.1 million). There was also a significant improvement in EBITDA, totaling €3.9 million. In the previous year, operating income was only €-0.4 million.

Economic Position of the H&R Group

Assessment of Economic Performance and Overall Statement by the Executive Board

Overall, H&R's business performed much better during the reporting period than the Executive Board had expected at the beginning of 2021. This is mainly due to good demand and partly to very good prices. With this, H&R initially continued its recovery trend that began in late summer 2020 beyond the turn of the year and achieved its best quarterly result of the 2021 financial year in summer 2021.

Although the dynamics declined slightly from the summer and the climate became significantly more gloomy towards year-end, H&R also achieved a record value looking at the year as a whole, with operating profit of €132.5 million.

Note on Presentation of the Influence of Accounting Policies on the Economic Situation

The accounting is based on discretionary decisions and estimates which we have exercised as

G. 06 **OIL PRICES 2017–2021**

(AVERAGE MONTHLY PRICES)

we consider appropriate, taking into account the company's current economic situation including our assessment of future development. Our net assets and financial position also reflect, inter alia, the steps we have taken to manage working capital (inventory management, advance payments for orders). For a full description of the assumptions and discretionary decisions made with respect to the measurement of assets and liabilities, please refer to the presentation in the notes to the consolidated financial statements.

Results of Operations

In financial year 2021, we generated sales of €1,188.4 million (previous year: €873.0 million), up on the previous year's level. The revenue share from the Chemical-Pharmaceutical business (sales contribution in 2021: 96.3%; previous year: 95.4%) grew significantly in both segments: 42.1% in the ChemPharm Refining segment and 30.0% in the ChemPharm Sales segment. The growth in sales was slightly more moderate in the Plastics segment at 9.2% (sales contribution in 2021: 3.7%; previous year: 4.6%).

In terms of operating income (EBITDA), there was an encouragingly strong recovery in the Refining segment in particular of 193.8%. Meanwhile, the Sales segment recovered less significantly at 12.0%. The improvement in the Plastics segment is due to personnel restructuring measures carried out in the previous years.

All in all, in the second year of the pandemic, the company has achieved the best result since its IPO. Overall, consolidated operating income (EBITDA) totaled €132.5 million (previous year: €55.8 million). Driven by the increased result, there was a 4.7-percentage-point improvement in the EBITDA margin to 11.1%, compared to 6.4% in 2020.

Due to lower depreciation and amortization, consolidated income before interest and taxes (EBIT) totaled €81.6 million in 2021 (previous year: €-0.3 million). Income before tax (EBT) improved from €-10.4 million in 2020 to €73.4 million. Consolidated income attributable to shareholders amounted to €50.2 million (previous year: €-9.0 million).

The company reported earnings per share of €1.35 for 2021, as against a loss per share of €-0.24 in the prior-year period.

T. 15 **CHANGES IN SALES AND INCOME**

IN € MILLION	2021	2020	2019	2018	2017
Sales revenue	1,188.4	873.0	1,075.3	1,114.2	1,025.1
EBITDA	132.5	55.8	52.9	74.7	97.9
EBIT	81.6	-0.3	7.4	40.6	54.8
Income before tax	73.4	-10.4	-1.2	33.7	46.2
Consolidated income attributable to shareholders	50.2	-9.0	-1.4	21.6	32.1
Earnings per share, €	1.35	-0.24	-0.04	0.59	0.89

Trend in Orders

Throughout 2021, new orders for products in our Chemical-Pharmaceutical business essentially followed the trend of high demand and attractive margins that has been continuing since fall 2020. The volume of the core products sold exceeds the previous year in the Refining segment, as well as in the Sales segment. Furthermore, both segments approached one another and arrived at a comparable sales volume.

In the Plastics division, low capacity utilization by various automobile manufacturers was also felt in the GAUDLITZ order backlog due to the semiconductor shortage. In the first half of the year in particular, orders were significantly above the prior-year level, but at the same time they were subject to high volatility in terms of call-off figures and deadlines. Customers reduced quantities and postponed deadlines, in some cases at extremely short notice. In addition to this, our suppliers experienced delivery difficulties, particularly in the area of plastic pellets. Both posed a significant challenge to planning and logistics in the past year.

Trends in the Main Items on the Income Statement

During the reporting period, there was a €31.1 million change in inventories of finished products and work in progress (previous year: €-24.8 million). Our cost of materials grew by 42.1% to €901.6 million in financial year 2021 (previous year: €634.3 million); this is a direct consequence of the increased raw material prices.

T. 16 **TRENDS IN THE MAIN ITEMS ON THE INCOME STATEMENT**

IN € MILLION	2021	2020	2019	2018	2017
Sales revenue	1,188.4	873.0	1,075.3	1,114.2	1,025.1
Changes in inventories	31.1	-24.8	-1.7	12.9	9.8
Other operating income	29.6	28.0	25.6	27.3	26.5
Cost of materials	-901.6	-634.3	-844.6	-877.5	-764.3
Personnel expenses	-99.2	-83.0	-88.5	-87.1	-86.0
Depreciation and amortization	-50.9	-56.1	-45.5	-34.2	-43.1
Other operating expenses	-115.6	-103.2	-113.8	-115.4	-113.7
Operating result	**81.7**	**-0.3**	**6.9**	**40.2**	**54.3**
Financial income	-8.4	-10.1	-8.1	-6.4	-7.8
Consolidated income before taxes	**73.4**	**-10.4**	**-1.2**	**33.7**	**46.2**
Consolidated income before minority interests	**52.5**	**-7.8**	**0.1**	**22.3**	**29.5**
Consolidated income attributable to shareholders	**50.2**	**-9.0**	**-1.4**	**21.6**	**32.1**

Personnel expenses increased by 19.5% to €99.2 million (previous year: €83.0 million) as a consequence of contractual tariff adjustments and higher profit-sharing due to the good consolidated income.

In contrast to the previous year (€5.1 million), there was no impairment of goodwill. Therefore, depreciation and amortization decreased noticeably from €56.1 million to €50.9 million.

In 2021, financing costs fell from €10.6 million to €8.9 million. In total, financial income was €-8.4 million and was therefore above the previous year's value of €-10.1 million.

Earnings Trend by Segment

ChemPharm Refining. This year, sales volumes of core products at our Group's largest segment exceeded the previous year at approximately 441,307 tons (previous year: approximately 428,244 tons).

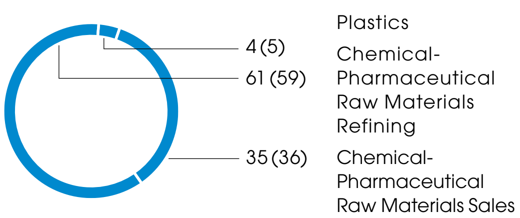
It was mainly higher product prices that were a key factor in segment sales likewise being higher. All in all, sales amounted to €745.3 million (previous year: €524.6 million). Meanwhile, operating income (EBITDA) for the segment improved significantly to €103.4 million, compared with €35.2 million in the previous year.

ChemPharm Sales. Sales in the international segment improved by 30.0% to €412.2 million (previous year: €317.0 million). At the same time, we recorded a significant growth in sales from around 376,279 tons in the previous year to 427,207 tons in 2021. As in previous years, there were mixed developments in income at our subsidiaries. All in all, income was approximately 12.0% above the previous year's result, with operating income (EBITDA) totaling €29.0 million, which was higher than in the previous year (2020: €25.9 million).

Plastics. With €43.8 million in sales, our Plastics segment made more of a contribution to total sales than in the previous year (2020: €40.1 million). After contributing €-0.4 million to operating income (EBITDA) in the previous year, the segment achieved a significantly increased EBITDA of €3.9 million. In the previous year, the result was still burdened by the write-down of GAUDLITZ Inc. in the United States and provisions from the restructuring program.

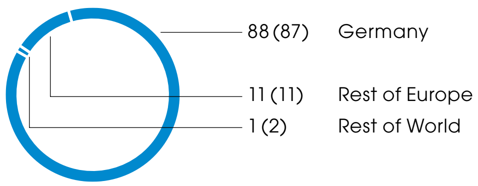
G. 07 **SALES BY SEGMENT IN 2021**

IN % (PREVIOUS YEAR'S FIGURES)



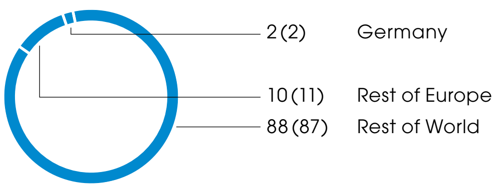
G. 08 **SALES BY REGION IN THE CHEMPHARM REFINING SEGMENT IN 2021**

IN % (PREVIOUS YEAR'S FIGURES)



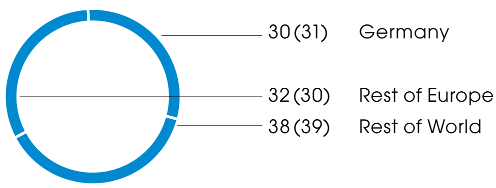
G. 09 **SALES BY REGION IN THE CHEMPHARM SALES SEGMENT IN 2021**

IN % (PREVIOUS YEAR'S FIGURES)



G. 10 **SALES BY REGION IN THE PLASTICS SEGMENT IN 2021**

IN % (PREVIOUS YEAR'S FIGURES)



T. 17 **KEY FIGURES BY SEGMENT (IFRS)**

IN € MILLION	2021	2020	2019	2018	2017
Sales revenue					
ChemPharm Refining	745.3	524.6	665.0	694.5	616.8
ChemPharm Sales	412.2	317.0	376.9	374.9	357.2
Plastics	43.8	40.1	43.2	55.0	59.6
Reconciliation	-12.8	-8.7	-9.9	-10.2	-8.5
Operating income (EBITDA)					
ChemPharm Refining	103.4	35.2	29.2	46.0	63.7
ChemPharm Sales	29.0	25.9	30.7	30.1	34.4
Plastics	3.9	-0.4	-4.9	3.0	3.7
Reconciliation	-3.8	-4.9	-2.2	-4.4	-3.8

Net Assets and Financial Position

Financial Management Principles and Objectives

We manage our finances centrally. The overriding objectives of this function are as follows:

- To provide the company with sufficient liquidity and to use it efficiently
- To finance net working capital and capital expenditure
- To hedge against financial risks
- To ensure compliance with financing terms
- To optimize our capital structure

We cover our short-term financing needs using a widely syndicated, variable interest syndicated loan. The loan currently has a volume of €240.0 million and a term up to July 2024. In order to ensure that we remain solvent at all times and to make efficient use of the liquidity of our German subsidiaries, the latter are incorporated into the cash pool structures in place at H&R GmbH & Co. KGaA.

We currently cover our long-term financing needs primarily using fixed-interest redeemable loans with interest between 1.5% and 3.6%, which are refinanced by the German development bank KfW.

T. 18 **MAIN FINANCING INSTRUMENTS OF THE H&R GROUP**

	Original loan amount in € million	Year issued	Current loan amount in € million	Maturity
Syndicated loan	up to 240.0	2018	20.3	7/25/2024
Redeemable loan	28.8	2015	8.2	12/31/2023
Redeemable loan	10.0	2017	6.5	6/30/2027
Redeemable loan	19.0	2017	10.1	6/30/2026
Redeemable loan	14.5	2017	10.4	9/30/2027
Redeemable loan	4.0	2018	0.75	6/30/2023
Redeemable loan	4.0	2018	0.75	6/30/2023
Redeemable loan	4.0	2018	0.75	6/30/2023
Redeemable loan	4.0	2018	0.75	6/30/2023
Redeemable loan	7.0	2019	4.5	3/31/2027
Redeemable loan	13.3	2021	13.3	12/31/2026
Redeemable loan	13.3	2021	13.3	12/31/2026
Redeemable loan	30.0	2021	30.0	12/16/2023

As of December 31, 2021, there were firmly agreed but unused credit lines in the amount of €207.7 million.

Analysis of the Cash Flow Statement

Based on the improved consolidated income figure of €52.5 million, cash flow from operating activities totaled €37.4 million in the reporting period (previous year: €60.1 million). This amount included €52.1 million of depreciation and amortization (previous year: €57.9 million). The significantly higher changes in net working capital, however, which amounted to €-98.8 million (previous year: €4.9 million), had a very significant impact.

Cash flow from investing activities increased from €-38.1 million to €-48.6 million. The main component of this item was the €-46.6 million spent on the reporting year's higher investments in property, plant and equipment in connection with projects realized in our specialty refineries and sites (2020: €-37.1 million). In total, free cash flow fell to €-11.1 million (previous year: €22.0 million).

Overall, financing activities resulted in a net cash inflow of €2.5 million (previous year: €-57.7 million). Financial liabilities, which had already been steadily reduced in the past, were further reduced in 2021 (€-196.6 million; 2020: €-133.6 million). At the same time, the total new financial liabilities taken out also increased to €198.9 million (2020: €76.0 million). At the end of the reporting period, cash and cash equivalents amounted to €48.9 million, compared to €55.0 million a year earlier.

In the fourth quarter of 2021 alone, the company reported a recovered cash flow from operating activities of €24.3 million (Q4/2020: €15.6 million). In spite of higher investing activities of €-9.9 million (2020: €-7.9 million), the free cash flow for the fourth quarter of 2021 improved to €14.4 million (Q4/2020: €7.6 million).

The company was always able to fulfill its payment obligations in 2021.

The total amount of liabilities to banks was €141.8 million as of the reporting date.

T. 19 **FINANCIAL POSITION**

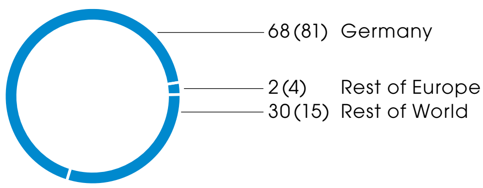
IN € MILLION	2021	2020	2019	2018	2017
Cash flow from operating activities	37.4	60.1	95.9	23.3	46.2
Cash flow from investing activities	48.6	-38.1	-75.1	-69.7	-58.1
Free cash flow	-11.1	22.0	20.6	-46.4	-11.9
Cash flow from financing activities	2.5	-57.7	25.4	33.2	15.3
Cash and cash equivalents as of 12/31	48.9	55.0	94.8	46.5	59.0

Capital expenditure

During the reporting period, our investments in property, plant and equipment of €48.2 million were almost twice as high as in the previous year (2020: €24.7 million). We invested a total of €46.4 million in the Chemical-Pharmaceutical Raw Materials division in 2021 (previous year: €24.0 million). A substantial portion of this amount (€32.5 million) was again invested in the ChemPharm Refining segment, where it was used to expand and replace capital assets at the specialty refineries in Hamburg and Salzbergen.

G. 11 **CAPITAL EXPENDITURE BY REGION IN 2021**

IN % (PREVIOUS YEAR'S FIGURES)



The division's remaining €13.9 million of capital expenditure was divided among our ChemPharm Sales segment's international locations.

In the Plastics segment, investments in property, plant and equipment came to €1.6 million (previous year: €0.6 million).

In total, an order commitment for property, plant and equipment amounting to €15.4 million existed as of December 31, 2021. Its financing was secured by existing resources and credit lines.

T. 20 **CAPITAL EXPENDITURE BY SEGMENT**

IN € MILLION	2021	2020	2019	2018	2017
ChemPharm Refining	32.5	19.9	75.3	84.5	54.2
ChemPharm Sales	13.9	4.2	5.8	4.0	3.9
Plastics	1.6	0.6	1.7	2.9	0.8
Reconciliation (other activities)	0.2	–	0.1	0.1	–
Group	**48.2**	**24.7**	**82.8**	**91.6**	**59.1**

Analysis of the Statement of Financial Position

As of year-end 2021, the balance sheet total stood at €874.4 million (December 31, 2020: €745.7 million). On the assets side, cash and cash equivalents decreased to €48.9 million compared to €55.0 million at the end of the previous year. Meanwhile, there was a significant increase in trade receivables of 54.0% to €125.6 million (December 31, 2020: €81.6 million).

Inventories – one of the main components of current assets – increased by 67.4% to €177.0 million (2020: €105.8 million), primarily as a direct result of the higher cost of materials. Overall, current assets increased by 42.5% to €383.0 million as of December 31, 2021, compared with €268.8 million at the end of the previous year. They accounted for 43.8% of the balance sheet total.

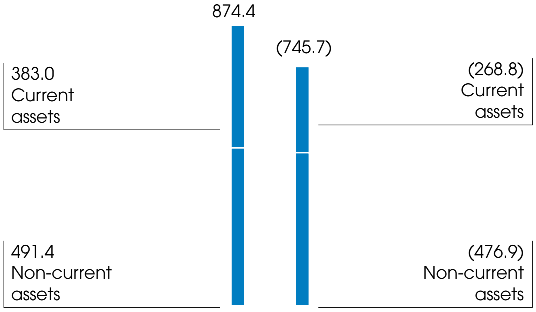
Non-current assets grew by a marginal 3.0% to €491.4 million in financial year 2021 (December 31, 2020: €476.9 million). Property, plant and equipment increased from €412.2 million to €432.4 million. Goodwill remained unchanged at €17.4 million, and other financial assets increased to €16.2 million (2020: €11.6 million). Deferred tax assets decreased from €17.2 million to €6.2 million.

Overall, non-current assets comprised 56.2% of balance sheet total.

On the liabilities side of the statement of financial position, current liabilities increased by 9.0% from €203.2 million to €221.6 million and their percentage of the balance sheet total decreased to 25.3% (December 31, 2020: 27.2%). The reduction of liabilities to banks following the redemption of existing loans from €87.4 million to €54.2 million were offset by higher trade payables of €94.6 million (December 31, 2020: €80.5 million). There were also increases in income tax liabilities, which amounted to €7.7 million (December 31, 2020: €2.7 million), as well as in other provisions totaling €20.2 million (December 31, 2020: €9.4 million). Other financial liabilities amounted to €7.8 million (December 31, 2020: €0.6 million) and other liabilities increased to €23.5 million (December 31, 2020: €10.9 million).

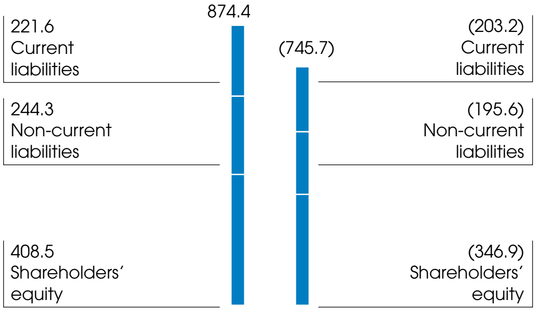
G. 12 **ASSETS 2021**

IN € MILLION (PREVIOUS YEAR'S FIGURES)



LIABILITIES AND SHAREHOLDERS' EQUITY 2021

IN € MILLION (PREVIOUS YEAR'S FIGURES)



During the same period, non-current liabilities increased by 24.9% to €244.3 million (December 31, 2020: €195.6 million), changing their percentage of the balance sheet total from 26.2% to 27.9%. Non-current liabilities to banks increased from €43.0 million to €87.6 million, thereby accounting for the main share of the changes. Liabilities rose by around 18.7% to €44.6 million.

H&R KGaA's equity amounted to €408.5 million at the end of the reporting period (December 31, 2020: €346.9 million). It was around 17.9% higher than in the previous year, due primarily to the significant improvement in retained earnings.

As the balance sheet total and equity both increased, the equity ratio was at a nearly unchanged level as of the reporting date, at 46.7% (December 31, 2020: 46.5%). Net gearing (the ratio of net financial liabilities to equity) increased by 4.6 percentage points from 35.3% to 39.9%.

Net Assets, Financial Position and Results of Operations of H&R KGaA

T. 21 RESULTS OF OPERATIONS OF H&R GMBH & CO. KGAA UNDER HGB

IN € THOUSAND	2021	2020	Change
Sales revenue	1,000	980	20
Other operating income	1,784	1,799	-15
Personnel expenses	-753	-678	-75
Depreciation and amortization of intangible assets and property, plant and equipment	-24	-12	-12
Other operating expenses	-7,463	-7,063	-7,874
Income from profit transfer agreements	55,703	12,239	43,464
Expenses from loss transfer agreements	-417	-8,650	8,233
Income from lending financial assets	1,188	1,744	-556
Other interest and similar income	2,981	4,658	-1,677
Depreciation and amortization on investments and current securities	-7,974	0	-7,974
Interest and similar expenses	-3,616	-4,519	903
Income before tax	**42,408**	**497**	**41,911**
Income taxes	-6,500	-2,071	4,429
Other taxes	-6	-33	27
Net income/loss for the year	**35,902**	**-1,608**	**34,289**
Profit or loss carryforward	12,468	14,075	-1,607
Distributable profit/accumulated deficit	48,370	12,468	35,902

We have prepared the annual financial statements of H&R GmbH & Co. KGaA (short form: H&R KGaA) in accordance with the German Commercial Code (HGB). They are published in the Bundesanzeiger (Federal Gazette) and are permanently available for download from the Investor Relations>Publications Overview section of our website (www.hur.com). For financial year 2021, we have combined the management reports of the H&R Group and of H&R KGaA.

H&R KGaA's sales revenues are generated solely by services rendered to companies in the Group. They were nearly at the prior-year level at around

€1.0 million. Personnel expenses for the reporting period were slightly higher than in 2020 at €0.8 million (€0.7 million). Depreciation of property, plant and equipment increased from €12 thousand to €24 thousand. Other operating income remained unchanged at €1.8 million.

There were significant improvements in income from profit transfer agreements, which rose from €12.2 million to €55.7 million. Meanwhile, expenses from loss transfer agreements fell sharply to €0.4 million (2020: €8.6 million).

The subsidiaries of H&R KGaA obtain funding for their financing needs from H&R KGaA's resources, which in turn are financed via credit lines. Due to slightly lower demand, other interest and similar income decreased from €4.7 million to €2.9 million. Financing costs, also dropped in 2021; interest and similar expenses fell from €4.5 million to €3.6 million.

Overall, income before tax amounted to €42.4 million (previous year: €0.5 million). Tax expense came to €2.0 million, as against a higher expense of €6.5 million in the prior-year period. Overall, H&R KGaA generated a significant net profit for the year of €35.9 million (2020: €-1.6 million).

T. 22 NET ASSETS AND FINANCIAL POSITION OF H&R GMBH & CO. KGAA

IN € THOUSAND	2021	2020	Change
Concessions, industrial property rights and similar rights and assets acquired against payment, as well as licenses to such rights and assets	20	0	20
Intangible assets	**20**	**0**	**20**
Other equipment, operating and office equipment	21	28	-7
Advance payments and construction in progress	0	10	-10
Property, plant and equipment	**21**	**38**	**-17**
Shares in affiliated companies	123,735	124,675	-940
Loans to affiliated companies	51,388	55,178	-3,790
Holdings	2,568	1,050	1,518
Financial investments	**177,691**	**180,903**	**-3,212**
Trade receivables	49	22	27
Receivables due from affiliated companies	206,080	172,785	33,145
Other assets	1,699	128	1,571
Receivables and other assets	**207,828**	**172,935**	**34,893**
Securities	**41**	**41**	**0**
Bank balances	1,692	156	1,536
Net current assets	**209,561**	**173,132**	**36,429**
Accruals and deferrals	**0**	**40**	**-40**
Active difference from offsetting of assets	21	34	-13
Assets	**387,314**	**354,147**	**33,167**
Subscribed capital	95,156	95,156	0
Capital reserve	59,899	60,340	-441
Other retained earnings	29,866	29,866	0
Distributable profit/accumulated deficit	48,370	12,468	35,902
Equity	**233,291**	**197,830**	**35,461**
Provisions for pensions and similar commitments	1,690	1,763	-73
Tax provisions	6,366	169	6,197
Other provisions	1,437	1,221	216
Provisions	**9,493**	**3,153**	**6,340**
Liabilities to banks	119,127	111,481	7,646
Trade payables	329	266	63
Liabilities to affiliated companies	25,040	40,795	-15,755
Other liabilities	34	622	-588
Liabilities	**144,530**	**153,164**	**-8,634**
Liabilities and shareholders' equity	**387,314**	**354,147**	**33,167**

As of December 31, 2021, H&R KGaA's balance sheet total had increased by a good 9.3% to €387.3 million (December 31, 2020: €354.1 million). Loans to affiliated companies decreased to €51.4 million (previous year: €55.2 million), but once again related predominantly to loans for projects in the reporting year. As a result, the company mainly invested in the maintenance and capacity of the existing process units and their added value at both refinery sites. Overall, at €177.7 million, financial assets remained below the previous year's value of €180.9 million.

Receivables due from affiliated companies increased from €172.8 million to €206.1 million in total. This was mainly due to increased receivables from cash pooling.

Bank balances increased significantly from €156 thousand to €1.7 million.

All in all, net current assets increased from €173.1 million to €209.6 million.

On the liabilities side, subscribed capital did not change (2020: €95.2 million), and the capital reserve (2021: €59.9 million; 2020: €60.3 million) barely changed. At €29.9 million, other retained earnings were also comparable to the prior-year figure.

The significantly improved net income generated during the reporting period of €35.9 million was posted to distributable profit, which therefore improved to €48.4 million. Equity followed suit and as of December 31, 2021, came to €233.3 million, compared to €197.8 million at the end of the previous year's reporting period. In spite of the balance sheet total being higher, the equity ratio recovered significantly to 60.2% (December 31, 2020: 55.8%).

Provisions for pension commitments decreased slightly once again due to the development of interest rates. However, higher tax provisions reduced income, causing the total provisions item to significantly exceed the previous year's level at €9.5 million (December 31, 2020 €3.2 million).

Liabilities were reduced to €144.5 million (December 31, 2020: €153.2 million), due first and foremost to a significant reduction in liabilities to affiliated companies (€25.0 million; previous year: €40.8 million).

Overall, the Executive Board of H&R KGaA is satisfied with the significant recovery in the company's net assets, results of operations and financial position.

Other Legally Required Disclosures

Disclosures in Accordance With Section 289a, Paragraph 1 and Section 315a, Paragraph 1 of the German Commercial Code (HGB)

Item 1: Composition of Subscribed Capital

On the reporting date, subscribed capital totaled €95,155,882.68, divided into 37,221,746 ordinary no-par bearer shares. This corresponds to a notional value of around €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.

Item 2: Restrictions on Voting Rights or the Transfer of Shares

There is a voting rights restriction and pooling agreement between the limited liability shareholders of H&R Beteiligung GmbH and H&R Internationale Beteiligung GmbH. A portion of the shares and voting rights in the company held by H&R Beteiligung GmbH (9.70% of voting rights in the company) and all shares and voting rights in the company held by H&R Internationale Beteiligung GmbH (16.44% of voting rights in the company) are subject to the mutual voting rights restriction. A total of 26.14% of company voting rights are therefore subject to a voting rights restriction.

In addition, shares and voting rights held by members of the Supervisory Board and of the Executive Board of the general partner with full personal liability are subject to a voting rights restriction pursuant to Section 136 of the German Stock Corporation Act (AktG) regarding voting on the resolution by the Annual Shareholders' Meeting to approve their actions.

The company's Executive Board is not aware of any further restrictions affecting voting rights or the transfer of shares.

Item 3: Direct or Indirect Interests Exceeding Ten Percent of Voting Rights

In an informal voting rights notification dated December 31, 2021, Mr. Nils Hansen reported that his share of voting rights totaled 61.42% of the company's voting rights due to his own direct holdings and the attribution of voting rights held by or attributed to H&R Beteiligung GmbH, H&R Internationale Beteiligung GmbH, and H&R Holding GmbH. According to the aforementioned notification, (i) the share of voting rights of H&R Beteiligung GmbH totaled 59.74% of the company's voting rights due to direct holdings and the attribution of voting rights; (ii) the share of voting rights of H&R Internationale Beteiligung GmbH totaled 26.14% of the company's voting rights due to direct holdings and the attribution of voting rights; and (iii) the share of voting rights of H&R Holding GmbH totaled 59.74% of the company's voting rights due to the attribution of voting rights.

In accordance with an informal notification made at the end of 2021, Mr. Nils Hansen also holds 1.69% of the shares as privately owned shares, meaning that he holds shares corresponding to 61.42% of the share capital in total.

Item 4: Holders of Shares With Special Rights Granting Powers of Control

There are no shares with special rights granting powers of control.

Item 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.

Item 6: Statutory Regulations and Provisions of the Articles of Association on the Beginning and End of the Legal Position of the General Partner With Full Personal Liability and on Amendments to the Articles of Association

Since the company's legal form was changed to that of a partnership limited by shares on August 1, 2016, the company's management and representation have been the responsibility of its general partner with full personal liability, H&R Komplementär GmbH.

