Together

Annual Report 2013 of H&R AG

Profile

As an internationally established specialist chemicals company, we process crude oil derivatives into high-quality products for a large variety of industries. With more than 1,400 employees, we generated €1.2 billion in sales revenues in 2013. In the years ahead we intend to further increase the value added by our refineries by means of targeted efficiency increase measures and continuous improvements in our processes.

Our financial year 2013

In financial year 2013 we generated revenues of €1.2 billion, reaching a level similar to that of the previous year. Nonetheless, strong pressure on margins prevented the same trend from taking place also for our earnings. At the same time, as a response to the pricing and competitive situation, in 2013 we implemented structural and organisational changes. The contract manufacturing model of the Salzbergen refinery and the distinct decrease in our net indebtedness were important pillars that helped stabilise the Company.

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

IN € MILLION	2013	2012	Change in absolute terms
Sales revenue	1,214.4	1,228.9	-14.5
Operating result (EBITDA)	32.6	49.4	-16.8
EBIT	-4.1	25.5	-29.6
Earnings before taxes	-16.8	1.6	-18.4
Consolidated earnings (before minority interests)	-14.0	0.4	-14.4
Consolidated earnings (after minority interests)	-14.0	0.5	-14.5
Consolidated earnings per share (undiluted, in €)	-0.47	0.02	-0.49
Dividend per share (in €)	0.00	0.00	-0.00
Operating cash flow	88.9	84.7	4.2
Equity ratio (in %)	31.8	35.8	n.a.
Employees as of 31 December (absolute)	1.405	1.458	-53

T. 02 **THE SEGMENTS IN FIGURES**

IN € MILLION	Revenue 2013	Revenue 2012	EBITDA 2013	EBITDA 2012
Chemical and Pharmaceutical Raw Materials Domestic	**941.0**	**952.2**	**20.6**	**33.1**
The Chemical-Pharmaceutical Raw Materials Domestic Segment produces speciality products from crude oil in the two domestic refineries in Hamburg and Salzbergen.				
Chemical-Pharmaceutical Raw Materials International	**231.7**	**254.1**	**16.5**	**19.3**
Our Chemical-Pharmaceutical Raw Materials International Segment comprises the mixing and conversion plants abroad and our international sales activities.				
Plastics	**62.7**	**55.6**	**0.7**	**-0.8**
Our Plastics Segment manufactures high-precision plastic parts along with the associated tools and moulds.				
Transfer	**-21.0**	**-33.0**	**-5.1**	**-3.2**

Our sites