The general partner with full personal liability is defined in the company's Articles of Association; see Section 5, paragraph 1 of the Articles of Association. The general partner with full personal liability shall only leave the company in the cases governed by law or through an amendment to the Articles of Association. If the general partner with full personal liability leaves the company and a new general partner with full personal liability has not been admitted simultaneously, the company shall continue to operate with the limited liability shareholders alone for a transitional period. In this case, the Supervisory Board must immediately appoint an emergency representative, who shall represent the company until a new general partner with full personal liability has been admitted.

In this case, the Supervisory Board shall be entitled to adjust the Articles of Association to reflect the change in the general partner with full personal liability. Amendments to the Articles of Association must always be based on a resolution by the Annual Shareholders' Meeting, the adoption of which shall require a simple majority of the share capital represented during the voting, unless a bigger majority is required by law (compare Section 18, paragraph 2 of the Articles of Association and Sections 133 and 179 AktG). According to Section 285, paragraph 2 AktG, resolutions by the Annual Shareholders' Meeting regarding amendments to the Articles of Association also require the approval of the general partner with full personal liability. Pursuant to Section 24, the Supervisory Board may adopt amendments to the Articles of Association that only affect the wording of the Articles of Association without the approval of the Annual Shareholders' Meeting. In addition, under Section 4, paragraph 5, the Supervisory Board is authorized to revise the Articles of Association once an increase in share capital has been fully or partly completed in accordance with the respective utilization of the approved capital and once the authorization period has expired. Pursuant to Section 4, paragraph 6 of the Articles of Association, this also applies to respective utilizations of contingent capital in accordance with Section 4, paragraphs 1 and 6 of the Articles of Association. Finally, the Supervisory Board shall be entitled to adjust the Articles of Association to reflect the change in the general partner with full personal liability (see Section 5, paragraph 5 of the Articles of Association).

Item 7: Powers of the General Partner With Full Personal Liability, Particularly Regarding the Option of Issuing or Buying Back Shares

The general partner with full personal liability currently has an option for implementing corporate actions.

Under Section 4, paragraph 7 of the Articles of Association, a resolution passed by the Annual Shareholders' Meeting on May 29, 2020, authorizes the conditional increase of the company's share capital by a maximum of €19,940,383.37 by issuing up to 7,800,000 new ordinary no-par bearer shares with dividend entitlement from the beginning of the financial year in which they are issued (2020 Contingent Capital). The contingent capital increase serves to grant shares as issued by the company, companies under its control, or companies in which it has a majority interest to the holders or creditors of warrants or convertible bonds and profit participation rights/participating bonds with option or conversion rights/conversion obligations. This only occurs insofar as the option or conversion rights relating to the aforementioned warrants and convertible bonds/profit participation rights or participating bonds with option or conversion rights are exercised or conversion obligations relating to such bonds are fulfilled and insofar as no treasury shares or new shares from the approved capital are used to satisfy rights. The new shares are issued at the conversion/option price as determined in accordance with the stated authorization.

The general partner with full personal liability is authorized, with the approval of the Supervisory Board, to determine the further details of the process relating to the contingent capital increase. The Supervisory Board is authorized to amend Section 4, paragraphs 1 and 6 of the Articles of Association in accordance with the respective utilization of the contingent capital.

Under Section 4, paragraph 7 of the Articles of Association, the general partner with full personal liability is also authorized by way of a resolution passed by the Annual Shareholders' Meeting on May 24, 2018 – with the Supervisory Board's approval – to increase the company's share capital by May 23, 2023, by a maximum of €24,000,000.00 by issuing new, ordinary no-par bearer shares. The issue may be effected in one or more tranches in return for cash and/or contributions in kind (2018 Approved Capital). Within this context, the number of shares must increase in proportion to the share capital.

The shareholders generally have a subscription right to the new shares. The subscription right can also be granted indirectly using an arrangement in which the new shares are assumed by one or several credit institutions/companies with equivalent status to the latter in accordance with Section 186, paragraph 5, sentence 1 AktG that are then obliged to offer them to the shareholders for subscription (indirect subscription right).

The general partner with full personal liability is authorized, however, to exclude the shareholder subscription rights upon approval of the Supervisory Board,

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

b) if the shares are being issued in exchange for contributions-in-kind, in particular for the purpose of acquisitions of companies, parts of companies, equity interests in companies, other assets or in the context of business combinations, or for the purpose of acquiring receivables or other rights;

c) if the company's shares are being issued in return for cash and the issue price for each share is not significantly lower than the quoted price for shares with what are, essentially, the same features that are already listed on the stock exchange at the time the issue price is set definitively. This authorization only applies, however, subject to the proviso that the new shares issued excluding shareholders' subscription rights in accordance with Section 203, paragraph 1, sentence 1 and paragraph 2, sentence 1 and Section 186, paragraph 3, sentence 4 AktG do not exceed 10% of the company's share capital in total, neither at the time when this authorization takes effect nor at the time when it is exercised if this value is lower. The following count toward this 10% threshold: (i) new shares issued, excluding shareholders' subscription rights, during the term of this authorization up until the time at which it is utilized on the basis of another authorization from approved capital in accordance with Section 203, paragraph 1, sentence 1 and paragraph 2, sentence 1 and Section 186, paragraph 3, sentence 4 AktG, (ii) those shares that were, or are to be, issued to satisfy conversion or option rights and/or conversion or option obligations and/or tender rights of the issuer under convertible bonds and/or bonds with warrants, profit participation rights and/or participating bonds (or combinations of these instruments) ("bonds"), insofar as the bonds were issued during the term of this authorization up until the time at which it is utilized pursuant to Section 221, paragraph 4, sentence 2 and Section 186, paragraph 3, sentence 4 AktG, excluding shareholders' subscription rights and (iii) treasury shares sold during the term of this authorization up until the time at which it is utilized pursuant to Section 71, paragraph 1, no. 8, sentence 5, 2nd half-sentence and Section 186, paragraph 3, sentence 4 AktG excluding shareholders' subscription rights. Any reduction is reversed to the extent that authorizations to issue new shares from approved capital, to issue bonds or to sell treasury shares in corresponding application of Section 186, paragraph 3, sentence 4 AktG are granted again by the Annual Shareholders' Meeting once the authorizations that resulted in the reduction have been exercised;

d) if the shares were issued to satisfy conversion or option rights or conversion or option obligations or tender rights of the issuer under bonds carrying conversion or option rights and/or conversion or option obligations and/or tender rights of the issuer to the company's shares;

e) insofar as is required to grant subscription rights to holders/creditors of bonds carrying conversion or option rights and/or conversion or option obligations and/or tender rights of the issuer to the company's shares to such an extent as such holders/creditors would be entitled to after having exercised their conversion or option rights and/or following the fulfillment of the conversion or option obligations and/or tendering of shares as a shareholder.

The total new shares issued from the 2018 Approved Capital, excluding shareholders' subscription rights, based on the authorizations set out above must not exceed 20% of the share capital, neither at the time when the authorization takes effect nor at the time when it is exercised if this value is lower. The following count toward this 20% threshold: (i) new shares issued, excluding shareholders' subscription rights, during the term of this authorization up until the time at which it is utilized on the basis of another authorization from approved capital, (ii) those shares that were, or are to be, issued to satisfy conversion or option rights and/or conversion or option obligations and/or tender rights of the issuer under bonds, insofar as the bonds were issued during the term of this authorization up until the time at which it is utilized, excluding shareholders' subscription rights and (iii) treasury shares sold during the term of this authorization up until the time at which it is utilized excluding shareholders' subscription rights. If and to the extent that, following the exercise of an authorization to exclude subscription rights that resulted in shares being counted toward the above-mentioned 20% threshold, the Annual Shareholders' Meeting grants this authorization to exclude subscription rights again, the reduction is reversed.

The general partner with full personal liability is authorized, with the approval of the Supervisory Board, to define the content of the share rights, further details about the capital increase and the terms of issue, in particular the issue amount.

Item 8: Essential Agreements Subject to the Condition of a Change in Control Owing to a Takeover Bid

The banks involved in the syndicated loans and redeemable loans have the right to call in the loans in the event of a change in control.

Item 9: Compensation Agreements to be Concluded With the Members of the Executive Board or With Employees Covering the Eventuality of a Takeover Bid

No such arrangements exist at this time.

Subordinate Status Report

The company exercising direct control is H&R Beteiligung GmbH, a member of the Hansen & Rosenthal Group, with a 43.30% stake. The management and representation of H&R GmbH & Co. KGaA is the responsibility of H&R Komplementär GmbH. Mr. Nils Hansen holds the majority (51%) of the shares in H&R Komplementär GmbH and thereby is in a position to directly influence the management of the company.

As a result, we produce a subordinate status report in accordance with Section 312 AktG.

In the report for financial year 2021, the Executive Board came to the following conclusion:

"With regard to the transactions listed in the Report on Relationships with Affiliated Companies for the reporting period from January 1, 2021, to December 31, 2021, based on the circumstances that we were aware of at the time such transactions took place, our company received appropriate consideration for every transaction. No relevant measures were implemented or omitted during the reporting period."

Non-financial Report

The non-financial statement is being subjected to a voluntary audit according to ISAE 3000 for the first time for 2021 and published under the name "Non-financial Report" in the 2021 Sustainability Report by April 30, 2022, and will be made available for download on the company's website at www.hur.com/en/sustainability/sustainability-report.

Statement on Corporate Governance

The Company publishes its Statement on Corporate Governance on its website at www.hur.com/en/investor-relations/corporate-governance/.

Events After the Reporting Date

Between December 31, 2021, and the date of this combined group management report, there were no events with a concrete material impact on the net assets, financial position and results of operations.

However, it is possible that the developments of the war in Ukraine may have significant consequences during the further course of the year. But, due to the volatile situation, these can currently only be quantified to a limited extent. We have still assessed the set of issues qualitatively and taken it into consideration in our remarks in the risk and forecast reports.

Report on Risks and Opportunities

Risk Report

Risk Policy

H&R KGaA's business policy is aimed at increasing the value of the company over the long term. In order to achieve this, we must seize market opportunities while carefully weighing the associated risks.

The goal of our risk policy is to optimize the relationship between risks and opportunities while avoiding risks that could jeopardize the company's continued existence as a going concern. Systematic risk management is the direct responsibility of the Executive Board. Risks are 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 specialty products and plastic parts, we have a particular responsibility to operate our specialty refineries, processing facilities and production sites for plastic parts in a way that protects both people and the environment. All our production sites therefore have officers who actively work to ensure the safety of our employees and our facilities while protecting the environment.

Risk Management System

The risks to which H&R KGaA and its subsidiaries are exposed are identified, assessed, quantified (to the extent possible), communicated, and, if applicable, limited on the basis of appropriate measures across the entire Group in a uniform manner. We use various methods to identify risks, such as monitoring industry-specific and macroeconomic risk indicators and analyzing purchasing and sales markets. The assessment is based primarily on estimates by in-house experts – such as the risk managers at the local units – which in turn are based on appropriate assumptions about the corresponding risk. All segments are included in the risk management process. Identifying risks is considered to be the responsibility of all employees. This is encouraged by flat hierarchies and a culture that encourages open discussion of potential risks, with local managing directors leading by example. H&R KGaA uses the COSO (Committee of Sponsoring Organizations of the Treadway Commission) model (Enterprise Risk Management — Integrated Framework) to assess risks; this method is one of the standards for internal controls recognized by the American Securities and Exchange Commission (SEC). The risk manager (generally the relevant operations manager) conducts on-site risk assessments on a quarterly basis using a risk checklist/inventory list and an integrated data entry form on which the calculation can be substantiated, if necessary.

Risks are classified according to certain criteria. They are then measured using an approach 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 KGaA. The Risk Control department helps the risk managers to establish early warning indicators that make it possible to react quickly if a risk becomes more acute.

In general, all risks that a subsidiary classes as relevant are recorded. All other risks are neither recorded nor regulated.

The early-warning indicators are checked regularly to ensure that they are appropriate and up to date. Where possible and economically feasible, measures to reduce or avoid risks are also defined. Every quarter, the Risk Control department sends the Executive Board the consolidated risk inventory, including a detailed breakdown of the value-at-risk (VaR), which serves as the basis for controlling overall risk. If new risks arise at short notice or a loss event occurs, the Executive Board is notified directly and independently of normal communication channels.

In addition, a monthly performance report is prepared for all the main individual companies and the Group. This report compares sales and earnings figures with the relevant target figures. The Risk Control department analyzes any variances between target and actual figures. These analyses enable the Executive Board to identify undesirable trends at an early stage so that the necessary countermeasures can be implemented immediately.

The regular divisional meetings attended by local managing directors and the Executive Board of H&R KGaA are another tool used for early risk detection. The interface thus created between the operating and administrative levels ensures that operational risks are captured by and reflected in the accounting process (e.g., in the form of provisions) and communicated internally. At Supervisory Board meetings, changes in the risk inventory and the risk strategy are dealt with on a regular basis as part of the risk management reporting process. If the risk situation changes significantly, the Supervisory Board will also be informed promptly between meetings by the Executive Board.

The functionality and effectiveness of the risk early-warning system are reviewed not only by the Executive Board, but also on an annual basis as part of the audit of the financial statements. The results of these audits are taken into consideration as part of the ongoing refinement of our risk management system.

Description of the Main Features of the Internal Control and Risk Management System With Regard to the Group Accounting Process (Sections 289, Paragraph 4 and 315, Paragraph 4 of the German Commercial Code (HGB))

H&R KGaA's accounting guidelines specify uniform accounting and valuation principles for the companies included in the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). New accounting regulations are reviewed immediately to determine whether they affect companies in the H&R Group and if necessary are incorporated into our accounting guidelines. The local managing directors are responsible for applying existing regulations at the level of the individual companies. Consolidated financial statements are prepared and drawn up by Group Accounting at H&R KGaA. The employees in this department also serve as contacts to answer questions on accounting matters from the subsidiaries.

To minimize the risk of incorrect accounting even in complex circumstances, H&R KGaA employees involved in the accounting process undergo continuous and extensive training. The relevant departments are adequately staffed, both in terms of numbers and competence. Advice on specific accounting matters is also obtained from external experts as necessary. The internal control system at the H&R Group consists of principles and processes that ensure the effectiveness (i.e., making sure the annual and consolidated financial statements, as well as the combined management report, comply with the relevant standards) and, where appropriate, the efficiency of the controls in the accounting process.

The H&R Group's internal control system consists of a management system and a monitoring system. Important aspects of the measures that have been integrated into our processes with respect to the Group accounting process include both manual controls, such as the dual-review principle, and automated IT controls. After selecting professionally qualified employees, we provide them with regular training. This helps us to ensure that our monitoring system identifies risks promptly and thus ensures that our annual and consolidated financial statements conform to the relevant standards.

The Audit Committee of H&R KGaA's Supervisory Board is integrated into the H&R Group's internal monitoring system through its audit activities, which are independent of operating processes. In accordance with Section 107, paragraph 3 AktG, this body primarily focuses on monitoring the accounting process, the audit of the financial statements and the effectiveness of the internal control and risk management system.

Access management regulations for the relevant IT systems and a strict dual-review policy in the Accounting department – both at the individual companies and at the Group level – help ensure that the accounting processes are thorough, precise and secure.

The subsidiaries are obliged to report their figures to Group Finance every month in a standardized format in accordance with IFRS accounting regulations. This enables variances between target and actual figures to be identified at an early stage and gives us the opportunity to determine the reasons behind the variances and to take any necessary countermeasures.

The Risk Management System as it Relates to Derivative Financial Instruments

H&R KGaA 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 of H&R Group Finance GmbH and are then monitored on an ongoing basis. They are used to hedge underlying transactions that either exist already or are highly likely to take place in the future (anticipatory hedging). In the 2021 financial year, for forex hedging we restricted ourselves to micro-hedging individual risk positions in the area of current foreign currency book positions, the continued existence of which is monitored by the hedging entity during the hedging period. In view of the terms of a maximum of six months, the market values and therefore also the counterparty risks remained manageable. Additionally, we concluded two raw materials price swaps with a term until the end of 2022, which will lead to an achievable profit margin, in combination with a stabilization in the co-products area, particularly in the bitumen business. To ensure the intended effectiveness, changes in the planning quantities of the risk positions are compared on a monthly basis to the hedging quantities, as well as following the market value movements of the underlying and hedging transaction. Raw material hedges are also reflected as hedges for accounting purposes.

Derivative financial instruments are not used for speculative purposes. At the reporting date, no open interest rate or raw material hedge positions were in existence.

Specific Risks

All our relevant risks are classified uniformly throughout the Group. A risk is classified as low, medium or high based on the parameters "Likelihood of occurrence" and "Potential financial impact". The resulting risk classification matrix is shown in the following table:

T. 23 **POTENTIAL FINANCIAL IMPACT**[1)]

	Likelihood of occurrence[2)]		
	unlikely	possible	likely
Existential threat	High risk	High risk	High risk
Significant	Medium risk	High risk	High risk
Moderate	Low risk	Medium risk	Medium risk

[1)] Moderate: some negative effects on business activity, financial position, results of operations and cash flows, for example if EBITDA falls below €50.0 million in 2022.
Significant: substantial negative effects on business activity, financial position, results of operations and cash flows, for example if EBITDA falls below €50.0 million annually over the next two years.
Existential threat: substantial negative effects on business activity, financial position, results of operations and cash flows owing to which the continued existence of the enterprise would be jeopardized, e.g., with an EBITDA permanently below €50.0 million.
[2)] 1–33%: unlikely; 34–66%: possible; 67–99%: likely

Low risk Medium risk High risk

Depending on the degree of potential financial effect and the estimated likelihood of occurrence, risks are generally classified as being “high”, “medium” or “low”.

T. 24 **CORPORATE RISKS**

	Likelihood of occurrence	Possible financial impact	Risk classification	Risk situation compared to previous year
Macroeconomic and Industry Risks				
Fluctuations in demand and margins	possible	significant	high	unchanged
Risks related to Covid-19	possible	significant	high	higher
Raw material supply risks	unlikely	significant	medium	higher
Risks related to raw materials composition	likely	significant	high	unchanged
Risks related to consequences of the war in Ukraine	likely	significant	high	higher
Risks from the development of substitute products/general competitive pressure	likely	significant	high	unchanged
Changes in the tax and legal environment	possible	moderate	medium	unchanged
Operating and Corporate Strategy Risks				
Operational risks	possible	moderate	medium	unchanged
Investment risks	unlikely	significant	medium	unchanged
Risks associated with contractual relationship with Hansen & Rosenthal Group	unlikely	significant	medium	unchanged
Product liability risks	unlikely	moderate	low	unchanged
IT risks/cybersecurity	possible	significant	high	higher
Financial Risks				
Liquidity risks	unlikely	significant	medium	unchanged
Risks from the breach of covenants	possible	significant	high	unchanged
Risks from future refinancing requirements	unlikely	significant	medium	unchanged
Currency risks	possible	moderate	medium	unchanged
Interest rate risks	possible	moderate	medium	unchanged
Risks from defaulting customers and banks	unlikely	moderate	low	unchanged

Unless stipulated otherwise below, the description of risks, opportunities and the forecast generally applies equally to the H&R Group and to H&R KGaA. This reflects the fact that, while certain risks may originate with the subsidiaries and not with H&R KGaA, H&R KGaA will have direct exposure as the parent company. Above all, this applies to risks involving operating processes and the immediate business activities of the subsidiaries.

In its capacity as the parent company, H&R KGaA holds equity investments in Group companies at its own original risk. The carrying amounts of these investments are subject to the risk of an impairment in the event of negative changes in the economic situation of these Group companies. This may have a negative impact on H&R KGaA's annual results.

Macroeconomic and Industry Risks

Demand and Margin Fluctuations (Risk Class: High). External influences can cause demand for our products to fluctuate. In addition to global economic weak phases, these influencing factors particularly also include geopolitical tensions which have a significant impact on changes in our sales and income. At the end of 2021, the Ukraine conflict already appeared to be intensifying.

In view of the continuing effects of the pandemic, and raw material and logistics difficulties, 2021 can be referred to as a weak phase. In view of the results of operations, however, it can be stated for the past financial year that the higher demand and improved margins have had a positive impact.

Although these opportunities were able to be used in 2021, H&R is addressing the general negative effects from demand and margin fluctuations.

As a strategically sensible response to the challenge of reduced demand and margins in the medium term, we continue to strive to accelerate the specialization of our production units, doing our very best to avoid producing combustion products and base oils. If we can manage to produce specialty products with a high margin in a targeted manner as part of an enhanced refining process, this could translate into a significant improvement in our overall results of operations. There is, however, still a risk that the company considers to be "high" in general due to the probability of occurrence and the potentially significant impact.

In the Plastics division, we are – like other component manufacturers for automotive suppliers – dependent on industry trends. This applies, in particular, to components called off on a just-in-time basis, which fluctuate depending on the production figures of the OEMs/automobile manufacturers themselves. In 2021, some closures took place of automobile manufacturers and suppliers, particularly due to difficulties in important Asian-European supply chains. As a consequence of this, we were able to sell the same number of plastic parts as in the previous year, but were forced to become more flexible, due to sometimes very short-term delivery dates and postponements. The effects of the personnel restructuring measures and streamlining of our mold construction first became noticeable in the reporting year. With the economic environment as it is, the risks generally remain high.

Risks Related to the Continuation of the Covid-19 Pandemic (Risk Class: High). In principle, the possibility exists that the pandemic will not only continue, but may also intensify due to virus mutations. If this does not occur, however, previous variants may also lead to an increased infection rate and absences in many parts of the business and economic activity. H&R could possibly be affected by this directly in the form of employee absence, or indirectly through absences in our customer industries and raw material suppliers or due to disruptions to the energy supply or logistics chains.

After two years now of the pandemic, we do not assume such a scenario, but regard the consequences as being so significant (at least temporarily) that we classify the risk as "high".

Risks Related to Raw Materials Procurement (Risk Class: Medium). In principle, H&R is reliant on the supply of raw materials and therefore bears a risk with regard to these raw materials being sufficiently available. As long as a substantial portion of our raw materials needs to be procured externally, in principle, the risk exists that their procurement may be impeded by circumstances that are not controllable by H&R (wars, pandemics, environmental disasters, etc.). Accordingly, we are diversifying our sources with deliveries from renowned oil companies in different parts of the world. We buy another portion through the spot market.

The same risks also exist, in principle, in the plastics segment. Therefore, our strategy for avoiding bottlenecks in the supply of raw materials also aims at always using several suppliers for important raw materials. In spite of this diversification in procurement, we identified a shortage of important granulate raw materials in 2021.

Risks Related to Raw Materials Composition (Risk Class: High). We are committed to optimizing the yield of our refineries and aim to achieve as large a proportion of core products as possible while minimizing co-products at the same time. In order to achieve this, we adapt the operating modes used in our production processes to suit the composition of the raw materials. Depending on the raw materials quality available, the product split that we can achieve can fluctuate, meaning that the proportion of the overall yield attributable to core products varies.

Risks Related to Consequences of the War in Ukraine (Risk Class: High). The intensification of the Ukraine conflict, which escalated into a war with the attack by Russia on its neighboring state, is bundling various aforementioned risks into a cluster. In the past, Russia held an extremely important role in the supply of raw materials. If raw materials are no longer available or are deliberately no longer purchased, this gap would need to be filled by other suppliers in our network. In principle, this is possible. However, as the procurement of raw materials also relates to other market participants and industries, in all likelihood, this will be associated with higher procurement prices. Furthermore, different supply routes also involve higher logistics costs. In turn, we must pass on all factors to our customers. This is not a problem specific to H&R, however, but relates to Europe in its entirety.

Furthermore, the operating costs for our German production sites would increase if energy prices continue to rise strongly. This could be the case if Germany is no longer willing or able to cover its gas requirements from Russian sources. A switchover to other supply sources, such as LNG from the Gulf States or gas from the USA, is likely, but it would not reduce gas and energy costs due to the time needed, at least in the short term.

Risks From the Development of Substitute Products and General Competitive Pressure (Risk Class: High). One risk applicable to both ChemPharm divisions is the development of substitutes or alternative production methods for our products. For example, base oils of groups II and III are a higher quality, but are not necessarily any more expensive than our products. Still, it is worth noting that over the last two years predatory competition has not taken place and the demand for our products was at a high level in this area. We nevertheless intend to push ahead with our focus on the further enhancement of the business model, which focuses on avoiding group I base oils and prioritizing a change in the use of raw materials from renewable and synthesized products. In this way, we are aiming to transform our own product portfolio and virtually create our own substitutes for our current products.

Due to the many unknowns, the risk arising from market or competitive trends cannot be quantified.

Changes in the Tax and Legal Environment (Risk Class: Medium). As an operator of industrial plants, we run a business that is governed by laws and regulations. Our two production sites in Germany, in particular, are required to comply with the requirements of legislation on the environment, chemicals and energy. A potential tightening of these regulations entails the risk of financial burdens caused by higher operating costs and capital expenditure. We limit these risks by remaining involved in political decision-making processes as much as possible – either directly or through membership in various associations. We also identify and monitor the changing requirements with our internal compliance organization.

We keep a close eye on tax-related changes and changes in legislation resulting from the societal debate on climate change. We adapt our corporate strategy accordingly and aim to make a contribution to sustainable business development with our future process and product setup.

Despite the measures described above and improvements made in recent years, our specialty refinery operations do currently entail emissions and the use of chemicals, and are also energy-intensive. The trend in some areas toward tougher legal requirements for the manufacturing sector in Germany and Europe could lead to competitive disadvantages vis-à-vis international and non-European market players.

Operating and Corporate Strategy Risks

Operational Risks (Risk Class: Medium). H&R KGaA's subsidiaries produce hydrocarbon-based specialty products and high-precision plastic parts. Operating the plants that produce such products entails both operating risks and the risk of accidents. Technical disruptions or natural disasters can cause harm to people or the environment and result in production downtime.

We counter these risks with a comprehensive safety strategy. Extensive control and safety measures, coordinated by our IT-based measuring stations, enable us to identify operational risks at an early stage and to adopt suitable countermeasures. We also regularly invest in environmental protection and safety and fire protection measures at our specialty refineries.

The certification of our production sites in both the Chemical-Pharmaceutical business and the Plastics division contributes significantly to ensuring operational safety. We use the strict ISO standards and IATF rules as a basis for this. If a loss event occurs despite these precautions, the financial consequences are largely covered by insurance, provided that the risk is insurable and such coverage makes sense from a financial and economic standpoint.

Thanks to comprehensive health and safety measures to protect our own staff, the number of suspected cases of Covid-19 or identified infections in 2021 were kept under control at our sites so effectively that no restrictions to business operations occurred.

Risks Associated With the Sales/Distribution Relationship With the Hansen & Rosenthal Group (Risk Class: Medium). The sale and distribution of the ChemPharm Refining segment's products are handled predominantly by companies belonging to the Hansen & Rosenthal Group, which acts as sales/distribution partner under long-term contracts, reflecting many years of business ties and making Hansen & Rosenthal the most significant customer of H&R KGaA.

If this contractual relationship came to an end and the Hansen & Rosenthal Group were no longer available as a sales/distribution partner, this would have a considerable negative impact on H&R KGaA's net assets, financial position and results of operations. Among other things, the company would have to develop its own sales and distribution capacity for the ChemPharm Refining segment at short notice.

Even if it succeeded in doing so, it would still face the risk of either not being able to establish direct customer relationships at all or not being able to do so over the long term. In such a case, contract production for the Hansen & Rosenthal Group at the Salzbergen site could be terminated as well. In this case, H&R KGaA would have to raise new funds to cover the significantly increased net working capital requirements and pay for the procurement of raw materials at both sites. This could have a significant negative impact on net gearing.

H&R KGaA estimates the impact of such a risk, if it should occur, as “significant”; however, it rates the probability that such a risk will materialize as “low”. H&R KGaA is part of the Hansen & Rosenthal Group, the main shareholder and managing director of which is also the majority shareholder of H&R Komplementär GmbH, H&R KGaA's general partner with full personal liability. The interdependencies are not just one-sided as H&R KGaA is the current sales/distribution partner's biggest supplier. Consequently, a long-term continuation of the sales/distribution relationship is in the interest of both parties.

Investment Risks (Risk Class: Medium). In the years ahead, we intend to keep investing in measures for the sustainable added value and competitiveness of our existing production sites.

To mitigate the risks associated with the project implementation process, we deploy project teams with in-depth knowledge of our plants to professionally coordinate and strictly monitor such value maintenance measures. In principle, however, investment projects may entail cost overruns and delays in construction.

Product Liability Risks (Risk Class: Low). Our crude-oil-based specialty products and plastic parts are incorporated directly into our customers' products. Incorrect processes or failure to adhere to specifications can result in our customers incurring damage, giving rise to warranty claims. For this reason, all the products in both our Chemical-Pharmaceutical division and our Plastics division are subject to extensive quality controls. If we are faced with liability claims despite this, we are largely covered by insurance.

IT Risks/Cybersecurity (Risk Class: High). Advancing digitalization offers major opportunities for the Group. Particularly in the last two years, we have adapted our IT structure to the pandemic requirements and enabled the majority of our employees to perform their activities via remote solutions. In principle, the risk exists of not always being able to react to changing conditions quickly and adequately (e.g. short-notice implementation of remote working requirement or the "3G rule" (vaccinated, recovered or tested) in the workplace). At the same time, we know that digitalization is generally associated with risks, e.g. in the form of cyberattacks. Under certain circumstances, such attacks can lead to an impairment of the IT systems, which could only be remedied with significant financial and time resources. Therefore, we are continuously working on the security of our digital technologies and systems in order to address cyber risks in the best possible manner, train our employees and avert risks for our customers and business partners, as well as for the company. We also record IT and cybersecurity risks as part of our queries about the Group-wide risk inventory.

Financial Risks

Our subsidiaries receive the funds they use to execute business and production processes through H&R KGaA, which in turn ensures that such funds will be available. As a result, risks involving these financing instruments generally originate with H&R KGaA itself. In addition to the risks explained in detail below, an overriding risk may possibly exist in the future of the Covid-19 pandemic continuing, which may have the effect of a loss of income on business operations, which may also impact the net assets and financial position.

Financial Covenant Breach Risk (Risk Class: High). Compliance with the financial covenants will also be a crucial part of the financing agreements in 2022. If these covenants were to be breached, which is not expected to happen, this could jeopardize the continued existence of the financing arrangements and therefore the Group's financial and economic situation. Due to the possibility of occurrence and the potentially significant financial impact, this is – from an objective standpoint – fundamentally a "high-risk" issue. In general, we take a proactive approach to this risk by renegotiating financing terms with our financing partners early on. We also took this approach in 2021 and took advantage of the flexibility available for us to optimize our financing on the basis of the improved results in 2021. Although this means that we have reduced this risk, it is still classified as "high" due to the importance of this financing.

Liquidity Risks (Risk Class: Medium). Prices for the raw materials used in our Chemical-Pharmaceutical segments are closely correlated with the price of crude oil. Accordingly, the prices of our raw materials are subject to fluctuations. The prices of our finished products are similarly volatile.

In order to cover the net working capital (the sum of inventories and trade receivables less trade payables) required for our production activities, a large part of the line of credit under the syndicated loan, which currently amounts to €240.0 million, has been earmarked as a risk cushion. At year-end, €20.3 million had been utilized for cash loans, €2.5 million for guarantees and €13.6 million for credit requests/guarantees for lines in China.

Our Group Treasury department monitors our liquidity status on a daily basis to avoid any cash flow difficulties. The credit lines granted by the banks in the lending consortium are subject to financial covenants relating to our equity base and the ratio of our net debt to operating income (EBITDA). If any of these covenants are breached, the banks are entitled to call in the loan.

Risks of Future Need to Refinance (Risk Class: Medium). The short-term financing figure represents our existing refinancing risks, which primarily consist of drawdowns from the syndicated loan, loans of our Chinese subsidiaries and maturities on KfW redeemable loans. The syndicated loan agreement for a maximum of €240.0 million and the existing cash and cash equivalents account for the bulk of current refinancing risks.

However, there is no guarantee that it will be possible to refinance under the same or more favorable terms and conditions in the future. In general, banks are interested in a further loan commitment to H&R KGaA. Since the lending banks' risk would be manageable even if the company's financial and economic situation were to deteriorate (inventories of raw materials and products can be sold at short notice), we assume that we will succeed in concluding any follow-up financing agreements required in the future. Were we unable to refinance, the company would have to use a higher percentage of its cash and cash equivalents to repay these amounts. This could have a significant impact on business activities, as well as on the company's net assets, financial position and results of operations.

Risks from Defaulting Customers and Banks (Risk Class: Low). Our indirect risks from delays in payment and/or defaults on the part of customers or service providers of our subsidiaries are limited by the broadly diversified customer base on the whole, but cannot be ruled out entirely. This is why we have taken out default insurance policies for major customers.

We counter the default risk of banks by only entering into financial transactions with top-rated banks and by spreading larger transactions among several banks.

Currency Risks (Risk Class: Medium). As an international group, we are exposed to various exchange rate risks. The depreciation of a foreign subsidiary's local currency can diminish the cash flow it generates in relation to the Group currency, the euro. Furthermore, revenues from the sale of products from within the euro area to a country outside the euro area 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 Chinese renminbi, the British pound, the Thai baht, the Malaysian ringgit and the South African rand.

We always weigh the costs for hedging foreign currency risks against the financial effects of a potential loss event.

The US dollar/euro exchange rate generally affects our raw material costs, as we purchase our main raw materials in US dollars. As a result, any depreciation or appreciation of the US dollar has an impact on our raw material costs.

Interest Rate Risks (Risk Class: Medium). Changes in market interest rates lead to a change in the fair value of fixed-interest financial instruments and to fluctuations in interest payments for variable-interest financial instruments. We take out fixed-interest loans to increase planning certainty for net interest income.

There is additional exposure to falling interest rates in the form of the locally generated surplus cash of foreign equity investments in the respective currencies. There is currently a risk of increased interest expense from rising interest rates for our Chinese equity investments due to short-term fixed-interest loans denominated in Chinese renminbi that will have to be refinanced when they mature in 2022.

There are also company retirement liabilities in the form of pension commitments. On the one hand, the actual amount of these commitments is based on an actuarial forecast and, on the other, it is heavily dependent on conditions in the capital markets, in particular the interest rate. Lower interest rates cause pension liabilities to increase and result in a corresponding charge against H&R KGaA's equity.

General Statement by the Executive Board on the Risk Situation

Our risk management system and the established planning and control systems are used to assess our risk situation. When all material individual risks are reviewed in aggregate, potential opportunities are not taken into account as offsets. We therefore believe that, based on currently available information, there are no risks that could jeopardize the continued existence of the H&R Group as a going concern.

Company Rating

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

Report on Opportunities

Opportunities Management

At the H&R Group, the systematic management of opportunities is closely linked to the management of risks. We define opportunities as developments that are expected, but are not guaranteed, meaning that they cannot be quantified in monetary terms either, and could have a positive effect on our net assets, financial position and results of operations over the next 12 to 18 months. Managing strategic opportunities – such as acquisitions, joint ventures or major investments – is the responsibility of the Executive Board.

We use a variety of methods to make the best use of both operating and strategic opportunities. For example, we perform analyses of the market and our competitors that are as precise as possible. We develop scenarios for successful market entry, question the focus of our product portfolio, evaluate the cost drivers as well as the relevant success factors and from this information identify specific market opportunities that are then coordinated by the Executive Board in close collaboration with the local operations managers. At the same time, we try to identify future market trends in a targeted manner by holding discussions with customers. In the Chemical-Pharmaceutical segments, there is an active exchange of ideas on these issues between the production sites, our Research and Development department, and our sales and distribution partner Hansen & Rosenthal, who uses its close customer contacts to identify current and future customer needs and to provide ideas for new products.

Finally, using a system similar to our risk classes, we rate our opportunities by degree of potential financial impact and likelihood of occurrence.

Specific Opportunities

Opportunities Arising From Market and Macroeconomic Trends (Opportunity Class: Medium). The focus of operators of big refineries on producing lubricants means that H&R's specialty refineries in the Chemical-Pharmaceutical Raw Materials division could play a more significant role in supplying the market with specialty products such as paraffins, or process oils and white oils.

If, at the same time, demand for crude-oil-based specialty products increases during this financial year, for example, due to changes in the competitive situation or general market recoveries, our revenues and income could exceed our current expectations.

However, at the same time, an opportunity also exists for H&R in an opposite market trend. The effects of the pandemic over the last 18 months (decline in car and plane traffic) have led to a significant reduction in fuel and base oil production by the major refineries referred to above. By contrast, H&R was able to continue offering these products to the high-demand market and profit from good margins. If comparable effects also continue in 2022 or even intensify – for example, due to a final capacity reduction by important market participants – this may have a positive influence on the company's revenue and results.

The possibility of increased demand within society for products with a smaller carbon footprint or even for climate-neutral qualities could afford H&R additional opportunities. Our three-pillar strategy and our existing ability to refine "traditional" mineral-oil-based products in our processes using green hydrogen are initial steps in this direction. At the same time, green hydrogen in conjunction with green carbon opens up new opportunities. Long-chain hydrocarbon compounds can be obtained from these two materials together in the course of synthesization. With the NextGate project, we intend to produce electrofuels and synthetic waxes from these non-fossil base materials at the Hamburg site. The market should open up major opportunities for both products.

Over the past few years, we have laid the foundation for profitable business, particularly in the international business. For example, the researchers at the DIW from Berlin are forecasting an increase in global output of 4.8% for 2022. The opportunities lie in the reduction of logistics difficulties in Asia and an improved supply of raw materials and intermediate products.

For the Plastics division, demographic developments will create attractive growth opportunities, especially in the field of medical technology. Further opportunities will be generated by the trend in the automotive industry toward replacing heavy metal parts with lighter plastic components to reduce vehicle weight. The increasingly dynamic electric mobility initiatives pursued by automotive manufacturers have the potential to offer additional impetus, as the longer range of more lightweight vehicles can be a significant sales argument.

Strategic Opportunities for the Company (Opportunity Class: High). We believe that considerable opportunities lie in the enhancement of our operating model. In addition to the flexibility of plant configuration and the ability to actively manage our output structure, we are particularly focusing on the right, diversified use of raw materials. In the 2021 financial year, the positive effects of using specific fossil-based raw materials for business model transformation were delayed. This was first and foremost attributable to a lack of availability of suitable qualities, which were not available or not available to the desired extent at the refineries we had selected as potential suppliers, or which were available only on unfavorable delivery terms. Regardless, we are convinced that this area offers a great deal of potential. Based on a revamped and expanded feedstock and by-product portfolio for the Hamburg refinery, we aim to strengthen market-oriented production that focuses exclusively on specialty products. We have also achieved initial successes in the use of sustainable raw materials, e.g. on a hydrogen or carbon dioxide basis, and see major potential with the commissioning of the NextGate plant at the beginning of the year for future scaling of this technology to an industrial level.

Internationally, we actively monitor market trends and align regional opportunities with our international expansion strategy. To do this, we can rely on our network of subsidiaries as important strategic bridgeheads that enable us to quickly penetrate emerging markets in a carefully targeted manner.

Economic Performance Opportunities (Opportunity Class: Medium). Operating specialty refineries is very energy-intensive. By investing in cutting conventional carbon emissions and achieving lower energy consumption, H&R KGaA has already met important climate goals and saved energy costs in the past. At the same time, we took advantage of the special compensation arrangements for energy-intensive businesses.
All in all, we see the debate on climate change and the efforts to forge ahead with the energy transition not only as a challenge, but also as an opportunity. We believe that a commitment to the increased production of green hydrogen and green carbon and the products to be obtained from these offers significant potential.

There are also fundamental opportunities – in the form of higher margins – when the supply of our products becomes scarce, such as during shutdowns, closures or capacity reductions at our competitors' refineries.

In addition to the positive effects resulting from the future change in use of raw materials, we also continue to see opportunities to market our lower-margin products. Both bitumen and cracker feed for other refinery types have sold well in the last two years and generated thoroughly adequate margins.

In the Plastics division, GAUDLITZ has not only its headquarters in Coburg, but also additional production capacities with its sites in the Czech Republic and China, offering additional low-cost advantages while being close to its key sales markets at the same time. Should the trend witnessed among automobile manufacturers and suppliers of transferring production to these countries continue, this could afford GAUDLITZ opportunities if the company strengthens the units there.

The decisive factor for the automotive industry will be how successful it is in transforming the drive technology from the internal combustion engine to electric mobility. If the industry can manage to provide attractive offerings to drive this process of transformation, individual vehicle use and, as a result, the total number of vehicles would remain unchanged in principle. Component manufacturers such as the H&R subsidiary GAUDLITZ will also have to adapt to a new type of mobility. They could, however, also benefit from the situation as further metal components could be replaced by plastics in order to optimize vehicle ranges. At the same time, manufacturers are likely to opt for measures to further standardize their vehicle platforms and components on grounds of cost; fewer different components in total, but higher quantities, translate into better capacity utilization and more competitive production costs.

Overall Statement on Opportunities

Assessment of Opportunities by the Executive Board. Although the absolute number of reported risks is higher than the number of specific opportunities identified, H&R KGaA sees the opportunities referred to above as direct responses to many of the risks described and believes that the overall situation is balanced overall.

Forecast Report

Future Focus of the Group

Companies and Segments

Statements concerning short-term company performance from January 1 to December 31 of financial year 2022 assume that, based on our current knowledge, the structure of the Group will remain largely unchanged.

How to deal with the trade-off between raw material prices and market conditions continues to be a crucial challenge for our company. This relates to the classic Chemical-Pharmaceutical Raw Materials Division, as well as the business with precision plastic components.

H&R KGaA is positioned so that it can actively take advantage of its flexibility at three different levels of the value chain: in the ChemPharm Refining segment as a refinery operator and producer in Germany, in further processing of the ChemPharm Sales segment abroad and in global distribution. The Plastics division, with sites in Germany and abroad, has a comparable setup. If, in addition to our in-house expertise, we also need external capacity, we can fall back on a network of tried and tested partnerships. Every one of our Group subsidiaries fits into this simple matrix.

Sales Markets

In the Chemical-Pharmaceutical business, Germany will continue to be the main driver of our sales. In view of the maturity of this market, our growth strategy in this region, featuring the enhancement of the refinery operating model, is based less on increasing volumes than on improving the efficiency of production processes and manufacturing higher-quality products. Internationally, we are focusing heavily on Asia. China, Singapore, Indonesia, Malaysia and Vietnam are key sales hubs and processing locations for our activities in the region, as is the Indian subcontinent. In the Plastics business, we are guided by our customers and particularly see their production sites in Eastern Europe and China as important customers.

Technologies and Processes

Constantly improving processes to increase efficiency and enhance the output structure is a core element of our corporate strategy. We combine long-standing expertise with the use of new technologies, carving out a role for ourselves less as a lubricant producer than as a manufacturer of high-quality specialty products. In order to satisfy the strongly increasing focus on sustainability in many of our customer industries and broad parts of the company, we are transforming our operating model for the refineries. This will see us rely on a differentiated range of raw materials, which is just as decisive for the quantity, composition and quality of our end products and by-products as plant configuration measures are. At the same time, we are expanding our feedstock and by-product portfolios to hydrocarbon-based qualities, which are to be less fossil-based and more sustainable in the future.

Products and Services

With the above-mentioned changes in the operating model of refineries, we are planning to offer a virtually comparable product portfolio, either directly or via our Sales segment – with one significant difference. Whatever has previously been produced on a crude oil basis will in the future be created on a plant, recycled or synthetic basis. With a climate-friendly product portfolio, H&R is supporting its customers in their sustainability approaches.

The Plastics division aims to strengthen its existing business with European customers from the e-mobility sector and position itself with customers in China through a sales initiative in the medical technology and industry sectors.

Expected Performance in Financial Year 2022

Macroeconomic Conditions

General Economic Environment

If the pandemic continues to remain an issue of global importance in 2022, it will most likely do so with certain predictability given the experiences of the past two years. The war in Ukraine, the duration and scale of which is currently not yet foreseeable, will have geopolitical consequences.

Prior to the start of the conflict, the IfW in Kiel quantified the expected growth in German gross domestic product for 2022 at 4.0% at the beginning of the year. In the opinion of the International Monetary Fund (IMF), the recovery of the global economy will amount to growth of 4.9% in 2022.

Updated forecasts taking scenarios from the Russian war against Ukraine into consideration currently do not exist.

Our internal budget for financial year 2022 is based on a US dollar/euro exchange rate, which we set at 1.20 for the purposes of the planning process.

For crude oil prices, we rely on the estimates published by the economics departments of major banks. For budget year 2022, on the planning date we assumed a price of US$75 per barrel of North Sea Brent, which is slightly higher than the average annual price of US$71 seen in 2021.

At the same time, it is still significantly below the daily oil price, which is mainly influenced by the current geopolitical situation. It is difficult to predict how long the war will last, and with it the tense situation regarding the supply of raw materials.

However, as a precaution, we have anticipated scenarios with a higher raw material price for the preparation of the budget.

Industry Environment

The chemicals industry faces several challenges due to the requirements of the EU Commission's Green Deal and, in addition to the ambitious emissions targets, it is also required to accept restrictions to the base materials that it uses. At the same time, the chemicals industry – represented by the VCI e.V. and Cefic industry associations – is offering the European Commission the drafting of a common timetable and implementation plan, with which the achievement of the sustainability targets of the Green Deal can be ensured, without this simultaneously thwarting the requirements for the companies in respect of climate neutrality, digitalization and the circular economy. According to the associations, many companies in the industry have already started to transform their own business models, but the adjustments need planning certainty. Without such reliability, significant investments in climate-friendly technologies do not make much sense. Therefore, they require the preparation of a common transformation roadmap with a defined transition framework, timelines and concrete measures for the industry to develop substitutes.

The VCI is currently optimistic about the coming year and expects a positive trend in the industry. The chemical association regards an increase in production of 2.0% and a rise in sales of 5.0% to €231.0 billion as being possible.

Company Performance

Sales and Earnings

The following table compares the actual values of the main or key control figures used by the H&R Group for the past financial year with the original forecast and shows the outlook for financial year 2022. It comprises sales and EBITDA. Our financial forecast is also based on our original considerations for the financial year and additionally includes a qualitative consideration of the current events of the war in Ukraine. It is not yet possible to make a reliable estimate of the exact financial impact, however.

T. 25 **COMPARISON OF ACTUAL VALUES WITH FORECAST**

Key figure	Original forecast FY 2021	Actual FY 2021	Outlook FY 2022
Consolidated sales	€900.0 million to €1,100.0 million	€1,188.3 million	€1,100.0 million to €1,300.0 million
of which ChemPharm Refining	66%	€745.3 million (approx. 61%)	64%
of which ChemPharm Sales	31%	€412.2 million (approx. 35%)	33%
of which Plastics	3%	€43.8 million (approx. 4%)	3%
Reconciliation with consolidated sales	n.a.	€-12.8 million	n.a.
Consolidated EBITDA	approx. €60.0 million to €75.0 million	€132.5 million	approx. €80.0 million to €95.0 million
of which ChemPharm Refining	65%	€103.4 million (approx. 76%)	68%
of which ChemPharm Sales	32%	€29.1 million (approx. 22%)	31%
of which Plastics	3%	€3.8 million (approx. 2%)	1%
Reconciliation with consolidated EBITDA	n.a.	€-3.8 million	n.a.

Sales. Our sales are affected considerably by the cost of raw materials for our Chemical-Pharmaceutical division. If our planning assumptions for crude oil prices and the US dollar/euro exchange rate materialize during the year, we anticipate that prices for raw materials and products will remain constant overall. If higher raw material costs continue, contrary to the described current scenario, we assume that these costs will also be able to be passed on in the form of higher product prices. For 2022, we are currently first and foremost expecting increased momentum in the ChemPharm Sales segment and a stable situation in the ChemPharm Refining segment.

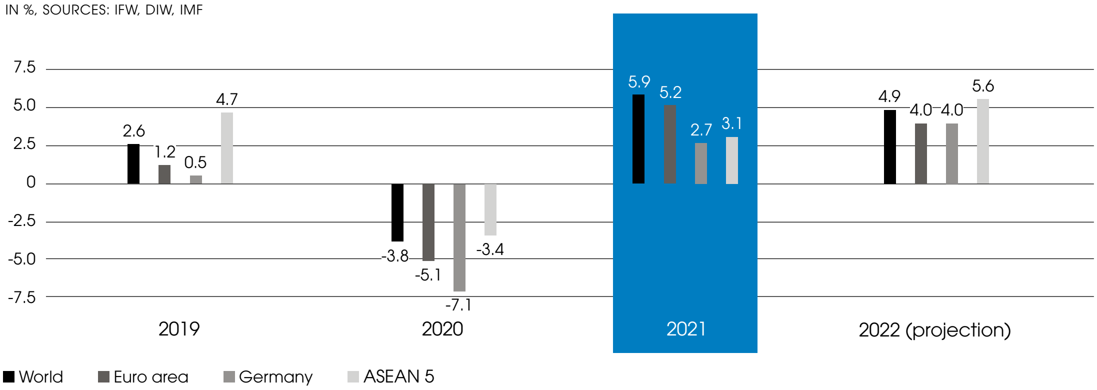
All in all, we expect consolidated sales in 2022 to be higher than in 2021. The contribution from our ChemPharm Refining segment will account for around 64% of this amount. The ChemPharm Sales business will contribute approximately 33%, a higher percentage than in the previous year. The Plastics division is expected to contribute around 3% to total sales.

Income. In spite of the continuing coronavirus pandemic and its consequences, the past financial year was very successful for H&R overall. The recovery trend in earnings that had already started in the second half of 2020 continued far into summer 2021. In spite of low momentum, the second half-year also saw good earnings contributions. Operating income of €132.5 million in 2021 was therefore another clear indication that H&R, in its current setup, is not only able to endure adversity, but can also benefit from it even in times of crisis.

The overall lower availability of base oils on the market made a significant contribution to this. As we anticipate increasing car and flight traffic again for 2022 – and consequently increased fuel and downstream base oil production by major market participants – we are assuming reduced sales pric-

G. 13 **GLOBAL ECONOMIC GROWTH FORECAST**

IN %, SOURCES: IFW, DIW, IMF



es overall. At the same time, the possibility entirely exists that the current situation will keep Russian competitors away from the European market in the area of base oils and label-free plasticizers and therefore at least support the price situation for these product groups for the duration of the conflict. In this respect, we expect the contributions to income from the domestic production sites to be lower than in 2021, but still at a good level.

In contrast, there was once again stable performance overall in the ChemPharm Sales segment. In 2022, the segment should continue its moderate organic growth. We are particularly expecting good income in Asia. Over two to three years, we absolutely see the possibility that the specialty product business there will generate sales in the core product segment that exceed those of the Refining segment.

The Plastics segment should show a comparable earnings trend to 2021 in the 2022 financial year. On the one hand, we are expecting an expansion of the business with existing customers, but are simultaneously expecting that this will at least be associated with higher costs for expansion measures in the initial period.

Finally, according to the information currently available, all segments will need to compensate energy, raw materials and probably also logistics costs.

All in all, for 2022 we are initially forecasting consolidated operating income (EBITDA) of between €80.0 million and €95.0 million, thus lower than in the 2021 financial year. Accordingly, the income of H&R GmbH & Co. KGaA for 2022 in accordance with the German Commercial Code (HGB) will also be lower than in the previous year.

In view of the imminent developments and a further leveling off of the coronavirus pandemic, we expect the contribution to consolidated income made by our activities in the ChemPharm Refining segment to be around 68%. International business should account for approximately 31%. The Plastics division should contribute around 1% to the Group's operating income (EBITDA).

For the forecast of our Group EBITDA and/or expectations regarding the segments' operating income, we have used the methodology of the reporting principles applied to the annual and consolidated financial statements.

No structural changes to the income statement are expected for 2022.

Liquidity

Due to the uncertainties in relation to the coronavirus crisis and its impacts on the liquidity procurement options, we have taken up a KfW Entrepreneur Loan under the special coronavirus program for €40.0 million, of which we refinanced €13.3 million in December 2021 at more favorable conditions with a bank loan in the amount of €30.0 million. This provides H&R with sufficient liquidity to make the necessary investments to maintain profitability.

The oil-price-related increase in net working capital in 2021 was mainly financed by the otherwise strong cash flow from operating activities. This means that large parts of the credit facility from 2018 are still available to H&R for loan drawdowns in order to cover possible additional oil-price-related increases in net working capital, refinancing requirements and other liquidity requirements into the year 2023/2024. This also includes a raw material price at the current level. The financing requirement would increase due to the higher working capital, but at the same time a facility would remain that can be covered by our existing financing instruments.

Therefore, we consider our liquidity to be secured in the long term.

Capital Expenditure

We also intend to use the good results from 2021 to invest in the future viability of our sites. Around 81% of total capital expenditure will be in the ChemPharm Refining segment. Around 14% of capital expenditure will be in the Sales segment and approximately 5% will be focused on investments in the Plastics segment and on other items.

Financing Measures

While the Articles of Association of H&R KGaA provide for authorizations to increase the share capital in return for cash and/or contributions in kind, we are not planning any specific corporate action as things stand at the moment.

H&R KGaA has entered into various loan agreements with banks. We cover our short-term financing needs using a widely syndicated loan with a volume that currently amounts to €240 million. In 2019, we extended the syndicated loan granted in July 2018 by one year until July 2024, also increasing the volume from €200.0 million to €240.0 million. In order to ensure that we remain solvent at all times and to make efficient use of the liquidity of our German subsidiaries, the latter are incorporated into the cash pool structures in place at H&R GmbH & Co. KGaA. We currently cover our long-term financing needs primarily using redeemable loans that are refinanced by the German development bank KfW.

The KfW loans and the syndicated loan are subject to compliance with various financial covenants.

For more information on our main financing instruments, please refer to the section “Financial Management Principles and Objectives” in the notes to the consolidated financial statements.

Overall Statement by the Executive Board on Future Business Trends

H&R GmbH & Co. KGaA ended the last financial year with a significantly improved EBITDA at a record level. This is not something we had expected at the beginning of the year, nor to this extent during the course of the year. Overall, the development in the last two years emphatically demonstrates that H&R can not only assert itself in times of crisis, but can also profit economically from challenges in recent years, due to the fundamental stability of our business model and having laid the right foundations.

The achieved results give us sufficient momentum to rapidly and securely support the upcoming transformation in our customer industries and fulfill our customers’ requirements for more sustainability, and environmentally-friendly and future-friendly products. With our lighthouse projects such as the pioneering steps toward the success of a national hydrogen strategy and engaging in dialogue on climate-neutral mobility that is open to all technologies, we are already proving today that we have identified the right solutions and intend to follow this path for ourselves and our customers.

At the same time, we are not losing sight of our long-term objectives to push ahead with internationalization and to focus on the further enhancement of the operation of our highly specialized refineries. The advantages these refineries offer – such as an improved output of high-quality products, the targeted transformation in the direction of greater sustainability and synthesized products – need to be expanded, thereby strengthening their standing compared to the competition.

Nevertheless, we must not overlook the fact that the Covid-19 pandemic will still be with us in 2022. Although we have come through the various phases well so far, we cannot conclusively assess or even rule out further consequences, on supply chains or individual industries, for example. Higher logistics and energy costs can influence our production, as well as the buying behavior of our customers. The war in Ukraine will partly intensify the problems described above, and will bring new problems of its own. Higher raw material and energy costs will affect all areas of daily life and would need to be fully passed on to the customers to achieve our objectives.

Therefore, we are initially formulating our expectations for 2022 subject to a severe deterioration of the market environment and have set operating income (EBITDA) within a range of €80.0 million to €95.0 million as a target.

Consolidated Financial Statements

Consolidated Statement of Financial Position of H&R GmbH & Co. KGaA

as of December 31, 2021

ASSETS

IN € THOUSAND	Notes	12/31/2021	12/31/2020
Current assets			
Cash and cash equivalents	(6)	48,924	55,029
Trade receivables	(7)	125,634	81,578
Income tax refund claims		554	72
Contract assets		-	476
Inventories	(8)	177,044	105,758
Other financial assets	(9)	15,872	17,821
Other assets	(10)	14,993	8,080
Current assets		**383,021**	**268,814**
Non-current assets			
Property, plant and equipment	(11)	432,358	412,246
Goodwill	(12)	17,392	17,376
Other intangible assets	(12)	15,105	14,265
Shares in holdings valued at equity	(13)	2,430	2,922
Other financial assets	(9)	16,183	11,578
Other assets	(10)	1,670	1,355
Deferred tax assets	(34)	6,222	17,159
Non-current assets		**491,360**	**476,901**
Total assets		**874,381**	**745,715**

LIABILITIES AND SHAREHOLDERS' EQUITY

IN € THOUSAND	Notes	12/31/2021	12/31/2020
Current liabilities			
Liabilities to banks	(14)	54,155	87,449
Trade payables	(15)	94,625	80,453
Income tax liabilities		7,703	2,663
Contract liabilities	(16)	3,679	2,210
Other provisions	(17)	20,222	9,351
Other financial liabilities	(18)	17,751	10,173
Other liabilities	(19)	23,454	10,945
Current liabilities		**221,589**	**203,244**
Non-current liabilities			
Liabilities to banks	(14)	87,620	43,006
Pension provisions	(20)	81,219	82,211
Other provisions	(17)	3,610	3,535
Other financial liabilities	(18)	44,638	37,678
Other liabilities	(19)	23,627	25,819
Deferred tax liabilities	(34)	3,602	3,340
Non-current liabilities		**244,316**	**195,589**
Equity			
Subscribed capital	(21)	95,156	95,156
Capital reserve	(22)	46,427	46,867
Retained earnings	(23)	212,342	162,702
Other reserves	(24)	8,676	2,858
Equity of H&R GmbH & Co. KGaA shareholders		**362,601**	**307,583**
Non-controlling interests	(25)	45,875	39,299
Equity		**408,476**	**346,882**
Total liabilities and shareholders' equity		**874,381**	**745,715**

Consolidated Income Statement of H&R GmbH & Co. KGaA

January 1, 2021, to December 31, 2021

IN € THOUSAND	Notes	1/1-12/31/2021	1/1-12/31/2020
Sales revenue	(27)	1,188,434	873,033
Changes in inventories of finished and unfinished goods		31,100	-24,818
Other operating income	(28)	29,563	27,952
Cost of materials	(29)	-901,593	-634,259
Personnel expenses	(30)	-99,223	-83,030
Depreciation, impairments and amortization of intangible assets and property, plant and equipment	(11,12)	-50,940	-56,068
Other operating expenses	(31)	-115,622	-103,156
Impairment loss from financial assets		-171	-658
Other		-115,451	-102,498
Operating result		**81,719**	**-346**
Income from holdings valued at equity	(13)	-137	48
Financing income	(32)	707	501
Financing expenses	(33)	-8,931	-10,633
Income before tax (EBT)		**73,358**	**-10,430**
Income taxes	(34)	-20,824	2,603
Consolidated income		**52,534**	**-7,827**
of which attributable to non-controlling interests		2,358	1,193
of which attributable to shareholders of H&R GmbH & Co. KGaA		**50,176**	**-9,020**
Earnings per share (undiluted), €	(35)	1.35	-0.24
Earnings per share (diluted), €	(35)	1.35	-0.24

Consolidated Statement of Comprehensive Income of H&R GmbH & Co. KGaA

January 1, 2021, to December 31, 2021

IN € THOUSAND	Notes	1/1–12/31/2021	1/1–12/31/2020
Consolidated income		**52,534**	**-7,827**
of which attributable to non-controlling interests		2,358	1,193
of which attributable to shareholders of H&R GmbH & Co. KGaA		50,176	-9,020
Positions that will not be reclassified into profit or loss			
Remeasurement of defined-benefit pension plans		-240	3,071
Deferred taxes		-296	-1,418
Total remeasurement of defined-benefit pension plans		**-536**	**1,653**
Equity instruments		-266	-444
Deferred taxes		4	6
Total change in equity instruments		**-262**	**-438**
Total positions that will not be reclassified into profit or loss		**-798**	**1,215**
Positions that may subsequently be reclassified into profit or loss			
Changes in the fair value of derivatives held for hedging purposes		-27	–
Deferred taxes		8	–
Total change in the fair value of derivatives held for hedging purposes		-19	–
Changes in the currency translation adjustment item		10,740	-9,952
Total positions that may subsequently be reclassified into profit or loss		**10,721**	**-9,952**
Other comprehensive income		**9,923**	**-8,737**
of which attributable to non-controlling interests		4,641	-938
of which attributable to shareholders of H&R GmbH & Co. KGaA		5,282	-7,799
Total comprehensive income		**62,457**	**-16,564**
of which attributable to non-controlling interests		6,999	255
of which attributable to shareholders of H&R GmbH & Co. KGaA		55,458	-16,819

Consolidated Statement of Changes in Group Equity of H&R GmbH & Co. KGaA

as of December 31, 2021

IN € THOUSAND	Subscribed capital (21)	Capital reserve (22)	Retained earnings (23)
1/1/2020	**95,156**	**46,867**	**170,069**
Consolidated income	–	–	-9,020
Other comprehensive income	–	–	1,653
Total comprehensive income	–	–	-7,367
12/31/2020	**95,156**	**46,867**	**162,702**
Capital reduction	–	-440	–
Consolidated income	–	–	50,176
Other comprehensive income	–	–	-536
Total comprehensive income	–	–	49,640
12/31/2021	**95,156**	**46,427**	**212,342**

	Other reserves/cumulative other comprehensive income					
	Equity capital instruments (24)	Derivative financial instruments (24)	Difference from currency translation adjustment (24)	Equity attributable to shareholders of H&R KGaA	Non-controlling interests (25)	Total
	6,534	–	**5,776**	**324,402**	**39,044**	**363,446**
	–	–	–	-9,020	1,193	-7,827
	-438	–	-9,014	-7,799	-938	-8,737
	-438	–	-9,014	-16,819	255	-16,564
	6,096	–	**-3,238**	**307,583**	**39,299**	**346,882**
	–	–	–	-440	-423	-863
	–	–	–	50,176	2,358	52,534
	-262	-19	6,099	5,282	4,641	9,923
	-262	-19	6,099	55,458	6,999	62,457
	5,834	**-19**	**2,861**	**362,601**	**45,875**	**408,476**

Consolidated Cash Flow Statement of H&R GmbH & Co. KGaA

January 1, 2021, to December 31, 2021

IN € THOUSAND			Notes	2021	2020
1.		Consolidated income		52,534	-7,827
2.		Income taxes		20,824	-2,603
3.		Net interest income		7,095	8,307
4.	+/–	Depreciation and amortization/appreciation on fixed assets and intangible assets		52,070	57,876
5.	+/–	Increase/decrease in non-current provisions		-2,081	-2,367
6.	+	Interest received		707	501
7.	–	Interest paid		-6,005	-7,440
8.	+/–	Income tax received/paid		-4,687	-7,814
9.	+/–	Other non-cash expenses/income		-391	602
10.	+/–	Increase/decrease in current provisions		10,678	-1,032
11.	–/+	Gain/loss from the disposal of intangible assets		-127	193
12.	–/+	Changes in net working capital		-98,768	4,891
13.	+/–	Changes in remaining net assets/other non-cash items		5,568	16,858
14.	**=**	**Cash flow from operating activities (sum of items 1 to 13)**	(37)	**37,417**	**60,145**
15.	+	Proceeds from disposals of property, plant and equipment		1,819	135
16.	–	Payments for investments in property, plant and equipment		-46,613	-37,129
17.	–	Payments for investments in intangible assets		-2,391	-1,117
18.	+	Proceeds from the sale of financial investments		240	–
19.	–	Payments for the acquisition of financial investments		-1,614	–
20.	**=**	**Cash flow from investing activities (sum of items 15 to 19)**	(37)	**-48,559**	**-38,111**
21.	**=**	**Free cash flow (sum of items 14 and 20)**		**-11,142**	**22,034**
22.	+	Dividends received from holdings valued at equity		153	–
23.	–	Payments for settling financial liabilities		-196,552	-133,644
24.	+	Proceeds from taking up financial liabilities		198,874	75,986
25.	**=**	**Cash flow from financing activities (sum of items 22 to 24)**	(37)	**2,475**	**-57,658**
26.	**+**	**Changes in cash and cash equivalents (sum of items 14, 20 and 25)**		**-8,667**	**-35,624**
27.	+	Cash and cash equivalents at the beginning of the period		55,029	94,794
28.	+/–	Change in cash and cash equivalents due to changes in exchange rates		2,562	-4,141
29.	**=**	**Cash and cash equivalents at the end of the period**		**48,924**	**55,029**

Notes to the Consolidated Financial Statements of H&R GmbH & Co. KGaA

as of December 31, 2021

(1) General Information

H&R GmbH & Co. KGaA (hereinafter referred to as "H&R KGaA"), a listed company headquartered at 48499 Salzbergen (Germany), Neuenkirchener Strasse 8, does business in various specialty chemical and plastics markets via its subsidiaries. The Group's businesses include the production of chemical-pharmaceutical raw materials as well as the manufacture of injection molded precision plastic parts. It is recorded in the Commercial Register at the Osnabrück Municipal Court under number HRB 210689. H&R KGaA is managed by the Executive Board of H&R Komplementär GmbH. The parent company of H&R KGaA is H&R Komplementär GmbH, while Mr. Nils Hansen is considered the "ultimate controlling party" within the meaning of IAS 24.13.

In accordance with Section 315e of the German Commercial Code (HGB), H&R KGaA, as a listed Group parent company, is required to prepare consolidated financial statements in accordance with international accounting standards and rules. The consolidated financial statements of H&R KGaA were prepared based on the accounting rules of the International Accounting Standards Board (IASB), the application of which was mandatory under EU Regulation No. 1606/2002 as of the reporting date, and according to the additionally applicable requirements of Section 315e, paragraph 1 HGB. The requirements of the Standards (IFRS/IAS) and interpretations (IFRIC/SIC), the application of which was mandatory as of the reporting date, were met without exception.

The income statement is prepared in accordance with the total-cost method. The statement of financial position is broken down into current and non-current assets and liabilities. Under this approach, assets and liabilities are shown as current if they are held for trading purposes, are intended for sale within the normal course of the business cycle, or are expected to be sold within twelve months of the reporting date. Pension provisions and deferred tax claims and/or liabilities are in principle treated as being non-current.

The 2021 consolidated financial statements were prepared in euros (€). Unless stated otherwise, all amounts are shown in thousands of euros (in € thousand). Rounding can lead to the amounts mentioned in this report not adding up exactly to the sums stated, and to percentages not exactly matching the amounts reported.

The financial year of H&R KGaA and the subsidiaries included in the consolidated financial statements coincides with the calendar year.

The consolidated financial statements are published in the Bundesanzeiger (Federal Gazette).

(2) Effects of New Accounting Standards

Standards and Interpretations to be applied for the first time in the current financial year. Application of changes to the following standards by the International Accounting Standards Board (IASB) became mandatory for the first time in the current financial year:

STANDARDS AND INTERPRETATIONS TO BE APPLIED FOR THE FIRST TIME

Standard/ Interpretation	Title	IASB effective date	Date of EU endorsement	EU effective date	Material impact on H&R
Amendments to IFRS 4	Insurance Contracts – deferral of the application of IFRS 9	1/1/2021	12/15/2020	1/1/2021	none
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16	Interest Rate Benchmark Reform (Phase 2)	1/1/2021	1/13/2021	1/1/2021	none
Amendments to IFRS 16	Leases – Covid-19-related rent concessions after June 30, 2021	4/1/2021	8/30/2021	4/1/2021	none

Published Standards and Interpretations that are not yet being applied. As of the reporting date, the following accounting standards had already been published by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards Interpretations Committee (IFRS IC) but application of the standards was not yet mandatory.

PUBLISHED STANDARDS AND INTERPRETATIONS THAT ARE NOT YET BEING APPLIED

Standard/ Interpretation	Title	IASB effective date	Date of EU endorsement	EU effective date	Material impact on H&R
IFRS 17	Insurance Contracts	1/1/2023	11/19/2021	1/1/2023	none
Amendments	Amendments to IFRS 3/ IAS 16/IAS 37/Annual Improvements 2018–2020	1/1/2022	6/28/2021	1/1/2022	none
Amendments to IAS 1 and IFRS Practice Statement	Presentation of financial statements – disclosure of accounting policies	1/1/2023	3/2/2022	1/1/2023	none
Amendments to IAS 8	Definition of accounting estimates	1/1/2023	3/2/2022	1/1/2023	none
Amendments to IAS 1	Presentation of financial statements – classification of liabilities as current or non-current	1/1/2023	to be determined	to be determined	none
Amendments to IAS 12	Income Taxes – Deferred taxes that relate to assets and liabilities, which result from a single transaction	1/1/2023	to be determined	to be determined	none
Amendments to IFRS 17	Insurance contracts – first-time application of IFRS 17 and IFRS 9 – comparative information	1/1/2023	to be determined	to be determined	none

H&R KGaA will not avail itself of the option for early application of the standards and interpretations that are not yet to be applied as a mandatory requirement.

(3) General Accounting and Measurement Methods

Principles of Consolidation

The statements included in the consolidated financial statements are prepared in accordance with uniform accounting and valuation methods. The reporting date is the closing date of the parent company.

Subsidiaries are companies or entities which, according to the criteria listed in IFRS 10, are controlled by H&R KGaA. Accordingly, H&R KGaA controls rights at these companies that give it the ability to direct the relevant activities of these companies in order to influence the companies' returns. Control further requires H&R KGaA to be exposed to variable returns from the subsidiaries and to have the ability to affect those variable returns through its decision-making power. If it loses control over a subsidiary, the subsidiary is no longer included in the scope of consolidation.

All intragroup business transactions and interim results as well as existing receivables and payables between consolidated companies are eliminated in the course of consolidation. Deferred income tax effects arising from the consolidation process are appropriately taken into account.

In accordance with IFRS 3, business combinations are recorded in the financial statements using the acquisition method. The acquirer is deemed to be the entity that obtains control over the acquired company or the acquired business operations in accordance with the rules set forth in IFRS 10. In the case of a company purchase, the pro rata equity of the acquired subsidiary is determined at the time of acquisition, taking into account the fair values of the identifiable assets, debts and contingent liabilities, deferred taxes and any goodwill at that time. If foreign companies are acquired, the acquisition costs are converted into euros at the respective exchange rate on the purchase date.

The acquisition costs correspond to the fair value of the transferred assets, the equity instruments issued and the debts arising/being assumed at the time of the transaction. In addition, they contain the fair values of any reported assets or liabilities resulting from a conditional consideration arrangement. Purchase-related ancillary costs are immediately recorded as a charge against income.

Acquisition costs are offset against the pro rata fair value of the net equity. Net equity is determined by recognizing the identifiable assets, debts, and contingent liabilities of the acquired company or the acquired business operations at their fair value at the time of acquisition. Any amount remaining on the asset side after setoff is treated as goodwill. Pursuant to IFRS 3, any negative amount resulting from an examination of the reassessment of net assets acquired is recognized directly through profit or loss.

Non-controlling interests in fully consolidated companies are valued at the pro rata fair value of the net assets. Transactions with non-controlling interests are treated like transactions with Group equity owners. The difference between the acquired pro rata equity of other shareholders and the purchase price is therefore directly netted against equity.

Shares in Holdings Valued at Equity
Interests in associates and in joint ventures are reported in accordance with the equity method. Joint ventures are companies that H&R KGaA manages jointly with a third party. H&R KGaA's interest in associates ranges from 20% to 50%. Under the equity method, the carrying amount of holdings valued at equity is increased or reduced by the change in equity corresponding to H&R KGaA's interest in the equity of these companies.

The Group's interest in associated companies and in joint ventures includes the goodwill arising from the acquisition. The changes in the pro rata equity affecting the income statement are recognized under income from holdings valued at equity.

If there are any objective indications of the need to recognize an impairment loss for holdings valued at equity, the need for an impairment loss is calculated. Impairments are carried out where the recoverable amount is lower than the carrying amount. The recoverable amount is the higher of fair value less costs of disposal and the value in use.

Currency Translation
The annual financial statements of the foreign subsidiaries are converted into euros in accordance with the functional currency principle. As the companies essentially manage their business independently from a financial, economic and organizational point of view, the respective functional currency as a rule is that of the country in which the company is headquartered.

In the separate financial statements of the Group companies, foreign currency transactions are translated into the functional currency at the exchange rates in effect at the time of the transaction. On the statement of financial position, receivables and payables in foreign currencies are valued at the exchange rate on the reporting date; the resulting exchange rate gains and losses are recognized through profit or loss.

In the consolidated financial statements, the assets and liabilities are converted into euros at the exchange rate on the respective reporting date. Any changes taking place during the year, as well as items on the income statement, are converted into euros at the average annual exchange rate. The equity is carried at historical exchange rates and the resulting differences are recognized directly in equity. The same applies to conversion differences in connection with net investments in foreign operations. When Group companies leave the scope of consolidation the conversion differences recognized in equity are released and recognized as income.

The exchange rates used for currency translation have changed as follows:

EXCHANGE RATES FOR THE MAIN CURRENCIES

	Closing rates 12/31/2021	Closing rates 12/31/2020	Average rates 2021	Average rates 2020
US dollar	1.1326	1.2271	1.1835	1.1413
British pound	0.84030	0.89900	0.86000	0.88921
Australian Dollar	1.5615	1.5896	1.5747	1.6554
South African rand	18.0625	18.0219	17.4794	18.7685
Thai baht	37.653	36.727	37.822	35.693
Chinese renminbi	7.1947	8.0225	7.6340	7.8708
Czech crown	24.858	26.242	25.647	26.456
Malaysian ringgit	4.7184	4.934	4.9026	4.7935

Cash and Cash Equivalents
Cash and cash equivalents comprise cash in hand, checks received, and bank balances and have a maximum term of three months at the time of acquisition or investment. Cash and cash equivalents are measured at amortized cost.

Financial Instruments
A financial instrument is a contract that gives rise to a financial asset at one company, while at the same time creating a financial liability or equity instrument at another. Financial assets comprise cash and cash equivalents, loans and receivables issued, equity and debentures acquired, and derivatives with positive fair values. Financial liabilities include liabilities to banks, trade payables, and derivatives with negative fair values as well as other financial liabilities.

In line with IFRS 9, H&R KGaA assigns financial instruments to the categories “measured at amortized cost”, “measured at fair value through other comprehensive income” and “measured at fair value through profit or loss”. H&R KGaA did not make use of the options available for designating financial instruments as measured at fair value. Financial assets and financial liabilities are not offset, apart from the reimbursement right against BP (see Notes (9) and (20)), since no such offset agreements exist. In cases involving standard market purchases or sales, H&R KGaA selects the trading date as the date of addition/disposal for the purposes of the statement of financial position.

Financial Assets
Financial assets are measured at fair value less transaction costs upon their initial recognition. Subsequent measurement depends on the business model based on which the asset is held. At H&R KGaA, financial assets relate to the categories “at fair value through profit or loss”, “at fair value through other comprehensive income” or “at amortized cost”.

Financial assets are designated as belonging to these measurement categories upon initial recognition. Reclassifications are made to the extent that they are permissible and necessary.

Financial assets with a business model that aims to hold the assets until the contractual cash flows have been collected and which only trigger interest and principal repayments on specified dates are measured at amortized cost. This essentially includes all receivables and financial assets that are not held for sale.

If the business model for financial assets also provides for the sale of the asset over and above defined interest and principal repayments, H&R KGaA recognizes them at fair value through other comprehensive income. The changes in value recognized in other comprehensive income are reclassified to the income statement upon disposal of the financial assets.

Provided that equity instruments are not acquired to be held for trading, they can optionally be valued allocated to the category "measured at fair value through other comprehensive income". Changes in value are recognized in other comprehensive income, but are not reclassified to the income statement at any time. H&R KGaA has exercised this option for an equity instrument to offset fluctuations in income resulting from changes in the fair value of this asset.

At H&R KGaA, the group of financial assets measured at fair value through profit or loss includes financial assets held for trading. In addition to derivative financial instruments and securities, these include trade receivables intended for factoring.

Impairment of financial assets in the categories "measured at amortized cost", on the one hand, and "at fair value through other comprehensive income" with recycling of the changes in value recognized in other comprehensive income, on the other, are recognized in accordance with IFRS 9 using the expected credit loss model, which provides for three levels. For Level 1 financial assets, risk provisions are to be set up in the amount of the twelve-month expected credit loss. This will comprise the present value of the expected defaults calculated from the default events within the first twelve months. If a financial asset shows a significant increase in credit risk since the initial recognition date, the impairment is calculated as the present value of the lifetime expected loss and the asset is classed a Level 2 asset. Financial assets showing evidence that an impairment has already occurred are assigned to Level 3. Such evidence includes, among other things, the high probability of insolvency proceedings, significant financial difficulties of a debtor or the disappearance of an active market for financial assets. At Level 3, impairments are recognized in the amount of the expected credit losses over the entire term of the financial asset.

Simplified provisions apply to certain financial assets which H&R KGaA applies to trade receivables. For these, blanket risk provisions are recorded in the amount of the losses expected over the residual term, which are determined on the basis of empirical values and are assigned to Level 2 of the impairment model upon initial recognition. In the event of an impaired credit rating or a default, the receivable in question is moved to Level 3. If a financial asset is overdue by more than 90 days, this objectively indicates an impairment of its credit rating.

Within the scope of real factoring agreements with a term until July 31, 2022, H&R KGaA sells short-term trade receivables to a bank. H&R KGaA is free to decide whether or not, and to what extent, receivables are sold within certain limits. All material opportunities and risks were transferred to the buyer, meaning that the receivables sold were fully derecognized and no continuing involvement was recognized in the statement of financial position. Receivables that qualify for factoring but are not sold to the factor are recognized at fair value through profit or loss.

The credit and default risk from financial assets lies in the danger that a contracting party will fail to pay; it therefore does not exceed the amount of the claims against the respective counterparty for the recognized carrying amounts. H&R KGaA regularly carries out assessments to identify substantial increases in credit risk. In general, these mainly take into account default probabilities and past-due intelligence.

Financial assets are derecognized when there is no longer any contractual right to receive a payment or if this right has been transferred to third parties, meaning that the relevant risks have passed to the buyer of this right. If receivables are subject to enforcement measures, they are not derecognized.

Financial Liabilities
When first reported, financial liabilities are always stated at their fair value and after deduction of transaction costs. In subsequent periods, they are measured at amortized cost using the effective-interest method. These mainly include liabilities to banks, trade payables and other liabilities.

Financial liabilities are derecognized when the contractual obligations are settled, reversed, or have expired.

Derivative Financial Instruments
Derivative financial instruments are used in the form of currency forward contracts and interest rate swaps to reduce currency and interest rate risks. H&R also uses derivative financial instruments in the form of oil derivatives to hedge payment flows from future purchases and sales of oil products, which are conducted by H&R within the context of its business operations. These hedges are recognized as cash flow hedges, i.e. as an underlying transaction of the hedges, the expected highly likely spot purchases/sales and financial floating-to-fixed swaps are designated as hedging transactions.

Derivative financial instruments are carried on the statement of financial position at fair value on each reporting date and, depending on the market value, are shown as financial assets or liabilities. The fair value of the derivatives is calculated using standard market valuation methods, taking into account the market data available on the valuation date. With currency forward contracts, the valuation is carried out on a case-by-case basis at the pertinent forward exchange rate on the reporting date. The fair value of derivative financial instruments for interest rate hedging is determined by discounting future incoming and outgoing cash flows. Standard market interest rates which have been adjusted to reflect their own credit risk and which correspond to the respective time to maturity of the financial instruments are used for discounting. The fair values of the derivative financial instruments for hedging raw materials price risks are determined using the discounted cash flow method in consideration of actively traded forward exchange rates and using market-driven interest rates for discounting to the reporting date.

With the derivatives used to hedge raw materials price risks within the scope of cash flow hedges, changes to the effective part of the fair value are recognized through other comprehensive income. The ineffective part is immediately recognized in the income statement in profit or loss. The amounts accrued in other comprehensive income are transferred to the income statement and recognized as expense or income in the period in which the hedged underlying transaction is recognized as profit or loss. For the hedging of raw materials price risks, this occurs in sales revenues/cost of materials.

If a hedging transaction expires, is sold or no longer fulfills the criteria for recognition as a hedging transaction, the cumulative amount recognized until then in other comprehensive income remains in equity capital and is only transferred to the income statement, if the original hedged, future transaction occurs. If the future transaction is no longer expected to occur, the profits/losses recognized in equity capital must immediately be collected in the income statement in profit or loss.

Inventories
According to IAS 2, inventories include those assets held for sale in the ordinary course of business (finished products and products for sale), assets in the process of production for sale (work in progress), or materials and supplies that are consumed in the production of inventory or in the rendering of services (raw, auxiliary and production materials).

Raw, auxiliary, and production materials are stated at the lower of acquisition or manufacturing cost and the net realizable value, as determined on the basis of the weighted-average-cost method, i.e., at the sales price that can be obtained in the normal course of business less the estimated manufacturing and marketing costs. Finished products and work in progress are measured at acquisition or manufacturing costs, provided that these are lower than the net realizable value. Manufacturing costs comprise the material and production costs directly allocable to the manufacturing process, directly allocable portions of the material and manufacturing overhead costs and production-oriented general and administrative overhead costs. Raw, auxiliary and production materials are not depreciated if the end products can be sold at a profit.

By-products from the production process (joint production) are measured at their selling prices and the remaining manufacturing costs are allocated to the core products. Financing costs are not taken into account.

Property, Plant and Equipment
Property, plant and equipment are valued at acquisition or manufacturing costs less cumulative depreciation and impairment losses plus reversals of impairments.

Acquisition costs consist of the price of the acquisition, the ancillary acquisition costs, and subsequent acquisition costs less acquisition price reductions obtained. Borrowing costs that are directly attributable to the construction, acquisition or production of a qualifying asset are capitalized. Expenses for the ongoing repair and maintenance of property, plant and equipment are recognized through profit or loss. Expenses for renewal and maintenance are capitalized as subsequent manufacturing costs only if they result in a substantial extension of the useful life, a significant improvement, or a meaningful change in the use of the respective property, plant or equipment.

Expenses related to scheduled downtime at large facilities are stated separately at the amount of the costs of the shutdown, as part of the facility in question, and are depreciated on a straight-line basis over the period until the next scheduled downtime. To the extent that depreciable fixed assets consist of essential identifiable components with individually different useful lives, such components are carried separately and depreciated over their respective useful lives. Investment subsidies are deferred and recognized as income over the average useful lives of the subsidized assets.

Depreciable fixed assets are subject to straight-line depreciation over their respective useful lives; residual amounts are taken into account. These economic lives are reviewed on each reporting date and adjusted, if necessary. Upon sale or retirement, the acquisition or manufacturing costs and the relevant accumulated depreciation of the facilities are derecognized; the resulting gains or losses are recognized through profit or loss. The useful lives used can be summarized as follows:

ASSETS

	Economic life
Buildings	10 to 36 years
Land use rights	45 to 50 years
Tank farms	25 years
Technical equipment and machinery	10 to 20 years
Other facilities	3 to 6 years
Operating and office equipment	3 to 13 years

Leasing Costs

A lease is an agreement whereby the lessor, in return for a payment or series of payments, conveys to the lessee the right to use an asset for a specific period of time. Accounting takes place in accordance with IFRS 16, which requires the recognition of a right to use the leased assets, and a liability for the payment obligations entered into, for each lease in the statement of financial position.

The lease liability is essentially based on the contractually agreed fixed payments, which are discounted at the interest rate on which the lease is based, insofar as it can be determined. Alternatively, discounting is based on the incremental borrowing rate. Lease liabilities measured at amortized cost are reported under other financial liabilities. The right-of-use assets are recognized at cost, which mainly comprises the lease liabilities and any lease payments made before the leased asset was made available. Subsequent measurement is then at amortized cost, with the right-of-use assets being amortized on a straight-line basis over the term of the lease.

H&R KGaA makes use of the simplified application for short-term leases and leases of low-value assets and recognizes the payments as an expense in the income statement. This does not include lease agreements relating to tank capacities, which are recognized in accordance with IFRS 16 even with a term of up to one year. In cases involving contracts that include non-lease components in addition to lease components, the option of not separating them, and instead accounting for both components as one lease component, is applied.

Some leases include renewal and termination options that give H&R KGaA greater operational flexibility. When determining the term of the contract, all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option, are taken into account. Changes in the term due to such options being exercised or not are only taken into account if they are sufficiently probable.

Goodwill

The first time it is reported, the goodwill resulting from a merger is stated at acquisition cost, which is measured as the surplus of the value of the consideration transferred over the value of the identifiable assets acquired and liabilities assumed. After the initial recognition, goodwill is measured at acquisition cost less accumulated impairment losses.

Goodwill is not subject to amortization, but, rather, is subjected to an impairment test every year. If any events or changed circumstances are identified that indicate a potential impairment loss, the impairment test is also carried out more frequently. In the event of the need to recognize a goodwill impairment loss, it is immediately recognized under depreciation and amortization on the income statement. Reversal of an impairment loss for goodwill in later periods does not take place. Details on the annual impairment tests are provided in the section on impairments.

Other Intangible Assets

Other intangible assets are capitalized at their acquisition or manufacturing costs. Insofar as they have determinable useful lives, they are subject to depreciation on a straight-line basis over their respective useful lives. Impairment is recognized based on the principles set out in the section on impairment. The following useful lives were assumed in determining depreciation and amortization:

ASSETS

	Useful life
Software	3 to 5 years
Licenses	3 to 5 years
Concessions and patents	3 to 10 years
Customer relationships	15 years
(Production) technologies	10 years

H&R KGaA has received carbon emission rights free of charge in connection with the introduction of emissions trading in the European Union; they are valued at an acquisition cost of zero. Additional carbon emission rights acquired are stated at amortized cost.

Impairment
As of each reporting date, the carrying amounts of goodwill, other intangible assets, and property, plant and equipment are checked for any indications of impairment. If such indications arise, impairment tests are performed at the level of the cash-generating units. In the case of goodwill, an impairment test is performed on an annual basis.

Impairment tests are performed at the level of the cash-generating units that are relevant for the purposes of the test. H&R KGaA essentially considers both strategic business units under standard management with comparable product portfolios and, occasionally, also individual, legally autonomous companies to be cash-generating units.

The impairment test is performed by comparing the carrying amount of the cash-generating unit with its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and the value in use. The recoverable amount here is the value in use determined using the discounted cash flow method. If the carrying amount exceeds the division's recoverable amount, an impairment equal to the difference must be recognized through profit or loss. The first step involves writing goodwill off in full. Any remaining impairment is, as a rule, allocated to the remaining non-current assets of the cash-generating unit in proportion to their carrying amounts.

In the event the reasons for impairment no longer apply, the appropriate reversals are effected to the extent that the amortized cost is not exceeded. The reasons for an impairment are reviewed on each reporting date. Goodwill is not subject to reversals of impairment.

The expected cash flows of the cash-generating units are derived from the H&R Group's current five-year plan. As in the previous year, the cash flow for subsequent periods was extrapolated using an expected growth rate of 1% p.a. Average costs of capital were used for the discounted cash flow; these weighted capital costs are calculated based on market values. Differences in the individual cash-generating units' cost of capital result in particular from various assumptions and estimates concerning country risk, credit risk, and price inflation in the country in which the cash-generating unit is headquartered.

The plan is based, in particular, on assumptions concerning the trend in sales revenue, the material usage ratio and investments already initiated as well as on empirical values and market expectations. The effects and ongoing trajectory of the COVID-19 pandemic, which are hard to predict, have given us cause to formulate our expectations a little more cautiously at the start of the planning period. Pursuant to IAS 36, investments to expand capacity for which to date no cash outflows have occurred are not included.

Research and Development Costs
Research expenses are recognized as expenses in the period in which they are incurred. Development expenses are capitalized only if the requirements of IAS 38 have been satisfied. According to this standard, capitalization is always required when there is reasonable certainty that the development activity will lead to future cash flows that will also cover the relevant development costs. As internal developments are subject to various uncertainties, the conditions for capitalizing costs incurred in bringing a product to market generally are not met.

Other Receivables and Payables
Accruals and deferrals and other non-financial assets and liabilities are initially recognized at cost. Reversal takes place on a straight-line basis or using the percentage of completion method.

Government grants for assets are shown on the statement of financial position as deferrals in the other liabilities section and are reversed and recognized in profit or loss over the average useful life of the subsidized assets. Private subsidies are recognized as other liabilities under both current and non-current liabilities and are reversed over their expected useful lives.

Contract Liabilities
Contract liabilities are commitments of H&R KGaA to transfer goods and services, for which H&R KGaA has already received a consideration, to a customer. At H&R KGaA, contract liabilities comprise advance payments received on customer contracts.

Pensions and Similar Obligations
Company pensions of H&R KGaA are designed based on the legal, tax, and economic circumstances in the respective countries and include both defined-contribution and defined-benefit plans. Under defined-contribution plans, the Group makes contributions to public or private pension insurance plans based on a statutory or contractual obligation, or even voluntarily. The Group has no further payment liabilities beyond payment of the contributions. Contributions are recognized under personnel expenses when due.

The present value of the pension commitments under defined-benefit pension plans (defined-benefit obligations, DBOs) and of the associated past service expense is calculated using the projected unit credit method. Under this method, the valuation is based on actuarial calculations for which specific assumptions must be made concerning salary and pension payment trends, turnover rates, death and interest rates. Due to changing conditions, the actual future expenses and liabilities can differ significantly from the estimates in the actuarial reports.

Under defined-benefit pension plan accounting rules, interest expense is recognized under net interest result on the income statement. Past service expenses are recorded as personnel expenses. Effects from the remeasurement of defined-benefit pension plans are recognized directly in equity and on the statement of comprehensive income, where deferred taxes are taken into account. The fair value of the plan assets is deducted from the present value of the pension commitments recorded on the statement of financial position. The plan assets consist of a reinsurance policy for the pension commitment to a former member of the Executive Board that is measured at fair value. If the plan assets exceed the corresponding pension commitment, the excess amount is shown under other receivables, subject to the upper limit stipulated in IAS 19.

Other Provisions
Other provisions are established in accordance with IAS 37 if, on the basis of a past event, a current, legal or factual obligation exists, settlement is likely to result in an outflow of resources with economic benefits, or a reliable estimate of the amount of the liability is possible. The amount set up as a provision represents the best estimate of the amount required to settle the current obligation as of the reporting date. In the event of a significant interest rate effect, the present value of the expected expenses is used.

The anniversary provisions are valued according to the projected unit credit method pursuant to IAS 19. Contractual obligations under lease agreements (e.g. demolition, renovation, or eviction) are recognized on the statement of financial position as provisions, insofar as the expected utilization of resources with an economic benefit is likely. Provisions for impending losses resulting from unfavorable contracts are set up when the expected economic benefit resulting from the contract is lower than the costs that are unavoidable in order to satisfy the contractual obligations.

The annual obligations to return emission rights based on the actual carbon emissions of the production site are at first covered by the emission certificates received free of charge and are valued at their acquisition cost, which is equal to zero. In the event that the emissions rights assigned free of charge should not suffice, provisions for the additional emissions rights that will have to be acquired will be set up at (expected) acquisition cost.

Recognition of Revenue
The proceeds from products sold and services rendered as part of the company's usual business activities are recognized as sales revenues. Other operating earnings are shown as other operating income.

Sales revenue is realized when control over distinct goods or services passes to the customer and the customer is able to direct the use of the transferred goods or services and obtain the remaining benefit from the goods or services. The preconditions are that a contract with enforceable rights and duties exists and that receipt of a consideration is probable. Sales revenues are equal to the transaction price. If a contract contains several definable goods and services, the actual transaction price is split on the basis of the relative stand-alone selling price and the performance obligation. Contracts containing a significant financing component are not used by H&R KGaA. Contracts with a variable consideration are of minor importance for H&R KGaA and have no significant impact on transaction prices. In general, contracts are payable once the customer has power of disposition on them; this usually means that contracts are payable within 30 days. In principle, revenue from products and services is only recognized at a particular point in time. Frequently, they are current payables. Due to the nature of these payables, revenue recognition leaves very little room for discretionary decisions or estimation uncertainties.

Income Taxes
Income taxes comprise both the taxes levied in the individual countries on taxable profits and changes in deferred taxes that have an effect on profit or loss. The current tax expense is based on the taxable income for the year determined in accordance with the tax regulations of the respective country, taking into account the applicable tax rate in that jurisdiction. Pursuant to IAS 12, deferred taxes reflect temporary differences between assets and liabilities reported in the consolidated financial statements under accounting rules and the amounts reported under tax rules governing the determination of taxable income. Current and deferred taxes are essentially recognized in profit or loss, unless they are related to circumstances recognized in other comprehensive income or directly in equity. In that case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity.

Deferred tax assets pertaining to deductible temporary differences and loss carryforwards are recognized to the extent it is probable that either sufficient taxable profit or deferred tax liabilities will be available against which the temporary differences and still unused loss carryforwards can be utilized. The amount of deferred tax assets recognized for temporary differences and tax loss carryforwards is determined on the basis of future taxable income over a five-year forecast period. In Germany, the unlimited carryforward option for domestic losses is limited by the minimum taxation level. For foreign loss carryforwards, there are often country-specific time limitations on the carryforward option and restrictions on the use of profits from operating activities.

Deferred tax liabilities arising from temporary differences relating to holdings in subsidiaries and joint ventures are recognized unless the date of the reversal of the temporary differences can be determined by the Group and it is probable that the temporary differences will not be reversed within a foreseeable period of time due to this influence.

When determining the deferred taxes, the expected tax rates in the respective countries at the time of the expected realization are assumed.

Actual and deferred tax receivables and payables are netted if the tax receivables and payables refer to income taxes levied by the same tax authority for either the same taxpayer or for different taxpayers intending to effect settlement on a net basis.

Contingent Liabilities and Contingent Assets
Contingent liabilities are potential obligations toward third parties or current commitments in which a cash outflow is unlikely and/or its amount cannot be determined in a reliable manner. Contingent assets normally arise from unplanned or unexpected developments from which the possibility of an inflow of economic benefits is probable. As a rule, contingent liabilities and contingent assets are not recognized in the statement of financial position. The liability amounts stated in the notes under contingent liabilities match the scope of liability in effect on the reporting date.

(4) Discretionary Decisions and Estimates

In preparing the consolidated financial statements, a certain amount of assumptions and estimates must be made that will affect the amount and presentation of the assets and liabilities, income and expenses, and contingent liabilities recognized in the reporting period. Estimates are based on empirical values and other assumptions that are deemed to be appropriate given the circumstances, and are based on currently available information. In addition, the trends in the economic environment in the industries and regions in which the Group does business, which are currently assumed to be realistic, were also taken into account in regard to expected future business developments. The actual amounts may differ from the estimates and discretionary decisions; changes may have a material impact on the consolidated financial statements. The following significant matters are affected by such estimates and discretionary decisions.

Impairment Tests/Impairment
Testing intangible assets and property, plant and equipment for impairment, and identifying signs of an impairment, requires estimates in order to determine the recoverable amount of a cash-generating unit. In particular, assumptions must be made with regard to future net cash inflows, the underlying interest rates and the expected useful lives and residual amounts. For sensitivity analyses, a possible fluctuation range of 10% is assumed. Additional information can be found in Note (12).

Where financial investments valued at equity provide objective indications of an impairment or reversal of impairment loss, estimates and evaluations must be made in order to determine the recoverable amount. In this context, assumptions about future business trends must be made in order to derive the expected future cash flows of these financial investments.

Pensions and Other Provisions
The calculation of pension provisions and similar commitments and the related pension expenses is based on actuarial models. These models are based on various actuarial assumptions, such as the discount rate, the underlying mortality tables, turnover, etc. Sensitivities are used to determine the possible financial impacts of deviations in the key factors. Details on sensitivity analyses and the bases for estimates in the area of pension provisions can be found in Note (20).

In the case of other provisions, estimates relating to future expenses are necessary in addition to the discount rate. This also applies to the possibility of a cash outflow due to dismantling obligations, which is described in greater detail in Note (41).

Property, Plant and Equipment/Leases
In accounting for property, plant and equipment, discretionary decisions and estimates, which are based on estimates by management, are required in determining economic lives uniformly throughout the Group. The accounting of leases requires

discretionary decisions with regard to the determination of interest rates and the lease term. To determine the incremental borrowing rate, reference interest rates are derived from risk-free interest rates with appropriate maturities, increased by credit risk premiums and adjusted by a liquidity and country risk premium.

Income Taxes

In order to calculate deferred tax assets, future taxable income and the dates on which the deferred tax assets can be realized must be estimated. This is based on the planned income from the respective units.

Inventories

In valuing inventories, discretionary decisions and estimates must be made, in particular when determining overhead surcharges.

(5) Scope of Consolidation and Holdings

The consolidated financial statements of H&R KGaA include all material domestic and foreign subsidiaries that H&R KGaA controls according to the criteria stipulated in IFRS 10 and for which H&R KGaA controls existing rights that give it the ability to direct the relevant activities of these companies.

To expand IT capacities, H&R KGaA acquired a further 50% of the shares in HRI IT Consulting GmbH, Münster, for €350 thousand in cash with effect from May 17, 2021, increasing its previous share to 100%. The company that was previously accounted for using the equity method is therefore included in H&R KGaA as a subsidiary due to the majority of voting rights. Due to a reassessment on the acquisition date, the equity interest in the share of HRI IT Consulting GmbH already held was impaired by €1,130 thousand and totaled €350 thousand at the time of acquisition. The impairment amount is included in the financing expenses item in the income statement. The company is allocated to the Other Activities segment.

The assets and liabilities at the time of first-time consolidation are presented in the table below.

IN € THOUSAND	
Intangible assets	429
Property, plant and equipment	484
Reinsurance policy	334
Trade receivables	186
Cash	254
Miscellaneous assets	383
Trade payables	77
Financial liabilities	425
Provisions	665
Miscellaneous liabilities	203
Acquired net assets	**700**
Fair value of shares	**700**
Balance	**0**

Costs directly related to the business combination in the amount of €2 thousand were recognized as expenses in the reporting period. The receivables acquired do not include any material receivables which can be categorized as irrecoverable. As of December 31, 2021, the acquired company had contributed €-289 thousand to consolidated income. Had the company been consolidated for the first time on January 1, 2021, consolidated income would have been €181 thousand lower.

Other additions to the scope of consolidation relate to start-ups at the Coburg site in the Plastics segment.

Furthermore, 50% holdings were acquired in P2X-Europe GmbH & Co. KG as well as P2X-Europe Management GmbH for a total price of €18 thousand. The aim of the holding in this joint venture is a long-term cooperation for the development and marketing of e-fuel products. The companies are treated as joint ventures and are allocated to the Other Activities segment. In the 2021 financial year, the companies contributed a loss of €161 thousand to consolidated income.

The 50% stake in HRI IT Service GmbH, Berlin, was divested in March 2021 for €240 thousand.

The table below shows the changes to H&R KGaA's consolidated group during the financial year:

CHANGE IN THE NUMBER OF CONSOLIDATED COMPANIES

H&R KGaA and consolidated companies	Germany	Abroad	Total
1/1/2020	**20**	**22**	**42**
Additions	–	2	2
Disposals	–	–	–
12/31/2020	**20**	**24**	**44**
Additions	3	–	3
Disposals	–	–	–
12/31/2021	**23**	**24**	**47**

CHANGE TO THE NUMBER OF JOINT VENTURES

	Germany	Abroad	Total
1/1/2020	**4**	**–**	**4**
Additions	–	–	–
Disposals	–	–	–
12/31/2020	**4**	**–**	**4**
Additions	2	–	2
Disposals	-2	–	-2
12/31/2021	**4**	**–**	**4**

H&R KGaA holds shares in some companies via trust companies. These indirect shares are also fully consolidated whenever H&R GmbH & Co. KGaA exercises control. The holdings are shown in the list of shareholdings. Although controlled by H&R KGaA, two companies were not included in the scope of consolidation, as they are of minor significance for the net assets, financial position and results of operations of H&R KGaA.

The following table provides an overview of the companies included in the consolidated financial statements of H&R KGaA. The holdings are unchanged compared to the previous year, with the exception of the previously described changes.

FULLY CONSOLIDATED SUBSIDIARIES

Company name	Company headquarters	Segment	Interest held by H&R GmbH & Co. KGaA in %
H&R Chemisch-Pharmazeutische Spezialitäten GmbH	Salzbergen, Germany	a	100
H&R Lube Blending GmbH	Salzbergen, Germany	a	100
H&R ChemPharm GmbH	Salzbergen, Germany	a	100
H&R LubeTrading GmbH	Salzbergen, Germany	a	100
H&R International GmbH	Hamburg, Germany	b	100
H&R Ölwerke Schindler GmbH	Hamburg, Germany	a	100
H&R OWS Chemie GmbH & Co. KG	Hamburg, Germany	a	100
H&R OWS Beteiligungsgesellschaft mbH	Hamburg, Germany	a	100
H&R InfoTech GmbH	Hamburg, Germany	d	100
HRI IT-Consulting GmbH	Münster, Germany	d	100
H&R Benelux B.V.	Nuth, Netherlands	b	100
H&R ChemPharm (UK) Ltd.	Tipton, UK	b	100
H&R ANZ Pty Ltd.	Victoria, Australia	b	100
H&R Singapore Pte. Ltd.	Singapore, Singapore	b	100
H&R Global Special Products Co. Ltd.	Bangkok, Thailand	b	100[1)]
H&R Malaysia Sdn. Bhd.	Port Klang, Malaysia	b	100[1)]
H&R ChemPharm (Thailand) Limited	Bangkok, Thailand	b	100
H&R Wax Malaysia Sdn. Bhd.	Batu Caves, Malaysia	b	100
H&R Japan K.K.	Tokyo, Japan	b	100
H&R ChemPharm Asia Sdn. Bhd.	Lumut, Malaysia	b	100

FULLY CONSOLIDATED SUBSIDIARIES

Company name	Company headquarters	Segment	Interest held by H&R GmbH & Co. KGaA in %
H&R Group Vietnam Company Limited	Ho Chi Minh City, Vietnam	b	100
PT HUR Sales Indonesia	Jakarta, Indonesia	b	100
H&R India Sales Private Limited	Mumbai, India	b	100
Dunrose Investments 148 (Proprietary) Limited	Sandton, South Africa	b	100
H&R Africa Holdings (Pty) Limited	Durban, South Africa	b	100
H&R South Africa (Pty) Limited	Durban, South Africa	b	100
H&R South Africa GmbH	Hamburg, Germany	b	100
H&R Africa Proprietary Limited	Durban, South Africa	b	100
H&R China Holding GmbH	Hamburg, Germany	b	51
H&R China (Hong Kong) Co., Ltd.	Hong Kong	b	51
H&R China (Ningbo) Co., Ltd.	Ningbo, China	b	51
H&R China (Fushun) Co., Ltd.	Fushun, China	b	51
H&R China (Daxie) Co., Ltd.	Daxie, China	b	51
H&R Grundstücksverwaltungs GmbH	Salzbergen, Germany	a	98.68
H&R Grundstücksverwaltungs-Beteiligungsgesellschaft mbH	Salzbergen, Germany	a	74.04
GAUDLITZ GmbH	Coburg, Germany	c	100
GAUDLITZ Precision Technology (Wuxi) Co. Ltd.	Wuxi, China	c	100
GAUDLITZ Precision s.r.o.	Dačice, Czech Republic	c	100
GAUDLITZ Grundstücksverwaltungs-Beteiligungsgesellschaft mbH	Coburg, Germany	c	100
GAUDLITZ Management GmbH	Coburg, Germany	c	100
GAUDLITZ INC	Delaware, United States	c	100
GAUDLITZ Verwaltungs GmbH	Coburg, Germany	c	100
GAUDLITZ Plastics Technologies GmbH & Co. KG	Coburg, Germany	c	100
H&R Group Finance GmbH	Hamburg, Germany	d	100
SYTHENGRUND Wasagchemie Grundstücksverwertungsges. Haltern mbH	Haltern, Germany	d	100
B.-H. Beteiligungs- und Handelsges. mbH	Salzbergen, Germany	d	100

OTHER INTERESTS

Company name	Company headquarters	Segment	Interest held by H&R GmbH & Co. KGaA in %	Income after tax in € thousand	Equity in € thousand
Joint ventures					
Westfalen Chemie GmbH & Co. KG	Salzbergen, Germany	a	50	280	26
Westfalen Chemie Verwaltungsgesellschaft mbH	Salzbergen, Germany	a	50	2	72
P2X-Europe GmbH & Co. KG	Hamburg, Germany	d	50	-323	2,687
P2X-Europe Management GmbH	Hamburg, Germany	d	50	–[2]	–[2]
Unconsolidated subsidiaries					
WAFA Kunststofftechnik GmbH & Co. KG, i.K.	Augsburg, Germany	c	100	–[2]	–[2]
WAFA Kunststofftechnik Verwaltungs GmbH, i. K.	Augsburg, Germany	c	100	–[2]	–[2]
Other interests					
SRS EcoTherm GmbH	Salzbergen, Germany	a	10	4,304	21,497

Segment: a) ChemPharm Refining, b) ChemPharm Sales, c) Plastics, d) Other Activities

[1] Including holdings held in trust: The holdings in the following companies are only indirectly held via trust companies: H&R KGaA holds 49% of the shares in H&R Global Special Products Co. Ltd., Bangkok, Thailand, via subsidiaries; 51% of the shares are managed for the Group by trust companies. H&R Global Special Products Co. Ltd. in turn holds 61.02% in H&R ChemPharm (Thailand) Limited, Bangkok, Thailand. A further 38.976% are held by a subsidiary whose shares are wholly owned by H&R KGaA. The remaining 0.004% are managed on behalf of the Group by trustees. The Group directly holds 30% of the shares in H&R Malaysia Sdn. Bhd., Port Klang, Malaysia. The remaining 70% are held on behalf of the Group by trustees.

[2] No financial statements are available for these companies.

Notes to the Consolidated Statement of Financial Position

(6) Cash and Cash Equivalents

IN € THOUSAND	12/31/2021	12/31/2020
Cash in hand	21	19
Bank balances	48,903	55,010
Total	**48,924**	**55,029**

As of December 31, 2021, €1,693 thousand (previous year: €1,000 thousand) was recognized as cash and cash equivalents, which was deposited in pledged accounts as part of a factoring program or as security for loan agreements and therefore subject to access restrictions.

(7) Trade Receivables

IN € THOUSAND	12/31/2021	12/31/2020
Trade receivables (gross)	127,542	83,869
Impairment	-1,908	-2,291
Total	**125,634**	**81,578**

No trade receivables were pledged as credit guarantees (previous year: €0 thousand). Receivables from related parties are listed under Note (43).

As of December 31, 2021, the carrying amount of the receivables transferred through factoring amounted to €19,411 thousand (previous year: €15,582 thousand). Overall, H&R KGaA had factoring lines of €28,000 thousand at its disposal. As of December 31, 2021, there are receivables that qualify for factoring, which are to be allocated to the category at fair value through profit or loss in the amount of €6,334 thousand (previous year: €2,676 thousand).

In the Group, risk provisions for trade receivables based on impairments can be summarized as follows:

CHANGES IN IMPAIRMENTS OF TRADE RECEIVABLES

IN € THOUSAND	2021	2020
As of 1/1	**2,291**	**2,134**
Additions	64	658
Utilization	-132	-201
Reversals	-343	-268
Reversals	28	-32
As of 12/31	**1,908**	**2,291**

(8) Inventories

IN € THOUSAND	12/31/2021	12/31/2020
Raw, auxiliary and production materials	67,282	40,477
Work in progress	21,717	14,709
Finished products and products for sale	82,110	44,475
Advance payments on inventories	5,935	6,097
Total	**177,044**	**105,758**

Individual downward valuation adjustments were taken in all cases where the proceeds that could foreseeably be realized from selling the inventories were lower than their carrying amount (lower of cost or market principle). The foreseeable sales proceeds less any costs still incurred up to the time of sale were recognized as the net realizable value.

The carrying amount of inventories recognized at the lower net realizable value amounted to €7,200 thousand in the reporting year (previous year: €3,278 thousand).

Impairment of net realizable values in the amount of €889 thousand (previous year: €772 thousand) were recognized as an expense in the reporting period in accordance with IAS 2.34. These affected the ChemPharm Refining and Plastics segments. For more information on expenditures relating to inventories, please consult Note (29).

(9) Other Financial Assets

IN € THOUSAND	12/31/2021 Total	12/31/2021 of which non-current	12/31/2020 Total	12/31/2020 of which non-current
Receivables from granted subsidies	9,410	7,658	12,827	2,509
Derivatives	8,051	–	12	-
Other interests	6,971	6,971	7,237	7,237
Bills receivable	5,286	–	6,895	–
Receivables due from BP	1,466	1,466	1,745	1,745
Other financial assets	871	88	683	87
Total	**32,055**	**16,183**	**29,399**	**11,578**

The subsidies relate to support provided for investment projects at the refinery sites. The derivatives relate to raw material price hedging and currency forward contracts. Additional information can be found in Note (38.2).

Other interests are the shares in SRS EcoTherm GmbH, Salzbergen. Bills receivable refer to receivable claims in China secured by bills of exchange.

During the course of the takeover of the BP special business in 2004, mutual release agreements were made in regard to those retirees who were allocated either economically or contractually to one of the contractual partners, but who, for purposes of employment law, remained with the other partner. According to the overall contractual arrangements with BP, which included all release claims and liabilities, and taking into account the contractual parties' goal of achieving a total set-off of all payables and receivables, the liabilities and claims based on the same legal grounds because of the economic and legal substance of the business transaction were combined and shown as a single balance.

The claims to compensation were as shown in the following table:

IN € THOUSAND	2021	2020
As of 1/1	**11,163**	**11,572**
Interest income	123	124
Reassessment of compensation claims	9	97
Claims paid	-636	-630
As of 12/31	**10,659**	**11,163**

The net receivable can be broken down as follows:

IN € THOUSAND	12/31/2021	12/31/2020
Compensation claims	**10,659**	**11,163**
Liability	9,193	9,418
Net receivable	**1,466**	**1,745**

Additional information can be found in Note (20).

Other financial assets include loans and receivables as well as current securities. Of the other financial assets, as of December 31, 2021, €5 thousand (previous year: €8 thousand) had specific valuation allowances.

(10) Other Assets

IN € THOUSAND	12/31/2021 Total	12/31/2021 of which non-current	12/31/2020 Total	12/31/2020 of which non-current
Other tax receivables	11,012	–	5,011	–
Accruals and deferrals	3,121	97	2,157	44
Reinsurance contracts	1,331	1,331	1,311	1,311
Other assets	1,199	242	956	–
Total	**16,663**	**1,670**	**9,435**	**1,355**

Other tax receivables mainly refer to VAT receivables. The current accruals and deferrals comprise prepaid amounts for which the pertinent expense is to be allocated to the following year. In the financial year under review, this item mainly includes insurance premiums paid, advance rent payments and accrued IT maintenance fees.

(11) Property, Plant and Equipment

CHANGES IN 2021

IN € THOUSAND	Land and buildings	Technical equipment/ machinery	Other facilities/ operating and office equipment	Advance payments and construction in progress	Total
Acquisition and production costs					
As of 12/31/2020	**154,107**	**613,586**	**32,560**	**12,428**	**812,681**
Additions	6,142	34,357	5,620	20,085	66,204
Disposals	-416	-13,775	-793	-364	-15,348
Currency translation	4,630	3,828	432	206	9,096
Reclassifications	2,470	8,604	815	-11,928	-39
As of 12/31/2021	**166,933**	**646,600**	**38,634**	**20,427**	**872,594**
Cumulative depreciation/amortization					
As of 12/31/2020	**50,563**	**325,665**	**24,204**	**3**	**400,435**
Depreciation and amortization	6,656	37,418	4,010	–	48,084
Disposals	-194	-12,305	-783	–	**-13,282**
Currency translation	1,430	2,540	1,029	–	**4,999**
As of 12/31/2021	**58,455**	**353,318**	**28,460**	**3**	**440,236**
Carrying amounts					
As of 12/31/2021	**108,478**	**293,282**	**10,174**	**20,424**	**432,358**
As of 12/31/2020	103,544	287,921	8,356	12,425	412,246

CHANGES IN 2020

IN € THOUSAND	Land and buildings	Technical equipment/ machinery	Other facilities/ operating and office equipment	Advance payments and construction in progress	Total
Acquisition and production costs					
As of 12/31/2019	**146,347**	**561,864**	**30,772**	**56,252**	**795,235**
Additions	3,909	13,654	1,823	13,304	32,690
Disposals	-642	-6,490	-948	-1,902	-9,982
Currency translation	-1,977	-2,777	-247	-27	-5,028
Reclassifications	6,470	47,335	1,160	-55,199	-234
As of 12/31/2020	**154,107**	**613,586**	**32,560**	**12,428**	**812,681**
Cumulative depreciation/amortization					
As of 12/31/2019	**45,222**	**295,787**	**21,257**	**3**	**362,269**
Depreciation and amortization	6,905	37,899	3,524	–	48,328
Disposals	-959	-6,397	-448	–	-7,804
Currency translation	-605	-1,624	-129	–	-2,358
As of 12/31/2020	**50,563**	**325,665**	**24,204**	**3**	**400,435**
Carrying amounts					
As of 12/31/2020	**103,544**	**287,921**	**8,356**	**12,425**	**412,246**
As of 12/31/2019	101,125	266,077	9,515	56,249	432,966

Land and buildings are essentially the Group companies' production sites and the technical equipment and machinery are production facilities. The capital expenditure relates primarily to the two production sites in Hamburg and Salzbergen, and includes additions from lease agreements as per IFRS 16. Right-of-use assets under leases are allocated to the categories according to the type of leased assets. Further information on leases can be found in Note (39).

The items advance payments and construction in progress include expenses incurred before the completion of the corresponding property, plant and equipment in the amount of €17,707 thousand (previous year: €11,813 thousand). In financial year 2021, as in the previous year, no borrowing costs were capitalized. Compensation of €1,567 thousand (previous year: €1,592 thousand) paid out as a result of assets destroyed in a fire with a residual carrying amount of €32 thousand was recognized through profit or loss.

(12) Goodwill and Other Intangible Assets

The table below shows changes in intangible assets during financial year 2021:

CHANGES IN 2021

IN € THOUSAND	Goodwill	Other intangible assets: Distribution and similar rights	Software	Licenses/ product rights	Patents/ (production) technology	Other rights	Subtotal	Total
Acquisition and production costs								
As of 12/31/2020	**54,729**	**17,611**	**13,739**	**4,423**	**13,013**	**604**	**49,390**	**104,119**
Currency translation	864	1,881	76	13	1,471	–	3,441	4,305
Additions	–	373	132	1,528	–	717	2,750	2,750
Disposals	–	–	-36	-259	–	-1	-296	-296
Reclassifications	–	437	84	-410	–	-72	39	39
As of 12/31/2021	**55,593**	**20,302**	**13,995**	**5,295**	**14,484**	**1,248**	**55,324**	**110,917**
Cumulative depreciation/amortization								
As of 12/31/2020	**37,353**	**11,141**	**12,286**	**3,007**	**8,691**	**-**	**35,125**	**72,478**
Currency translation	848	1,171	84	11	1,047	–	2,313	3,161
Depreciation/amortization	–	798	639	207	1,212	–	2,856	2,856
Disposals	–	–	-36	-39	–	–	-75	-75
Reclassifications	–	–	–	–	–	–	–	–
As of 12/31/2021	**38,201**	**13,110**	**12,973**	**3,186**	**10,950**	**-**	**40,219**	**78,420**
Carrying amounts								
As of 12/31/2021	**17,392**	**7,192**	**1,022**	**2,109**	**3,534**	**1,248**	**15,105**	**32,497**
As of 12/31/2020	17,376	6,470	1,453	1,416	4,322	604	14,265	31,641

CHANGES IN 2020

IN € THOUSAND	Goodwill	Other intangible assets: Distribution and similar rights	Software	Licenses/ product rights	Patents/ (production) technology	Other rights	Subtotal	Total
Acquisition and production costs								
As of 12/31/2019	**54,938**	**18,030**	**13,229**	**4,035**	**13,343**	**124**	**48,761**	**103,699**
Currency translation	-209	-419	-23	-48	-330	–	-820	-1,029
Additions	–	–	385	369	–	526	1,280	1,280
Disposals	–	–	-65	–	–	–	-65	-65
Reclassifications	–	–	213	67	–	-46	234	234
As of 12/31/2020	**54,729**	**17,611**	**13,739**	**4,423**	**13,013**	**604**	**49,390**	**104,119**
Cumulative depreciation/amortization								
As of 12/31/2019	**32,472**	**10,639**	**11,810**	**2,833**	**7,727**	**–**	**33,009**	**65,481**
Currency translation	-183	-248	-20	-16	-211	–	-495	-678
Depreciation/amortization	–	750	561	190	1,175	–	2,676	2,676
Impairment	5,064	–	–	–	–	–	–	5,064
Disposals	–	–	-65	–	–	–	-65	-65
Reclassifications	–	–	–	–	–	–	–	–
As of 12/31/2020	**37,353**	**11,141**	**12,286**	**3,007**	**8,691**	**–**	**35,125**	**72,478**
Carrying amounts								
As of 12/31/2020	**17,376**	**6,470**	**1,453**	**1,416**	**4,322**	**604**	**14,265**	**31,641**
As of 12/31/2019	22,466	7,391	1,419	1,202	5,616	124	15,752	38,218

Goodwill

The Executive Board has to make future-oriented valuation assumptions when testing the cash-generating units for impairment, taking both internal company experience and external economic data into account. Basically, these valuation assumptions, which are made in the face of uncertainty, may differ from values measured later, which can cause the recoverable amount to drop below the respective carrying amount of the cash-generating unit, thereby triggering recognition of an impairment loss. The cash-generating units' recoverable amounts are equal to their values in use.

The following table provides an overview of the carrying amounts and the interest rates applied to impairment tests:

Reporting segment	Cash-generating unit (CGU)	Carrying amounts in € thousand		Discount rate after tax in %		Discount rate before tax in %	
		12/31/2021	12/31/2020	2021	2020	2021	2020
ChemPharm Refining	Salzbergen CGU	16,738	16,738	5.2	6.1	7.2	8.4
ChemPharm Sales	H&R ChemPharm (UK) CGU	282	282	6.1	6.8	7.2	8.2
ChemPharm Sales	Asia CGU	372	356	6.5	8.4	8.0	10.3
Total		**17,392**	**17,376**				

The impairment tests carried out during the reporting period did not result in any goodwill impairments.

The impairment tests performed in the previous year resulted in the impairment of goodwill in the amount of €5.1 million, which is included on the income statement under the item "Depreciation, impairments and amortization of intangible assets and property, plant and equipment". As a result of a persistently tough local market environment for the South Africa cash-generating unit, the Group believes that future cash flows will grow more slowly than originally expected. The impairment test performed in the previous year revealed a recoverable amount of €12.9 million, resulting in a goodwill impairment of €5.1 million.

In the sensitivity analyses performed on the cash-generating units to which goodwill has been allocated, the effects of reducing future cash flows by 10% and increasing the weighted cost of capital by 10% were analyzed. No impairment risk is identifiable for goodwill on the basis of these analyses. In the previous year, a 0.6% increase in the cost of capital or a 9.6% reduction in future cash flow in the Salzbergen cash-generating unit would have caused the recoverable amount to be equal to the carrying amount. The recoverable amount exceeded the carrying amount by €11.9 million.

Other Intangible Assets

The other intangible assets mainly consist of customer relationships with a residual carrying amount of €7.2 million (previous year: €6.4 million) and (production) technologies with a residual carrying amount of €3.5 million (previous year: €4.3 million). The additions in financial year 2021 primarily refer to the acquisition of new software licenses.

(13) Shares in Holdings Valued at Equity

Disclosures on holdings valued at equity consolidated into the H&R Group are based on the Group's uniform accounting and measurement principles. The financial year of the joint ventures is the calendar year, as is the case with H&R KGaA. The following table shows the aggregate financial information of these joint ventures that are classified as immaterial under IFRS 12:

IN € THOUSAND	12/31/2021	12/31/2020
Assets		
Non-current assets	1,797	1,788
Current assets	3,825	4,891
Liabilities		
Non-current liabilities	–	973
Current liabilities	2,812	3,798
Cumulative equity	**2,810**	**1,908**
Income	3,881	11,839
Expenses	-3,923	-11,425
Earnings after income taxes	**-42**	**414**
Other comprehensive income	–	–
Total comprehensive income	**-42**	**414**

The following table shows the changes in the carrying amounts of holdings valued at equity:

IN € THOUSAND	2021	2020
Carrying amounts as of 1/1	**2,922**	**4,682**
Additions	1,518	–
Proportionate share in income	-137	48
Impairment	-1,130	-1,808
Distribution	-153	–
Disposal	-590	–
Carrying amounts as of 12/31	**2,430**	**2,922**

The additions relate to the holdings in P2X-Europe GmbH & Co. KG and P2X-Europe Management GmbH conceived as joint ventures.

The impairments for the financial year relate to HRI IT Consulting GmbH, Münster, as a consequence of the adjustment of the shares to the fair value in advance of the transition to full consolidation. In the previous year, the impairments in the amount of €1,183 thousand related to HRI IT Consulting GmbH and in the amount of €625 thousand to HRI IT Service GmbH, Berlin. As in the previous year, the impairments were recognized under financing expenses. The depreciation and amortization are largely the result of structural changes in the focus of the holdings.

The recoverable amount for both holdings corresponds to fair value less costs to sell. The fair values of the holdings belonging to the Other Activities segment are allocated to Level 1.

The disposals also relate to HRI IT Service GmbH, Berlin and HRI IT Consulting GmbH, Münster. HRI IT Consulting GmbH Münster has been included as a subsidiary in the consolidated financial statements since May 2021.

(14) Liabilities to Banks

Liabilities to banks include the following items:

IN € THOUSAND	Carrying amount as of 12/31/2021	Residual term up to one year	Residual term 2023 to 2026	as of 2027
Loans under KfW programs	68,829	12,150	54,623	2,056
Syndicated loan	19,997	20,189	-192	-
Other loans	52,949	21,816	30,989	144
Total	**141,775**	**54,155**	**85,420**	**2,200**
of which secured	11,414	282	10,988	144

IN € THOUSAND	Carrying amount as of 12/31/2020	Residual term up to one year	Residual term 2022 to 2025	as of 2026
Loans under KfW programs	54,216	12,207	35,566	6,443
Syndicated loan	56,503	56,923	-420	–
Other loans	19,736	18,319	933	484
Total	**130,455**	**87,449**	**36,079**	**6,927**
of which secured	1,617	200	933	484

Loans Under KfW Programs. The KfW funds arranged by various banks were, or will be, used for capital expenditures that qualify for subsidies under various KfW programs. The KfW funds were provided in the form of fixed-interest loans with interest rates of between 1.5% and 3.6%. The lenders may terminate the loans depending on covenants (net gearing and the equity ratio) or in the event of a change in control. The KfW Entrepreneur Loans taken up in January 2021 are subject to the conditions of the special coronavirus program.

Syndicated Loan. The syndicated loan was taken out on July 25, 2018, with an initial maximum volume of €200 million and an initial term of 5 years, including two options to extend the loan by one year in each case. The first extension option was exercised in 2020. The loan volume was increased to €240 million in 2020. The second extension option was not exercised. The syndicated loan serves to secure the Group's financing in the event, for example, of an increase in working capital requirements triggered by rising oil prices. The syndicated loan is utilized by H&R KGaA and by Group companies via branch lines.

The availability and conditions are linked to certain ratios (financial covenants). In the event of a breach of covenant, the syndicate banks are entitled to terminate the syndicated loan. The syndicated loan is subject to a variable interest rate (EURIBOR + margin). The margin percentage is dependent on certain financial covenants (net debt/EBITDA). The adjustment always takes place after the filing of the quarterly and/or annual reports.

Other Loans. Other loans mainly include a loan taken up by H&R KGaA in December 2021 with variable interest and final maturity with a two-year term, a loan redeemable through scheduled installments at fixed interest rates, as well as subsidiaries' variable-rate working capital loans, including drawdowns under branch lines of the syndicated loan secured by credit requests and guarantees.

Financial Covenants. Financial covenants such as net gearing and the equity ratio have been agreed for the syndicated loans and for bilateral loans of H&R KGaA. The financial covenants were fully met both at the reporting date and also during the course of the year.

Collateral. Collateral assignments have been provided for a redeemable loan in South Africa originally totaling the equivalent of €2 million and for the loans taken up as KfW Entrepreneur Loans (special coronavirus program) in the form of property, plant and equipment for a total of €10 million. No collateral has been provided for the other KfW loans and the syndicated loan.

(15) Trade Payables

Trade payables have a term of up to one year and, as in the previous year, are collateralized by the customary retention of title.

(16) Contract Liabilities

The contract liabilities amounted to €3,679 thousand as of December 31, 2021. The carrying amount on December 31, 2020, was €2,210 thousand. This amount included €2,210 thousand that was recognized as revenue in the reporting period.

(17) Other Provisions

Changes in other provisions in 2021 were as follows:

IN € THOUSAND	HR provisions (17.1)	Restructuring (17.2)	Trade-related commitments (17.3)	Miscellaneous provisions (17.4)	Total
As of 1/1/2021	**10,703**	**1,006**	**484**	**693**	**12,886**
of which non-current	3,535	–	–	–	3,535
Utilization	-5,786	-1,006	-200	-557	-7,549
Reversal	-726	–	-15	-30	-771
Additions	16,774	–	1,039	1,240	19,053
Compounding/discounting	25	–	–	–	25
Currency translation differences	175	–	18	-5	188
As of 12/31/2021	**21,165**	**–**	**1,326**	**1,341**	**23,832**
of which non-current	3,610	–	–	–	3,610

The following cash outflows are expected in connection with the provisions shown on the statement of financial position as of December 31, 2021:

EXPECTED CASH OUTFLOWS FOR OTHER PROVISIONS

IN € THOUSAND	HR provisions	Restructuring	Trade-related commitments	Miscellaneous provisions	Total
2022	17,555	–	1,326	1,341	20,222
2023	466	–	–	–	466
2024–2026	907	–	–	–	907
2027–2031	1,141	–	–	–	1,141
2032 ff.	1,096	–	–	–	1,096
Total	**21,165**	**–**	**1,326**	**1,341**	**23,832**

(17.1) HR Provisions

The short-term HR provisions primarily concern directors' fees, profit sharing, performance bonuses, deferred leave, flex-time credits and professional association contributions.

The long-term HR provisions consist of obligations to grant long-service bonuses.

(17.2) Restructuring

The provision for restructuring related to personnel restructuring measures in the Plastics segment in Coburg.

(17.3) Trade-related Commitments

Provisions for trade-related commitments primarily include provisions for volume discounts and warranties.

(17.4) Other Provisions

Miscellaneous provisions primarily include provisions for legal and consulting fees and other obligations.

(18) Other Financial Liabilities

	12/31/2021		12/31/2020	
IN € THOUSAND	Total	of which non-current	Total	of which non-current
Lease liabilities	54,504	44,551	47,065	37,525
Liabilities arising from derivatives	7,496	–	75	–
Miscellaneous financial liabilities	389	87	711	153
Total	**62,389**	**44,638**	**47,851**	**37,678**

Further information on leases can be found in Note (39). The derivatives predominantly relate to raw material price hedging contracts. Additional information can be found in Note (38.2).

(19) Other Liabilities

	12/31/2021		12/31/2020	
IN € THOUSAND	Total	of which non-current	Total	of which non-current
Accruals and deferrals	26,879	23,627	28,217	25,819
Tax liabilities	18,188	–	6,244	–
Other liabilities	2,014	–	2,303	–
Total	**47,081**	**23,627**	**36,764**	**25,819**

Accruals and deferrals mainly include public and private subsidies for investments in H&R KGaA. A substantial amount of these relate to subsidies for the construction of a flood protection wall and investments in various production facilities at the refinery site in Hamburg. Further subsidies were granted for investments in production facilities at the Salzbergen refinery site.

Tax liabilities primarily concern the current VAT and payroll tax liabilities as well as import VAT still due.

(20) Pension Provisions

The Group has both defined-contribution and defined-benefit company retirement plans. In the case of the 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. Once it has made the contributions, the Group has no further obligations in this area. Defined-contribution pension plans exist mainly in the international companies of the Chemical-Pharmaceutical division.

All other retirement plans are defined-benefit plans and are the result of various takeovers of business divisions and activities. These benefits apply exclusively to companies based in Germany. All of the H&R Group's pension plans are closed or frozen, meaning that H&R KGaA is only exposed to risks arising from pension and salary trends and from demographic changes, based on already existing commitments. With the exception of a reinsurance policy for the pension of a former member of the Executive Board, there are no plan assets, so there is currently no strategy for offsetting risks arising from either assets or liabilities.

H&R KGaA was formed from the merger of Schmierstoffraffinerie Salzbergen GmbH (SRS GmbH) and H&R KGaA in 2001. Due to the works agreement dated October 7, 1986, all employees transferred over from Wintershall by SRS GmbH have a right to a company pension in accordance with the Wintershall pension agreement dated January 1, 1987. The works agreement dated March 9, 1994, terminated the works agreement of October 7, 1986, effective June 30, 1994, thereby closing the pension agreement to newly hired employees. The level of benefits promised mainly depends on the length of service and the last salary drawn. After the termination of the works agreement of October 7, 1986, the entitlements earned were frozen. The pension entitlements of some pensioners are based on the older Wintershall pension charter.

All employees at H&R KGaA have a right to a company pension in accordance with the version of the pension agreement dated January 1, 1986, last amended by the works agreement of June 4, 1998. For those drawing pensions, their rights in some cases are based on earlier versions of the pension agreement. The amount of the pension depends on the number of pensionable years of service and the pensionable salary in the last year before leaving the company. Individual employees receive contract pensions based on individual contractual commitments. The benefit requirements and calculations differ in individual agreements.

Pursuant to the December 18, 1978, version of GAUDLITZ GmbH's pension agreement, all employees who joined the company up to June 10, 1978, and whose employment agreements have not been terminated have the right to a company pension. The amount of the pension depends on the number of pensionable years of service and the pensionable salary in 1978. For those drawing pensions, in some cases their rights are based on earlier versions of the pension agreement.

At SYTHENGRUND Wasagchemie Grundstückverwertungsgesellschaft Haltern mbH, there is a pension agreement dating from January 1, 1986, in the June 4, 1998, version of Chemie Sythen GmbH's works agreement. The pension amounts depend on the number of pensionable years of service and on the pensionable salary. The pension scheme was closed in 1992 to people joining the company after July 31, 1991.

Pension commitments for a total of 183 employees were transferred to H&R Ölwerke Schindler GmbH effective January 2, 2004, with the takeover of BP's specialty product activities. Due to various mergers and takeovers, there are a total of 13 different sets of rules and addenda that may apply to these 183 employees. The basic principles are set forth in the following pension agreements, charters, pension schemes, retirement plans, etc.:

- Pension agreement for employees of Aral AG on non-union rates dated June 24, 1991
- Pension scheme for employees of Aral AG on union rates dated October 15, 1985
- Aral AG 1999 pension agreement
- Pension charter dated January 1, 1980, pursuant to the central works agreement dated November 30, 1979
- Additional pension for shift work in accordance with letter f of the pension charter of January 1, 1980, pursuant to the central works agreement dated November 30, 1979
- 1988 pension charter based on the central works agreement dated December 2, 1987
- Pension charter dated January 1, 1988, Section 13 (Sections 40–46), pension for shift work on the basis of the central works agreement dated December 2, 1987
- Retirement plan of Burmah Oil (Deutschland) GmbH dated January 1, 1992
- Salary conversion in accordance with the 1999 ARAL pension agreement model
- Raab Karcher transitional pension scheme dated March 1, 1989
- Central works agreement dated February 1, 1993 (1975 pension plan)
- Central works agreement dated January 1, 1993 (1986 pension plan)
- Central works agreement dated February 1, 1993 (1990 pension plan)

The pension amount in the aforementioned plans is determined based on the pensionable years of service and on the pensionable monthly remuneration, taking into account the minimum number of years of eligible service.

From BP, H&R Ölwerke Schindler GmbH has not only assumed pension commitments for eligible employees of the company (Group 1), but has also agreed an indemnity obligation for some former employees of BP Lubes Services GmbH (pensioners and employees who left the company, Group 3). The company is entitled to reimbursement from BP of the sum posted for the commitments to the aforementioned categories of qualified individuals [see also Note (9)].

H&R Ölwerke Schindler GmbH's obligations to the individual groups as of December 31, 2020, are shown in the following table:

IN € THOUSAND	12/31/2021	12/31/2020
Group 1	43,928	43,961
Group 3	10,659	11,163

Another category (Group 2) comprises employees of BP who were not taken on by H&R Ölwerke Schindler. For the people in Group 2, H&R Ölwerke Schindler has agreed to reimburse BP for the relevant pension obligations which remain with BP, in the amount of €9,193 thousand (previous year: €9,418 thousand). Pursuant to IAS 1.32, these commitments were netted against a receivable from BP arising from a reimbursement claim for pension commitments assumed amounting to €10,659 thousand (previous year: €11,163 thousand), which also arose as part of the takeover of the specialty business [see Note (9)]. The net receivable of €1,466 thousand (previous year: €1,745 thousand) is shown in receivables from BP under other non-current assets. The amount of the obligation may vary due to changes in actuarial assumptions.

The change in the liability under defined-plan benefits is shown below:

IN € THOUSAND	2021	2020
As of 1/1	**84,036**	**88,469**
Current service cost	733	836
Interest expense	905	954
Reassessments	73	-2,888
of which due to changes in financial assumptions	349	-2,238
of which due to empirical adjustments	-276	-649
Payments made	-3,258	-3,335
As of 12/31	**82,489**	**84,036**

The plan assets of H&R KGaA consist of a reinsurance policy for the pension commitment to a former member of the Executive Board that has already been paid up in full and is measured at fair value. The plan assets are not listed on any active market. H&R KGaA does not have any specific risk exposure from these plan assets beyond the normal risk.

The following table shows the changes in the fair value of plan assets:

IN € THOUSAND	2021	2020
As of 1/1	**1,825**	**1,785**
Interest income	20	20
Reassessments	20	20
As of 12/31	**1,865**	**1,825**

The following table shows changes in the carrying amount of the net debt related to defined-benefit retirement plans:

IN € THOUSAND	2021	2020
As of 1/1	**82,211**	**86,684**
Current service cost	733	836
Interest expense	885	934
Payments made	-3,258	-3,335
Reassessments	53	-2,908
of which return on plan assets	-20	-20
of which due to changes in financial assumptions	349	-2,239
of which due to empirical adjustments	-276	-649
Change to the scope of consolidation	595	–
As of 12/31	**81,219**	**82,211**

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

	12/31/2021	12/31/2020
Interest rate	1.1%	1.1%
Salary trend	0.6%–2.8%	0.6%–2.8%
Pension trend	1.0%–2.0%	1.0%–2.0%
Retirement age	60–65	60–65

The likelihood of leaving is based on the 2018G Heubeck guideline tables. An age-dependent staff turnover probability has been built into the pension provision for employees of H&R Ölwerke Schindler GmbH; it was calculated by the independent expert using tables drawn up by internal experts. For employees at other sites, to simplify matters, by ignoring the likelihood of turnover, the assumption is made that no employee will leave the company before the vesting periods have been met and that thereafter the vested claim will be exactly financed by the existing provision in each case.

There were no plan changes, curtailments or settlements in financial year 2021.

Payments totaling €3,390 thousand are expected for the next financial year (previous year: €3,388 thousand). The average duration of the benefit obligations is 15.5 years.

If the indicators in the table below change as shown, this would cause the following changes in the pension commitment:

CHANGE IN PENSION OBLIGATIONS

		12/31/2021		12/31/2020	
	Change in parameter by	change in obligation if increased in € thousand	Change in obligation if decreased in € thousand	Change in obligation if increased in € thousand	Change in obligation if decreased in € thousand
Change in discount rate	0.50%	-6,000	6,802	-6,227	7,072
Change in expected salary trend	0.50%	860	-822	935	-892
Change in expected pension trend	0.50%	1,261	-1,136	1,331	-1,201
Change in expected mortality	1 year	-3,782	3,793	-3,837	3,849

The above sensitivity analyses are based on the assumption of a change in one parameter while all other parameters remain constant. These are individual scenarios from a broad spectrum of possibilities, so the actual pension commitment trend will most certainly deviate from these forecasts. In addition, it is unlikely that only one parameter will change; in reality, several indicators can be expected to change and effect one another simultaneously. The same method used to calculate the benefit obligations reported on the statement of financial position was used in this sensitivity analysis. It is the same method as that which was used last year.

All pension plans within the H&R Group are closed; no new employees are admitted. There are active employees with a pension claim at the Hamburg and Salzbergen refinery sites and at Gaudlitz GmbH.

(21) Subscribed Capital

As of the reporting date, the subscribed capital totaled €95,156 thousand as in the previous year, divided into 37,221,746 ordinary no-par bearer shares. This corresponds to a notional value of €2.56 per share (previous year: €2.56). There are no different classes of shares; all shares are ordinary shares. The subscribed capital was fully paid up. Each share conveys one voting right.

Approved Capital

The general partner with full personal liability is authorized – with the Supervisory Board's approval – to increase the company's share capital by May 23, 2023, by a maximum of €24 million by issuing new ordinary no-par bearer shares. The issue may be effected in one or more tranches in return for cash and/or contributions in kind (2018 Approved Capital). Within this context, the number of shares must increase in proportion to the share capital. In principle, shareholders must be granted a subscription right; however, the Executive Board may, with the Supervisory Board's approval, exclude the subscription right on one or more occasions under certain conditions.

(22) Capital Reserve

The capital reserve includes the amounts by which the proceeds from the issuance of preferred and ordinary shares exceed their face value. In the current financial year, the capital reserve amounts to €46,427 thousand (€46,867 thousand) as in the previous year. In 2017, the periods prior to the contribution of H&R China Holding to H&R KGaA in 2014 resulted in a tax expense of €864 thousand, which under the agreement relating to the contribution of capital (Einbringungsvertrag) was reimbursed by the seller and current minority shareholder and transferred to the capital reserve of China Holding GmbH. Of this amount, 51% was attributable to the shareholders of H&R KGaA; this led to a €440 thousand increase in the Group's capital reserve. The tax equalization payments made were refunded on the basis of the amended trade tax assessments for the years 2011 to 2016 available in 2021. The reimbursement now leads to a corresponding reduction in the Group's capital reserve.

(23) Retained Earnings

On the reporting date, retained earnings totaled €212,342 thousand (previous year: €162,702 thousand). The reassessed net liability under defined benefit pension plans recorded under other comprehensive income totaled €-28,122 thousand (previous year: €-27,586 thousand). Other retained earnings totaled €2,293 thousand as of the reporting date (previous year: €2,293 thousand).

Dividend

At the Annual Shareholders' Meeting held on July 9, 2021, a decision was made not to pay a dividend for financial year 2020. The Executive Board and the Supervisory Board will propose to the Annual Shareholders' Meeting on May 24, 2022, that no dividend be distributed for financial year 2021, but to carry forward the distributable profit. This proposal is subject to approval by the shareholders at the Annual Shareholders' Meeting.

(24) Other Reserves

The other reserves amount to €8,676 thousand (previous year: €2,858 thousand) and relate to cumulative other comprehensive income. They comprise the currency translation adjustment of €2,861 thousand (previous year: €-3,238 thousand) and the difference resulting from the fair value measurement of equity instruments of €5,834 thousand (previous year: €6,096 thousand) and the reserve from cash flow hedging (€-19 thousand, previous year: €0 thousand).

(25) Non-controlling Interests

Non-controlling interests include shares of earnings and capital held by shareholders outside the Group. During the reporting period these changed as follows.

IN € THOUSAND	2021	2020
As of 1/1	**39,299**	**39.044**
Currency translation differences	4,641	-938
Capital reduction	-423	–
Proportionate share of net profit or loss	2,358	1.193
As of 12/31	**45,875**	**39.299**

Most of the non-controlling interests are attributable to H&R China Holding GmbH and its subsidiaries. The non-controlling interest in H&R China Holding GmbH totals 49%.

The table below shows a summary of financial data for the H&R China Group:

IN € THOUSAND	12/31/2021	12/31/2020
Current assets	90,936	70,697
Non-current assets	46,358	46,210
Current liabilities	40,565	33,498
Non-current liabilities	3,013	3,109
Cumulative equity	**93,716**	**80,300**
of which proportionate share of net assets of non-controlling interests	**45,921**	**39,347**

IN € THOUSAND	2021	2020
Income	199,624	145,473
Expenses	-194,818	-143,041
Profit/loss	**4,806**	**2,432**
of which proportionate share in income of non-controlling interests	2,354	1,192
Other comprehensive income	**9,474**	**-2,092**
of which other comprehensive income of non-controlling interests	4,641	-1,025
Total comprehensive income	**14,280**	**340**
of which non-controlling interests' proportionate share of total comprehensive income	6,996	167
Cash flow from operating activities	**-8,252**	**7,632**
of which proportionate share of cash flow from operating activities of the non-controlling interests	-4,043	3,740
Cash flow from investing activities	**-1,040**	**-213**
of which proportionate share of cash flow from investing activities of non-controlling interests	-510	-104
Cash flow from financing activities	**2,369**	**-5,325**
of which proportionate share of cash flow from financing activities of non-controlling interests	1,161	-2,609

Notes to the Consolidated Income Statement

(26) Research and Development Costs

In financial year 2021, research and development activities in the Chemical-Pharmaceuticals division focused on the continued improvement of product quality in the product areas of formulated oils, paraffins and white oils. Research and development costs were incurred in the Plastics division for testing and experiments on new materials in the plastics area as well as research relating to the possibility of the increased use of plastic parts in various sectors.

In the current financial year, research and development expenses totaled €2,520 thousand (previous year: €2,795 thousand). For further information regarding research and development costs, please consult the pertinent section in the combined management report.

(27) Sales Revenue

Segment reporting gives an overview of the trend in sales revenue by division, type of product and geographical segment [see Note (36)].

No contractual costs or contractual performance costs were capitalized.

(28) Other Operating Income

IN € THOUSAND	2021	2020
Income from cost transfers	7,011	5,224
Exchange rate gains from foreign currency items	6,233	6,403
Income from insurance compensation	5,705	5,093
Income from services	3,798	4,843
Own work capitalized	1,015	663
Income from the reversal of provisions	948	683
Income from the disposal of intangible assets	592	245
Miscellaneous	4,261	4,798
Total	**29,563**	**27,952**

Income from cost transfers results mainly from the reinvoicing of consumption taxes, project-related costs and current costs to the companies in which there is a participating interest, Westfalen Chemie KG and SRS EcoTherm GmbH. Income from insurance compensation primarily relates to compensation paid out as a result of the fire at our Salzbergen site (see also Note (11)). Income from services mainly refers to IT services provided.

(29) Cost of Materials

IN € THOUSAND	2021	2020
Raw materials	665,538	456,074
Auxiliary and production materials	17,992	13,561
Products for sale	165,501	125,564
Cost of raw materials, auxiliary and production materials, and merchandise purchased	**849,031**	**595,199**
Energy costs	50,386	36,883
Other external services	2,176	2,177
Total expenditures on purchased services	**52,562**	**39,060**
Total	**901,593**	**634,259**

(30) Personnel Expenses

IN € THOUSAND	2021	2020
Wages and salaries	83,930	69,899
Social security payments	12,775	11,184
Defined-benefit pension plan expenses	1,067	1,002
Defined-contribution pension plan expenses	555	530
Other social security expenses	896	415
Total	**99,223**	**83,030**

Amounts arising from compounding the interest on personnel provisions, particularly pension provisions, are not reported as personnel expenses. They are reported as part of the financial income under net interest income.

AVERAGE NUMBER OF EMPLOYEES

	2021	2020
ChemPharm Refining	713	700
ChemPharm Sales	463	450
Plastics	350	376
Other	68	38
Total	**1,594**	**1,564**

(31) Other Operating Expenses

IN € THOUSAND	2021	2020
Freight costs, dispatch systems and other distribution costs	30,827	24,075
Third-party goods and services	22,826	16,668
Third-party repairs and maintenance	16,322	15,721
Insurance premiums, fees and contributions	7,002	5,362
Exchange rate loss from foreign currency items	6,056	6,556
Legal and consulting fees, expenses for annual financial statements and Annual Shareholders' Meeting	5,794	4,909
IT costs	4,898	7,685
Cost transfers	3,787	3,566
Other personnel expenses	2,415	2,355
Other taxes	1,934	2,547
Commission	1,678	1,074
Expenses for short-term leases and leases of low-value assets	1,107	848
Travel expenses	600	621
Impairment loss from financial assets	171	658
Expenses for restructuring measures	-	1,006
Miscellaneous	10,205	9,505
Total	**115,622**	**103,156**

(32) Financial Income

IN € THOUSAND	2021	2020
Interest income from short-term bank deposits	262	231
Income from loans	19	234
Other interest and similar income	425	35
Total interest income	**706**	**500**
Miscellaneous financing income	1	1
Other financing income	**1**	**1**
Financing income	**707**	**501**

(33) Financing Expenses

IN € THOUSAND	2021	2020
Interest expense relating to loan interest	3,713	3,990
Interest expense relating to lease liabilities	1,174	1,248
Interest expense from the compounding of pension provisions	885	934
Commitment commission	580	1,332
Other interest and similar expenses	1,449	1,302
Total interest expense	**7,801**	**8,806**
Impairment of holdings valued at equity	1,130	1,808
Miscellaneous financing expenses	–	19
Total other financing expenses	**1,130**	**1,827**
Financing expenses	**8,931**	**10,633**

Further information on leases can be found in Note (39).

(34) Income Taxes

Since January 1, 2009, the net income of German companies has been subject to a uniform corporation tax rate of 15% plus a solidarity surcharge of 5.5%. In conjunction with a trade tax burden of 14.09% (previous year: 13.64%), this amounts to a combined income tax rate for the Group in Germany of 29.91% (previous year: 29.45%). As in the previous year, income tax rates for significant companies abroad are between 17% and 30%. Any interest on tax arrears is reported under interest expense. Deferred income tax expense includes changes in deferred tax assets and liabilities.

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

These can be broken down as follows:

IN € THOUSAND	2021	2020
Current income tax expenses	-11,487	-6,506
Current income tax refunds	1,199	978
Total current taxes	**-10,288**	**-5,528**
Deferred taxes from temporary differences	-936	3,498
Deferred taxes from loss carryforwards	-9,600	4,633
Total deferred taxes	**-10,536**	**8,131**
Total	**-20,824**	**2,603**

In accordance with IAS 12.34, a deferred tax asset is recognized for a tax loss carryforward available as of the reporting date if it is considered probable that there will be sufficient future taxable profit against which the loss carryforward can be utilized. At H&R KGaA, domestic tax loss carryforwards led to the recognition of €4,352 thousand (previous year: €14,135 thousand) in deferred taxes, with €231 thousand (previous year: €22 thousand) being recognized for foreign tax loss carryforwards. Overall, in Group companies that reported a loss in the previous year or the current year, a surplus of deferred tax assets totaling €4,761 thousand was recognized (previous year: €16,083 thousand). Recognition of the deferred tax assets is justified due to the fact that positive tax income is expected in the future due, among other things, to new corporate strategies, which will exceed the impact on earnings caused by the reversal of the temporary differences.

In addition to the deferred tax assets recognized for loss carryforwards, there are also domestic corporation tax losses in the amount of €1,855 thousand (previous year: €735 thousand) and trade tax losses of €1,823 thousand (previous year: €689 thousand), the realization of which is not sufficiently guaranteed and for which therefore no deferred tax claims have been recognized. Based on current laws, the loss carryforwards cannot expire. As of the reporting date, foreign loss carryforwards for which no deferred tax assets have been recognized totaled €9,119 thousand (previous year: €11,053 thousand) and essentially may be utilized without restriction within one to five years. No deferred tax assets were recognized for deductible temporary differences totaling €4,656 thousand (previous year: €3,625 thousand).

Deferred tax assets of €296 thousand were reversed for the remeasurement of defined-benefit pension plans (previous year: €1,418 thousand) and were recognized in other comprehensive income. This includes €459 thousand in reversals of deferred tax assets whose recoverability can no longer be guaranteed (previous year: €522 thousand). The change in equity instruments measured at fair value through other comprehensive income led to a change in the deferred taxes recognized in other comprehensive income (with no effect on profit or loss) in the amount of €4 thousand (prior year: €6 thousand). Deferred tax assets of €8 thousand (previous year: €0 thousand) were recognized in other comprehensive income in connection with cash flow hedges.

For €12,653 thousand in temporary differences in the retained earnings of subsidiaries (previous year: €11,527 thousand), no deferred tax liabilities were recognized because of existing control in accordance with IAS 12.39.

The expected income tax expense/income and the reported income tax expense/income can be reconciled as follows:

IN € THOUSAND	2021	2020
Earnings before income tax	**73,358**	**-10,430**
Theoretical income tax rate: 29.91% (previous year: income tax income 29.45%)	**21,940**	**-3,071**
Effects from tax rate differences	-1,492	-918
Effects from previous years' taxes	-555	-2,188
Non-deductible expenses	689	1,109
Tax-free income	-580	-318
Foreign withholding tax	126	1,945
Effects from changes in tax rates	-287	-67
Unrecognized deferred tax assets for loss carryforwards	453	301
Effects from holdings valued at equity	467	518
Other tax effects	63	86
Income tax expense (previous year: income tax income) as per consolidated income statement	**20,824**	**-2,603**

The deferred tax items were attributable to the following individual statement of financial position items:

IN € THOUSAND	12/31/2021 Deferred tax assets	12/31/2021 Deferred tax liabilities	12/31/2020 Deferred tax assets	12/31/2020 Deferred tax liabilities
Intangible assets	13	2,775	25	2,851
Property, plant and equipment	506	32,458	489	28,836
Financial investments	88	439	21	514
Inventories	721	47	515	189
Receivables and other assets	220	154	1,698	1,695
Pension provisions	10,899	–	11,625	8
Other provisions	949	12	897	27
Liabilities	20,812	286	18,622	110
Tax loss carryforwards	4,583	–	14,157	–
Total	**38,791**	**36,171**	**48,049**	**34,230**
Netting	-32,569	-32,569	-30,890	-30,890
Total	**6,222**	**3,602**	**17,159**	**3,340**

(35) Earnings per Share

Earnings per share are calculated according to IAS 33 by dividing consolidated income by the average number of outstanding ordinary shares during the reporting period.

The number of ordinary shares in circulation is 37,221,746, as in the previous year.

Accordingly, the earnings per share figure is calculated as follows:

	2021	2020
Consolidated income attributable to shareholders in € thousand	50,176	-9,020
Average number of shares in circulation	37,221,746	37,221,746
Earnings per ordinary share (undiluted) in €	1.35	-0.24
Earnings per ordinary share (diluted) in €	1.35	-0.24

The diluted earnings per share ratio is equal to the basic earnings per share ratio, because H&R KGaA has not issued any potentially dilutive equity instruments.

Additional Notes

(36) Segment Reporting

Pursuant to IFRS 8, the business segments for reporting purposes were determined by identifying the individual divisions whose performance is monitored as part 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: the nature of products and services; the types of production processes; the class or category of customers for products and services as well as the methods used to market products and services.

The ChemPharm Refining segment includes both of the chemical production sites in Germany that operate specialty refineries; at these sites, the production processes, organizational structures and distribution networks are closely interlinked. This segment's core products are paraffins, white oils, plasticizers, base oils, lubricants and other crude-oil-based specialty products. In addition to bitumen, by-products of the production process include feedstocks and bunker fuel. Revenue was achieved from contract manufacturing as part of this production process.

The ChemPharm Sales segment encompasses foreign companies that process chemical-pharmaceutical raw materials and distribute these new products and other products for sale. These are mainly paraffins, plasticizers, wax emulsions and other crude-oil-based specialty products.

The Plastics division develops, manufactures and sells high-precision plastic parts produced using the injection molding method.

Other activities are those associated with non-operating companies, as well as segments exempt from mandatory reporting. This includes H&R

	Chemical-Pharmaceutical Raw Materials			
	ChemPharm Refining		ChemPharm Sales	
IN € THOUSAND	2021	2020	2021	2020
External sales	732,639	515,968	412,042	316,990
Consolidated sales	12,656	8,681	138	58
Sales revenue by segment	745,295	524,649	412,180	317,048
Depreciation and amortization	-36,664	-37,041	-9,983	-15,458
of which impairments	–	–	–	-5,064
Interest income	148	70	590	258
Interest expense	-5,358	-7,075	-2,269	-2,438
Earnings before income tax	61,571	-8,855	17,383	8,304
EBIT	66,780	-1,851	19,062	10,484
EBITDA	103,444	35,190	29,045	25,942
Capital expenditure	47,328	23,753	14,918	6,224
Income from holdings valued at equity	192	118	–	–
Shares in holdings valued at equity	1,074	882	–	–

KGaA, which as the holding company is responsible for the strategic leadership of the Group companies comprising the various segments and for deciding how to efficiently allocate funds within the Group. The Other Activities segment also generates income from IT services.

The list of shareholdings shows which segment each Group company belongs to.

The segments' operating performance and further information on their products are described in the combined management report.

Remarks Concerning Segment Data
Intercompany sales indicate the level of sales between the segments. Sales and revenues between the segments are always accounted for on an arm's-length basis. The segment sales figure is equal to the sum of external and internal sales.

The column "Consolidation/reconciliation" contains eliminations of all intragroup transactions as well as intradivisional receivables and payables. The valuation principles for H&R KGaA's segment 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 to the regions on the basis of the company's domicile.

Plastics							
Plastics		Other Activities		Consolidation/reconciliation		Total	
2021	2020	2021	2020	2021	2020	2021	2020
43,753	40,075	–	–	–	–	1,188,434	873,033
–	–	–	–	-12,794	-8,739	–	–
43,753	40,075	–	–	-12,794	-8,739	1,188,434	873,033
-2,543	-2,917	-1,750	-652	–	–	-50,940	-56,068
–	–	–	–	–	–	–	-5,064
7	8	4,255	6,420	-4,293	-6,255	707	501
-433	-481	-4,035	-5,039	4,293	6,225	-7,802	-8,808
885	-3,852	-6,552	-6,035	71	8	73,358	-10,430
1,311	-3,360	-5,642	-5,609	71	38	81,582	-298
3,854	-443	-3,892	-4,957	71	38	132,522	55,770
1,742	1,046	3,969	2,947	–	–	67,957	33,970
–	–	-329	-70	–	–	-137	48
–	–	1,356	2,040	–	–	2,430	2,922

H&R KGaA generated €566.1 million in sales (previous year: €394.9 million), or more than 10% of consolidated sales, with one customer in the ChemPharm Refining segment. The following table shows how external sales revenue is broken down by region, products and services:

IN € THOUSAND	ChemPharm Refining		ChemPharm Sales		Plastics		Other		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Germany	647,306	449,969	9,806	6,083	13,100	12,592	–	–	670,212	468,644
Rest of Europe	77,147	57,146	39,362	33,689	14,123	11,858	–	–	130,632	102,693
Rest of world	8,186	8,853	362,874	277,218	16,530	15,625	–	–	387,590	301,696
Total	**732,639**	**515,968**	**412,042**	**316,990**	**43,753**	**40,075**	**–**	**–**	**1,188,434**	**873,033**
Chemical-pharmaceutical products – core products	401,016	282,719	411,662	316,212	–	–	–	–	812,678	598,931
Chemical-pharmaceutical products – by-products	241,393	153,067	380	106	–	–	–	–	241,773	153,173
Precision plastics	–	–	–	–	43,702	39,585	–	–	43,702	39,585
Provision of services	90,230	80,182	–	672	51	490	–	–	90,281	81,344
Total	**732,639**	**515,968**	**412,042**	**316,990**	**43,753**	**40,075**	**–**	**–**	**1,188,434**	**873,033**

The following table shows how non-current assets are broken down by region:

NON-CURRENT ASSETS

IN € THOUSAND	2021	2020
Germany	378,778	368,719
Rest of Europe	9,677	9,747
Rest of world	76,400	65,421
of which China	49,046	48,251
Group	**464,855**	**443,887**

RECONCILIATION OF OPERATING INCOME TO CONSOLIDATED INCOME

IN € THOUSAND	2021	2020
Operating income (EBITDA) of H&R KGaA	**132,522**	**55,770**
Depreciation, impairments and amortization of intangible assets and property, plant and equipment	-50,940	-56,068
Financing income	707	501
Financing expenses	-8,931	-10,633
Income taxes	-20,824	2,603
Consolidated income	**52,534**	**-7,827**

(37) Notes to the Consolidated Cash Flow Statement

The cash flow statement has been prepared in accordance with the requirements of IAS 7. It shows the origin and use of cash flows.

The statement of cash flows divides the payment streams into three areas: cash flow from operating activities, cash flow from investing activities and cash flow from financing activities.

Cash and cash equivalents include bank balances, cash in hand, and checks, which are identified on the statement of financial position. As of December 31, 2021, €1,693 thousand (previous year: €1,000 thousand) was recognized as cash and cash equivalents, which was deposited in pledged accounts as collateral and therefore subject to access restrictions.

Non-cash operating expenses and earnings and gains from disposals of property, plant and equipment are eliminated from cash flow from operating activities. Interest received, interest paid and income taxes paid and received are allocated to this area. Cash flow from operating activities is calculated using the indirect method.

Cash flow from investing activities includes cash investments in intangible assets, property, plant and equipment, and financial investments.

Cash flow from financing activities includes new borrowings, repayments of financial liabilities and advance payments received from customers, as well as dividend payments.

For additions to fixed assets in the amount of €5,896 thousand (previous year: €4,471 thousand) no cash outflow took place; trade payables in the same amount therefore exist.

CHANGE IN LIABILITIES FROM FINANCING ACTIVITIES

IN € THOUSAND	Liabilities to banks	Advance payments received	Lease liabilities	Total
1/1/2020	**181,634**	**3,403**	**48,600**	**233,637**
Changes affecting cash flow				
Repayments	-123,529	–	-10,115	-133,644
Borrowings	73,776	2,210	–	75,986
Non-cash changes				
Leasing costs	–	–	8,867	8,867
Changes due to fluctuations in exchange rates	-475	-103	-287	-865
Change in accrued/deferred interest	-951	–	–	-951
Netting against trade receivables	–	-3,300	–	-3,300
12/31/2020	**130,455**	**2,210**	**47,065**	**179,730**
Changes affecting cash flow				
Repayments	-185,623	–	-10,929	-196,552
Borrowings	195,195	3,679	–	198,874
Non-cash changes				
Leasing costs	–	–	18,158	18,158
Changes due to fluctuations in exchange rates	2,149	181	210	2,540
Change in accrued/deferred interest	-401	–	–	-401
Netting against trade receivables	–	-2,391	–	-2,391
12/31/2021	**141,775**	**3,679**	**54,504**	**199,958**

The general form in which the statement of cash flows is presented and the reporting options are exercised has not changed since the previous period.

(38) Financial Instruments

(38.1) General Information

The fair values of financial assets are derived from stock market prices or are calculated on the basis of recognized valuation methods. In the case of other financial assets, it is assumed that the fair value is equal to the carrying amount. The carrying amount of the financial assets corresponds to the maximum default risk. If default risks of financial assets can be identified, such risks are recognized in the form of impairment losses.

On the liabilities side, financial instruments mainly include liabilities measured at amortized cost.

As an international company, H&R KGaA is exposed to risks relating to prices of commodities and raw materials, currency fluctuations, and changes in interest rates in the course of its ordinary business activities. Details concerning the risk management system used to deal with these risks can be found in Note (47), Risk Management Policy, Capital Management and Hedging Measures.

(38.2) Information Concerning Derivatives

Derivative financial instruments are employed to hedge currency fluctuations and raw materials price risks from the operating business. The types of instruments employed are primarily currency forward contracts and raw material price hedging contracts (swaps). The latter are designated as cash flow hedges. Within the scope of raw material price hedging, the risk components are exclusively included, which relate to the Brent/Platts Fuel Oil listing. The starting point for the analysis of the raw materials price risk are the planned purchases of raw materials, as well as planned sales of products, whose sale prices also depend on raw materials market prices. There was no hedge accounting item to report as of December 31, 2020.

Other comprehensive income from cash flow hedges declined by €27 thousand (previous year: €0 thousand) due to changes to the fair market values of the derivatives, the amounts transferred in the income statement and the basic adjustments. In financial year 2021, the income from financial instruments measured at fair value through profit or loss totaled €23 thousand (previous year: expense of €114 thousand).

The following table shows the development of the reserve for cash flow hedges from raw material price hedging contracts:

DEVELOPMENT OF THE RESERVE FOR CASH FLOW HEDGES

IN € THOUSAND	2021
As of 1/1	**–**
Changes in fair value	1,051
Amount transferred to the income statement	3,242
Amount transferred to inventories	-4,320
As of 12/31	**-27**

No inefficiencies occurred in the reporting year due to cash flow hedges.

The following tables show the reported fair values of the derivative financial instruments as of December 31, 2021, and December 31, 2020.

NOMINAL AND MARKET VALUES OF DERIVATIVES IN 2021

			Fair values	
IN € THOUSAND	Nominal value	Maturity	positive	negative
Raw material price hedging contracts	76,212	until 2022	8,042	-7,447
Currency forward contracts	16,864	until 2022	9	-49

NOMINAL AND MARKET VALUES OF DERIVATIVES IN 2020

			Fair values	
IN € THOUSAND	Nominal value	Maturity	positive	negative
Currency forward contracts	6,997	until 2021	12	-74

The nominal value shows the gross volume. Positive market values are recognized under other financial assets and negative market values under other financial liabilities.

(38.3) Maturity Analysis

H&R KGaA's liquidity risk consists of contractually agreed obligations to make future interest and redemption payments on financial liabilities and derivative financial instruments.

The maturities of these undiscounted payment streams are shown in the table below:

2021

IN € THOUSAND	Carrying amount	2022	2023	2024-2026	2027-2031	2032 and later
Liabilities to banks	141,775	55,413	48,653	38,676	2,216	–
Lease liabilities	54,504	10,072	8,841	18,601	11,038	13,600
Liabilities arising from derivatives with hedge accounting items	7,447	7,447	–	–	–	–
Liabilities arising from derivatives without hedge accounting items	49	49	–	–	–	–
Other financial liabilities	389	302	87	–	–	–

2020

IN € THOUSAND	Carrying amount	2021	2022	2023–2025	2026–2030	2031 and later
Liabilities to banks	130,455	88,579	13,025	24,958	7,048	–
Lease liabilities	47,065	9,764	5,884	12,795	11,271	15,881
Liabilities arising from derivatives without hedge accounting items	75	75	–	–	–	–
Other financial liabilities	711	558	53	76	24	–

(38.4) Information on Categories of Financial Instruments

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 stated at fair value and those valued at amortized cost.

The table below shows the carrying amounts of the separate financial assets and liabilities for each category of financial instrument.

IN € THOUSAND	Valuation category according to IFRS 9	12/31/2021 Carrying amount	12/31/2021 Fair value (for information)	12/31/2020 Carrying amount	12/31/2020 Fair value (for information)
Financial assets					
Cash and cash equivalents	Measured at amortized cost	48,924	48,924	55,029	55,029
Trade receivables	Measured at amortized cost	119,300	119,300	78,902	78,902
Trade receivables	Measured at fair value through profit or loss	6,334	6,334	2,676	2,676
Other financial assets					
Financial investment in equity instruments	Measured at fair value through other comprehensive income	6,971	6,971	7,237	7,237
Derivatives with hedge accounting items	Measured at fair value through other comprehensive income	8,042	8,042	–	–
Derivatives without hedge accounting item	Measured at fair value through profit or loss	9	9	12	12
Other short-term securities	Measured at fair value through profit or loss	41	41	41	41
Other financial assets	Measured at amortized cost	16,992	16,992	22,109	22,109
Financial liabilities					
Trade payables	Measured at amortized cost	94,625	94,625	80,453	80,453
Liabilities to banks	Measured at amortized cost	141,775	141,883	130,455	131,125
Other financial liabilities					
Lease liabilities	Measured at amortized cost	54,504	54,504	47,065	47,065
Derivatives with hedge accounting item	Measured at fair value through other comprehensive income	7,447	7,447	–	–
Derivatives without hedge accounting item	Measured at fair value through profit or loss	49	49	75	75
Miscellaneous financial liabilities	Measured at amortized cost	389	389	711	711

Since trade receivables, trade payables, other financial assets, other financial liabilities and cash and cash equivalents generally have short-term maturities, their carrying amounts do not deviate significantly from their fair values on the reporting date. The fair values of other long-term receivables and payables with remaining maturities of more than one year are equal to the present value of the payments associated with the assets and are subject to the relevant current discount rates.

Net Results by Valuation Category.
The expenses, income, gains and losses from financial instruments can be broken down into the following categories:

2021

IN € THOUSAND	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Financial instruments measured at fair value through other comprehensive income	Financial instruments measured at fair value through profit or loss	Total
Interest income	380	–	–	–	380
Interest expense	–	-5,003	–	–	-5,003
Impairment/reversal of impairment losses	279	–	–	–	279
Fees recorded as expenses	–	-1,233	–	–	-1,233
Other financial expenses/income	–	–	-293	-326	-619
Net income/loss	**659**	**-6,236**	**-293**	**-326**	**-6,196**

2020

IN € THOUSAND	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Financial instruments measured at fair value through other comprehensive income	Financial instruments measured at fair value through profit or loss	Total
Interest income	466	–	–	–	466
Interest expense	–	-5,735	–	–	-5,735
Impairment/reversal of impairment losses	-390	–	–	–	-390
Fees recorded as expenses	–	-1,788	–	–	-1,788
Other financial expenses/income	-19	–	-444	-24	-487
Net income/loss	**57**	**-7,523**	**-444**	**-24**	**-7,934**

Interest expenses exclusively include effects from using the effective-interest method.

(38.5) Additional Disclosures on Financial Instruments

At the first level, fair value measurement is based on quoted prices in active markets for identical assets or liabilities. If this is not possible, second-level measurement is based on observable market transactions for comparable assets or liabilities. At the third level, fair values are measured by models that use parameters that are based on non-observable market data to value assets and liabilities.

The financial instruments of H&R KGaA measured at fair value are allocated to the levels described above by category as follows:

12/31/2021

IN € THOUSAND	Level 1	Level 2	Level 3
Assets			
Financial assets measured at fair value through other comprehensive income	–	–	6,971
Financial assets measured at fair value through profit or loss	6,375	–	–
Derivatives with hedge accounting item	–	8,042	–
Derivatives without hedge accounting item	–	9	–
Total	**6,375**	**8,051**	**6,971**
Liabilities and shareholders' equity			
Derivatives with hedge accounting item	–	7,447	–
Derivatives without hedge accounting item	–	49	–
Total	**–**	**7,496**	**–**

12/31/2020

IN € THOUSAND	Level 1	Level 2	Level 3
Assets			
Financial assets measured at fair value through other comprehensive income	–	–	7,237
Financial assets measured at fair value through profit or loss	2,717	–	–
Derivatives without hedge accounting item	–	12	–
Total	**2,717**	**12**	**7,237**
Liabilities and shareholders' equity	**Level 1**	**Level 2**	**Level 3**
Derivatives without hedge accounting item	–	75	–
Total	**–**	**75**	**–**

Derivatives with a hedge accounting item include financial instruments for hedging raw materials price risks. The fair value of these Level 2 commodity derivatives is determined as the present value of the expected cash flows from these contracts. The calculation of the expected cash flows of the commodity derivatives takes place on the basis of the forward price curves for liquid oil futures/forwards, which are adjusted by markups for deviating delivery locations/qualities. The discounting takes place using market-driven interest rates.

The Level 2 derivatives without a hedge accounting item relate to currency forward contracts, which are recognized at the fair value. The fair values are determined using observable market interest rate curves. Further information about derivatives can be found in Note (38.2).

The Level 3 financial asset relates to an equity instrument measured at fair value through other comprehensive income. The measurement is completed using the discounted cash flow method on the basis of the best information available on the reporting date, with a weighted average cost of capital of 4.25% (previous year: 5.50%) used as a basis.

The following table shows the allocation of the financial instruments' fair values, which are reported on the statement of financial position at their carrying amounts, to the different levels:

ALLOCATION OF FAIR VALUES OF FINANCIAL INSTRUMENTS

IN € THOUSAND	12/31/2021			12/31/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Liabilities and shareholders' equity						
Liabilities to banks	–	141,883	–	–	131,125	–

The fair values are determined using observable market interest rate curves. The expected cash flows were discounted accordingly.

Financial assets and financial liabilities are not offset, apart from the reimbursement right against BP (see Notes (9) and (20)), since no such offset agreements exist. There were no reclassifications among the individual levels in financial year 2021.

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 and distribution, details are also integrated into its monitoring systems. Default risks are addressed through accounting for risk prevention. Non-recoverable receivables are derecognized and the impairment is reversed. When a doubtful receivable is collected, the previous impairment is reversed. The maximum default risk is reflected in the carrying amounts of the financial assets reported on the statement of financial position, including free-standing derivatives with a positive market value. As of the reporting date, there were no material agreements in place that reduce the maximum default risk.

(39) Leases

The right-of-use assets recognized in the balance sheet relate, in particular, to longer-term leases for land and buildings, as well as for the rental of tank capacities and tank wagons. The lease agreements are negotiated individually and contain various, different conditions.

The property, plant and equipment includes right-of-use assets under leases as follows:

RIGHT-OF-USE ASSETS UNDER LEASES

IN € THOUSAND	12/31/2021	12/31/2020
Land/buildings	30,455	31,426
Technical equipment/machinery	25,045	18,560
other facilities/operating and office equipment	3,764	1,881
Total	**59,264**	**51,867**

The additions to right-of-use assets amounted to €17,480 thousand (previous year: €7,948 thousand) in the financial year 2021.

Depreciation and amortization on right-of-use assets are comprised as follows:

DEPRECIATION AND AMORTIZATION ON RIGHT-OF-USE ASSETS UNDER LEASES

IN € THOUSAND	2021	2020
Land/buildings	2,397	2,591
Technical equipment/machinery	6,338	6,252
other facilities/operating and office equipment	1,831	1,267
Total	**10,566**	**10,110**

The amortization of right-of-use assets is included in the depreciation, impairments and amortization of intangible assets item in the income statement.

The following table shows liabilities from leases:

LIABILITIES FROM LEASES

IN € THOUSAND	12/31/2021	12/31/2020
Current lease liabilities	9,953	9,540
Non-current lease liabilities	44,551	37,525
Total	**54,504**	**47,065**

The following table shows the contractually agreed undiscounted cash outflows:

MATURITIES OF LEASE PAYMENTS

IN € THOUSAND	12/31/2021	12/31/2020
Up to one year	10,072	9,764
One to five years	27,441	18,679
> five years	24,638	27,152
Total	**62,151**	**55,595**

Lease liabilities amounting to €10,929 thousand were repaid in the 2021 financial year (previous year: €10,115 thousand).

The following amounts in relation to leases were recognized in the income statement, in addition to amortization on right-of-use assets under leases:

P&L EFFECT FROM LEASES

IN € THOUSAND	2021	2020
Interest expense	1,174	1,248
Expenses for short-term leases	761	353
Expenses for low-value leases	347	495
Total	**2,282**	**2,096**

Prospective future cash outflows in the amount of €3,622 thousand (previous year: €0 thousand) exist from leases that already exist as of the reporting date, which begin after December 31, 2021, and are not short-term leases.

(40) Other Financial Liabilities

Other financial liabilities comprise order commitments for investments in the amount of €15,444 thousand (previous year: €7,952 thousand) and other financial liabilities in the amount of €4,692 thousand (previous year: €4,129 thousand).

(41) Contingent Liabilities and Receivables

On the reporting date, H&R KGaA had joint liability for pension commitments totaling €28 thousand (previous year: €30 thousand).

A portion of the production sites is rented. Obligations to clean up and restore the property to its original condition will apply when the rental agreement expires. In the very unlikely event that a lessor gives notice of extraordinary termination or does not renew the long-term rental agreement, this would give rise to claims against the lessor for compensation; as a result, no outflow of resources is assumed and therefore no provision has been set up to cover the obligations to restore the property to its original condition. This situation is regularly monitored by the management.

To supply the refinery in Salzbergen with power and steam, H&R CPS (company)/its legal predecessors had a proportional right-of-use to the generation capacity of the industrial power plant with power until the end of 2018.

The transmission grid operator, on the other hand, assumes that SRS EcoTherm GmbH (SRS) has been operating the industrial power plant since January 1, 2003, within the meaning of energy supply, and that SRS therefore supplied the company with power that was to an EEG [Renewable Energy Sources Act] levy.

In order to create legal harmony and certainty, as well as avoiding lengthy legal proceedings over a period of years, the legislator has created a legal entitlement to conclude a settlement with the EEG 2021. In accordance with the legal provisions, the settlement must envisage that the transmission grid operator recognizes the right to withhold performance pursuant to Section 104, paragraph 4 EEG 2021 for electricity that is generated in the contested power generation plant and delivered to the respective ultimate consumer prior to January 1, 2021, and for electricity quantities that are generated after December 31, 2020, and delivered to the respective ultimate consumer, the EEG levy is paid pursuant to Section 60, paragraph 1 EEG 2021.

To avoid possible follow-up proceedings and to create legal certainty from the company's perspective, also in light of the resolution of the Federal Cabinet to abolish the EEG levy from July 2022, it is highly likely that a settlement will be aimed for. As a consequence of the accounting implementation of this settlement claim, the contingent liabilities reported in the previous year cease to apply.

However, on the basis of its legal opinion, the company has again reported and paid the EEG levy for electricity deliveries from the industrial power plant to SRS since 2019 to the transmission grid operator. However, if a settlement is concluded between SRS and the transmission grid operator, these reports and payments would need to be corrected. As a result of the complexity of the legal requirements, it is not feasible to make an estimate of any financial impact at this time.

(42) Governance Bodies of H&R GmbH & Co. KGaA

EXECUTIVE BOARD OF H&R KOMPLEMENTÄR GMBH

	Membership of Supervisory and Advisory Boards
Niels H. Hansen Sole member of the Executive Board, Hamburg	–

SUPERVISORY BOARD OF H&R GMBH & CO. KGAA

	Membership of Supervisory and Advisory Boards
Dr. Joachim Girg Chairman of the Supervisory Board Managing Director of H&R Beteiligung GmbH, Hamburg	–
Roland Chmiel Deputy Chairman – CPA/chartered accountant, partner at Weiss Walter Fischer-Zernin, Munich	–
Sven Hansen General Partner with full personal liability for the H&R Group, Hamburg	–
Dr. Rolf Schwedhelm Tax lawyer and partner at Streck Mack Schwedhelm, Cologne	Chairman of the Supervisory Board of German Lawyer Academy Society for Education, Training and Services (Deutsche Anwalt Akademie Gesellschaft für Aus- und Fortbildung sowie Serviceleistungen mbH), Berlin
Sabine U. Dietrich Chartered engineer, Mülheim an der Ruhr	Member of the Supervisory Board of Commerzbank Aktiengesellschaft, Mülheim an der Ruhr Member of the Supervisory Board of MVV Energie AG, Mannheim
Dr. Hartmut Schütter Chartered process engineer, freelance consultant, Schwedt/Oder	–

SUPERVISORY BOARD OF H&R GMBH & CO. KGAA (EMPLOYEE REPRESENTATIVES)

	Membership of Supervisory and Advisory Boards
Reinhold Grothus Group Works Council Chairman of H&R GmbH & Co. KGaA, Works Council Chairman H&R ChemPharm GmbH, Salzbergen	–
Holger Hoff Works Council Chairman of H&R Ölwerke Schindler GmbH, Hamburg	–
Harald Januszewski Former employee and Works Council Chairman of GAUDLITZ GmbH, Coburg	–

(43) Disclosures of Relationships With Related Parties

Related party transactions were carried out at arm's length. There were no transactions of material significance with unconsolidated subsidiaries.

Related party transactions involve the companies of the Hansen family (hereinafter referred to as Hansen & Rosenthal) and joint ventures.

There is a mutual business relationship with Hansen & Rosenthal. 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 its end customers in its own name and for its own account. Furthermore, deliveries are made on the basis of a long-term commission contract for the marketing of certain products from the Hamburg site, for which Hansen & Rosenthal receives a commission. Moreover, H&R KGaA subsidiaries provide production, IT and staffing services to the Hansen & Rosenthal Group and vice versa.

Sales revenue from goods and services to Hansen & Rosenthal totaled €566,073 thousand in financial year 2021 (previous year: €394,932 thousand). Most of this amount was for supplies of chemical-pharmaceutical products (2021: €479,020 thousand; previous year: €322,100 thousand) and for contract manufacturing services (2021: €87,053 thousand; previous year: €72,832 thousand). Goods and services purchased from Hansen & Rosenthal in financial year 2021 amounted to €109,675 thousand (previous year: €83,406 thousand). The bulk of this amount was for purchases of chemical-pharmaceutical products (€101,615 thousand; previous year: €75,906 thousand).

As of December 31, 2021, receivables due from Hansen & Rosenthal amounted to €48,892 thousand (previous year: €28,917 thousand); liabilities owed to Hansen & Rosenthal came to €21,468 thousand (previous year: €14,031 thousand). Receivables are handled in line with normal commercial conditions and customary retention of title.

Goods and services provided to joint ventures generated €782 thousand in sales revenue in financial year 2021 (previous year: €840 thousand). Goods and services purchased from joint ventures in financial year 2021 amounted to €3,048 thousand (previous year: €5,116 thousand). These relate primarily to the purchase of energy and IT services.

As of December 31, 2021, receivables due from joint ventures amounted to €9 thousand (previous year: €50 thousand); liabilities owed to joint ventures came to €0 thousand (previous year: €247 thousand).

Supervisory Board and Executive Board
Key management positions are limited to the Supervisory Board and Executive Board of H&R KGaA. Management of the company is provided by the Executive Board of H&R Komplementär GmbH. For performing their tasks, members of the Executive Board received total remuneration of €885 thousand in the financial year, due at short notice (previous year: €712 thousand). The member of the Executive Board receives no share-based remuneration and no pension commitments. There were no expenses associated with terminating the employment agreements of managing directors. As of the reporting date, there was a liability of €136 thousand (previous year: €103 thousand) owed to H&R Komplementär GmbH.

Former members of the Executive Board and their survivors received post-employment benefits totaling €301 thousand during the financial year (previous year: €299 thousand). For former members of the Executive Board and their survivors, pension commitments amounted to €3,359 thousand (previous year: €3,513 thousand).

Remuneration for members of the Supervisory Board included basic remuneration plus additional compensation for committee work and fees for attending meetings and totaled €515 thousand (previous year: €465 thousand). This was a short-term remuneration.

In addition to their Supervisory Board remuneration, the employee representatives on the Supervisory Board receive fees not related to their work for the Supervisory Board, due at short notice. These fees resulted from the respective employment contracts and totaled €172 thousand in financial year 2021 (previous year: €175 thousand).

As in the previous year, no members of the Executive Board or members of the Supervisory Board had received loans from the company as of December 31, 2021.

Data on the remuneration of members of the Executive Board and the Supervisory Board are provided in the remuneration report, which is published at www.hur.com.

H&R KGaA has an Advisory Board that provides advice to the Executive Board. Expenses of €103 thousand were incurred in the financial year for the activities of the Advisory Board in 2021 (previous year: €109 thousand). In financial year 2021, fees paid to members of the governing bodies of H&R KGaA within the scope of consultancy contracts amounted to €75 thousand (previous year: €75 thousand). As of December 31, 2021, liabilities owed to Board members totaled €515 thousand (previous year: €465 thousand). These were short-term amounts.

(44) Statement of Compliance Pursuant to Section 161 of the German Stock Corporation Act (AktG)

The Statement of Compliance with the German Corporate Governance Code required by Section 161 of the German Stock Corporation Act (AktG) was submitted in December 2021. It is published on the Internet at www.hur.com.

(45) Group Audit Fees

The following fees for the services provided by Grant Thornton AG Wirtschaftsprüfungsgesellschaft were recognized for the financial year:

IN € THOUSAND	12/31/2021	12/31/2020
Audits	434	427
of which relating to the previous year	44	43
Other certification or valuation services	41	13
Tax counseling	–	–
Other services	-	–
Total	**475**	**440**

The 2021 fee for auditing services charged by the auditors covers, in particular, the statutory audit of the annual financial statements and the consolidated financial statements of H&R KGaA, and the statutory and voluntary audits of the annual financial statements. The other certification services primarily refer to the audit of the non-financial Group report and audits under the German Renewable Energy Sources Act for subsidiaries of H&R KGaA.

(46) Exemption From Disclosure Under Section 264, Paragraph 3 HGB

For the following fully consolidated subsidiaries, the company has elected to make use of the option to be exempted from the disclosure requirement in accordance with Section 264, paragraph 3 and Section 264b, in conjunction with Section 325 of the German Commercial Code (HGB), and partly made use of concessions regarding the preparation of financial statements:

- H&R Ölwerke Schindler GmbH
- H&R OWS Chemie GmbH & Co. KG
- H&R Chemisch-Pharmazeutische Spezialitäten 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
- H&R Group Finance GmbH

(47) Risk Management Policy, Capital Management and Safeguards

The operating business and the financing of H&R KGaA are exposed to various financial and market price risks, in particular liquidity and refinancing risks, counterparty default risk as well as risks associated with fluctuations in raw material prices, currency exchange rates, and interest rates. A systematic risk management system is in place to limit these risks. Hedging transactions, among other things, are used to counter them.

H&R KGaA has implemented a Group-wide risk management system which identifies, analyzes and measures these risks so that informed decisions can then be made about actions to take to prevent or limit such risks. The key components of the risk management system are the planning and controlling process, internal Group rules and regulations, and the reporting function. The Group companies are subject to strict risk management. Dealing authorizations, responsibilities and supervision procedures are established on a binding basis in internal guidelines.

The company holds regular conferences on business performance at which the results of operations and potential risks and opportunities are highlighted and targets and control measures are agreed. Derivative financial instruments are also utilized in this context. 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.

The Executive Board defines the Group's equity ratio as the basic parameter for capital management, which in turn is aimed at ensuring that the Group will continue to be able to cover its financing needs for capital expenditures and debt service obligations in the future. At the same time, H&R KGaA strives to maintain a capital structure that optimizes the costs of capital provided by our investors and our lenders, while retaining strategic flexibility. Other key control parameters include net debt and net gearing, i.e., the ratio of net debt to operating income (EBITDA).

The syndicated loans and the bilateral loans require the company to meet financial covenants that also relate to its capital base and net gearing. The financial covenants were fully met both at the reporting date and also during the course of the year.

CAPITAL STRUCTURE

	2021	2020	2019	2018	2017
Net debt/EBITDA	1.13	2.25	2.42	1.39	0.55
Equity ratio (in %)	46.7	46.5	43.3	48.9	51.7
Net gearing	39.9	35.3	37.4	28.9	16.0

The trajectory of the Covid-19 pandemic remains dynamic and may lead to increased risks with regard to value added or the recoverability of assets, particularly goodwill and intangible assets. Suppliers, customers and other business partners who have been hard hit by the pandemic may lead to defaults or disruptions to services. H&R KGaA will continue to follow the progress of the pandemic carefully, monitor its effects and prepare countermeasures.

Liquidity risks. H&R KGaA ensures that it has sufficient liquidity by monitoring its liquidity status daily, by maintaining financing facilities that have not been utilized in full and by refinancing expiring loan agreements in a timely manner. Compliance with financial covenants is a crucial part of the financing agreements. If these covenants were to be breached and could not be renegotiated or if alternative sources of financing could not be found on short notice, this would jeopardize the continued existence of the Group. H&R KGaA counters this risk by maintaining a financing structure that includes sufficient equity as well as through measures designed to ensure the sustainability and stability of earnings, such as switching the Salzbergen site to a contract-processing model.

Default Risks. Our risks from delays in payment and/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/distribution partner, Hansen & Rosenthal, reduces these risks even more. Based on the information currently available, existing del credere risks are covered through impairments.

We counter the default risk of banks with which we have arranged credit lines, entered into hedging transactions or invested funds by only entering into larger, long-term financial transactions with banks that have good credit ratings and by spreading larger transactions among several banks.

Raw Materials Price Risks. H&R KGaA is exposed to price fluctuation risks in, among other things, purchases of raw materials, particularly purchases of atmospheric residue and vacuum gas oil. Most supply agreements concluded with customers for specialty products manufactured by the Chemical-Pharmaceutical Raw Materials division's specialty refineries specify fixed prices for a period of three months at most. Moreover, the production process at a specialty refinery can require up to eight weeks from the date on which raw materials arrive to the date when the finished product has been manufactured. This means that rapid increases in raw materials costs cannot be passed on to the markets immediately, but only with a delay. The relevant price trends are constantly monitored and analyzed. Changes in prices of raw materials can result in the recognition of windfall losses and windfall profits, which generally balance out over a longer period of time. The raw materials price risk mainly affects sales revenues and cost of materials in the ChemPharm Refining and ChemPharm Sales segments (see Note (36)). To limit the raw materials price risk, H&R KGaA concludes physical raw materials forward transactions within the approved limits, which are designated as cash flow hedges.

Currency Risks. The international orientation of H&R KGaA means that its operating activities give rise, among other things, to currency risks resulting from fluctuations between the company's functional currency and other currencies. In particular, these are encountered in the area of procurement as a result of US dollar transactions. In the trading business, these risks are partially hedged through forward transactions. 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 the currency forward contracts are concluded.

For the presentation of market risks, IFRS 7 requires sensitivity analyses showing the impact of hypothetical changes in relevant risk variables on earnings and equity. It is assumed that the portfolio as of the reporting date is representative of holdings for the entire year.

The following table shows the net exposure in the most significant foreign currency as of the reporting date:

NET EXPOSURE

IN € THOUSAND	US$
12/31/2021	1,692
12/31/2020	6,148

The net exposure consists of statement of financial position items in the respective currency, which is not the functional currency, less derivatives used to hedge the foreign currency effects of the respective item on the statement of financial position. An increase in the US dollar rate by 10% would burden the income and equity with €154 thousand (previous year: €559 thousand), while a decline in the US dollar rate by 10% would cause the income and equity to rise by €188 thousand (previous year: €683 thousand).

Interest Rate Risks. H&R KGaA employs variable interest rate facilities, among other things, as part of its financing activities. Interest rate swaps are used as interest hedging instruments to limit risks arising from changes in market interest rates. Such transactions may also be entered into on a decentralized basis within the Group, but require the prior approval of the Executive Board.

A sensitivity analysis for interest rate risk is performed on financial liabilities with variable interest rates, including interest income on cash in hand. As of the December 31, 2021, reporting date, a hypothetical 50 basis points or 0.5% increase in the interest rate would have increased interest income by €19 thousand (previous year: €-107 thousand) and would have reduced the amount of equity shown accordingly.

(48) Events After the Reporting Date

Between December 31, 2021, and the time of approval of the consolidated financial statements, there were no events with a concrete material impact on the net assets, financial position and results of operations. However, it is possible that the developments of the war in Ukraine may have significant consequences during the further course of the year. But, due to the volatile situation these can currently only be quantified to a limited extent. Further information on these topics can be found in the risk and forecast reports in the management report.

(49) Approval of the Financial Statements

The financial statements were approved and released for publication by the management of the general partner with full personal liability on March 15, 2022.

Salzbergen, March 15, 2022

The Executive Board

Niels H. Hansen
Sole Managing Director

Independent Auditor's Report

To H&R GmbH & Co. KGaA, Salzbergen

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of H&R GmbH &.Co. KGaA, Salzbergen, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2021, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2021, to December 31, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the Group management report which is combined with the management report of H&R GmbH & Co. KGaA (referred to subsequently as "Group management report"), for the financial year from January 1, 2021, to December 31, 2021. In accordance with the German legal requirements we have not audited the content of the Statement on Corporate Governance pursuant to Section 289f and Section 315d HGB [Handelsgesetzbuch: German Commercial Code] which it is referred to in the Group management report. Likewise, we will not audit the content of the separate non-financial Group report referred to in the Group management report, which is intended to be published on the Company's website, in accordance with German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315e paragraph 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2021, and of its financial performance for the financial year from January 1, 2021 to December 31, 2021, and
- the accompanying management report as a whole provides an appropriate view of the Group's position. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the Group management report does not cover the content of the Declaration on Corporate Governance and the non-financial Group report mentioned above.

Pursuant to section 322 paragraph 3 sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the Group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the Group management report in accordance with section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the Group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2021 to 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

In the following we present the key audit matters in our view. Our presentation of the key audit matters has been structured as follows:

① Financial statement risk
② Audit approach
③ Reference to related disclosures

Impairment Test for Goodwills

① Financial Statement Risk

In the consolidated financial statements of H&R GmbH & Co. KGaA goodwill is reported with a book value amounting to EUR 17.4 million. The company allocates goodwill to the relevant cash-generating units of the respective business segment. Goodwill is subject to an annual impairment test, in which the values in use are compared to the book values of the respective cash-generating unit. To determine the values in use of the relevant cash-generating unit, the discounted cash flow method is applied. The future cash flows to be discounted are derived from the current planning of the H&R Group. The discount rate is determined by using the weighted average cost of capital of the respective cash-generating unit.

The values in use are accounting estimates which are mainly influenced by the estimation of future cash flows and the discount rate applied and are subject to considerable uncertainty about estimates. Against this background and due to the complexity of the application of the valuation method, in our view, this matter was of particular significance in our audit.

② Audit Approach

As part of our audit, among other things, we analysed the methodical approach for the execution of the impairment test and the determination of the weighted average cost of capital. We also evaluated the derivation of the forecasted cash flows from the planning of the H&R Group. We analysed the planning assumptions of the planning for consistency and reasonableness and assessed the feasibility of significant planned measures against the background of actual and expected circumstances of the relevant markets and our understanding of the relevant economic environment of the cash-generating units. Due to the sensitivity of the determined values in use in regard to changes of the discount rate, we under involvement of our internal valuation experts analysed the parameters used and evaluated the calculation model to determine the discount rate. Additionally, we performed own sensitivity analyses for selected cash-generating units; the selection was based on the amount of deviations of book values and respective values in use as well as on qualitative aspects.

③ Reference to Related Disclosures

The disclosures made by the H&R Group concerning goodwill and goodwill impairment are presented in sections 3 and 12 of the notes to the consolidated financial statements.

Other Information

The legal representatives are responsible for the other information. The other information comprises

- the Declaration on Corporate Governance pursuant to Section 289f and Section 315d HGB to which reference is made in the Group management report,
- the Responsibility Statement pursuant to Section 297 para. 2 sentence 4 HGB and pursuant to Section 315 para. 1 sentence 5 HGB
- the other parts of the annual report, including the report of the Supervisory Board, which are expected to be made available to us after the date of this auditor's report,
- the separate non-financial Group report expected to be made available to us after the date of this auditor's report and referred to in the Group management report,
- but not the consolidated financial statements, not the audited content of the Group management report, and not our audit opinion thereon.

The declaration pursuant to Section 161 of the German Stock Corporation Act (AktG) on the German Corporate Governance Code, which forms part of the corporate governance statement, is the responsibility of the legal representatives and the Supervisory Board.

Our audit opinions on the consolidated financial statements and on the Group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this audit opinion, we conclude that there has been a material misstatement of such other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Legal Representatives and the Supervisory Board for the Consolidated Financial Statements and the Management Report

The legal representatives are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e paragraph 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the legal representatives are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the legal representatives are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a Group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the Group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the Group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the Group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the Group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and related disclosures.
- Conclude on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to con-

tinue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e paragraph 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the management report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the management report with the consolidated financial statements, its conformity with the legislation, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the legal representatives in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on the Assurance in Accordance with Section 317 Paragraph 3a HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Management Report Prepared for Publication Purposes

Reasonable Assurance Opinion

We have performed assurance work in accordance with Section 317 paragraph 3a HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the Group management report (hereinafter the "ESEF documents") contained in the attached electronic file 529900NCRGGS5E0MGL93-2021-12-31-de.zip, with the Hash-Value 4811C7FA813900B544C1BC96C2714BC5817A99086A073CBC35DD7E3843FA4398, calculated by means of SHA256 and prepared for publication purposes complies in all material respects with the requirements of Section 328 paragraph 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the Group management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor to any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the Group management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 paragraph 1 HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying Group management report for the financial year from 1 January 2021 to 31 December 2021 contained in the "Report on the Audit of the Consolidated Financial Statements and of the Group Management Report" above.

Basis for the Reasonable Assurance Opinion

We conducted our assurance work on the reproduction of the consolidated financial statements and the Group management report contained in the above-mentioned attached electronic file in accordance with Section 317 paragraph 3a HGB and with the IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Section 317 (3a) of the German Commercial Code (HGB) (IDW AsS 410 (10.2021)). Accordingly, our responsibilities are further described below in the "Auditor's Responsibilities for the Assurance Work on the ESEF Documents" section. Our audit firm has applied the IDW Standard on Quality Management 1 "Requirements for Quality Management in the Audit Firm" (IDW QS 1).

Responsibilities of the Legal Representatives and the Supervisory Board for the ESEF Documents

The legal representatives of the company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the Group management report in accordance with Section 328 paragraph 1 sentence 4 no. 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 paragraph 1 sentence 4 no. 2 HGB.

In addition, the legal representatives of the company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 paragraph 1 HGB for the electronic reporting format.

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process

Auditor's Responsibilities for the Assurance Work on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 paragraph 1 HGB. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 paragraph 1 HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as of the balance sheet date on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enable a XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited Group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with Articles 4 and 6 of Delegated Regulation (EU) 2019/815, as applicable on the reporting date, enables an adequate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as Group auditor by the annual general meeting on July 9, 2021. We were engaged by the Supervisory Board on November 24, 2021. We have been the Group auditor of H&R GmbH & Co. KGaA, Salzbergen without interruption since the financial year 2015.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

Other Matters – Use of the Auditor's Report

Our auditor's report should always be read in conjunction with the audited consolidated financial statements and the audited management report as well as the audited ESEF documents. The consolidated financial statements and management report converted to ESEF format – including the versions to be published in the Federal Gazette – are merely electronic reproductions of the audited consolidated financial statements and audited management report and do not replace them. In particular, the ESEF opinion and our audit opinion contained therein can only be used in conjunction with the audited ESEF documents provided in electronic form.

German Public Auditor Responsible for the Engagement

The auditor responsible for the audit is Cornelia von Oertzen.

Hamburg, 15 March, 2022

Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

von Oertzen	***Pritsch***
Wirtschaftsprüfer [German Public Auditor]	*Wirtschaftsprüfer [German Public Auditor]*

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 assets, financial position and results of operations of the Group and that the combined management report presents the course of business, including the Group's business income and situation, in a way that presents a true and fair view while describing the material opportunities for and risks to the Group's expected development.

Salzbergen, March 15, 2022

The Executive Board

Niels H. Hansen
Sole Managing Director

Further Information

List of Graphics and Tables*

* The tables in the consolidated financial statements are not listed.

Six-year Overview H&R Group Key Figures (IFRS)

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		2021	2020	2019	2018	2017	2016
Sales volume (core products)[1]	KT	869	805	815	836	832	849
Sales revenue	€ MILLION	1,188.4	873.0	1,075.3	1,114.2	1,025.1	942.7
Operating income (EBITDA)	€ MILLION	132.5	55.8	52.9	74.7	97.9	101.4
EBIT	€ MILLION	81.6	-0.3	7.4	40.6	54.3	64.2
Earnings before income tax	€ MILLION	73.4	-10.4	-1.2	33.7	46.2	54.2
Consolidated net income	€ MILLION	52.5	-7.8	0.1	22.3	29.5	39.3
Consolidated income attributable to shareholders	€ MILLION	50.2	-9.0	-1.4	21.6	32.1	38.4
Consolidated income per share (undiluted) in €	€	1.35	-0.24	-0.04	0.59	0.88	1.05
Dividend per share	€	0.00	0.00	0.00	0.00	0.40	0.00
Market capitalization on December 31	€ MILLION	261.3	203.6	194.3	226.7	553.4	535.5
Balance sheet total	€ MILLION	874.4	745.7	838.6	730.4	662.6	648.2
Net working capital	€ MILLION	208.1	106.9	105.9	174.5	153.3	153.4
Equity	€ MILLION	408.5	346.9	363.4	357.4	342.7	317.4
Equity ratio	%	46.7	46.5	43.3	48.9	51.7	49.0
Net debt	€ MILLION	92.9	75.4	86.8	103.0	53.7	42.1
Net gearing	%	39.9	35.3	37.4	28.9	16.0	15.1
Cash flow from operating activities	€ MILLION	37.4	60.1	95.9	23.3	46.2	75.5
Free cash flow	€ MILLION	-11.1	22.0	20.8	-46.4	-11.9	36.7

[1] Chemical-Pharmaceutical Raw Materials division.

Financial Calendar

Our financial calendar is updated on an ongoing basis. Please visit our website www.hur.com in the Investor Relations section for the latest events.

March 31, 2022	Publication of Annual Report 2021
May 13, 2022	Publication of Q1 2022
May 24, 2022	Annual Shareholders' Meeting in Hamburg
August 15, 2022	Publication of Q2 2022
November 15, 2022	Publication of Q3 2022

Contact

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

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Legal Notices, Addresses

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Concept/Design

Berichtsmanufaktur GmbH, Hamburg

Photographs

Achim Kraus, Munich (portrait photographs)

This annual report was published
on March 31, 2022.

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, actual results may be materially different from those expressed or implied by such statements. H&R does not intend or assume any obligation to update any forward-looking statements to reflect events or circumstances after the date of these materials.

Variances for technical reasons

For technical reasons (e. g., conversion of electronic formats) there may be variances between the accounting documents contained in this annual report and those submitted to the electronic Federal Gazette (Bundesanzeiger). In this case, the version submitted to the electronic Federal Gazette shall be binding.

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

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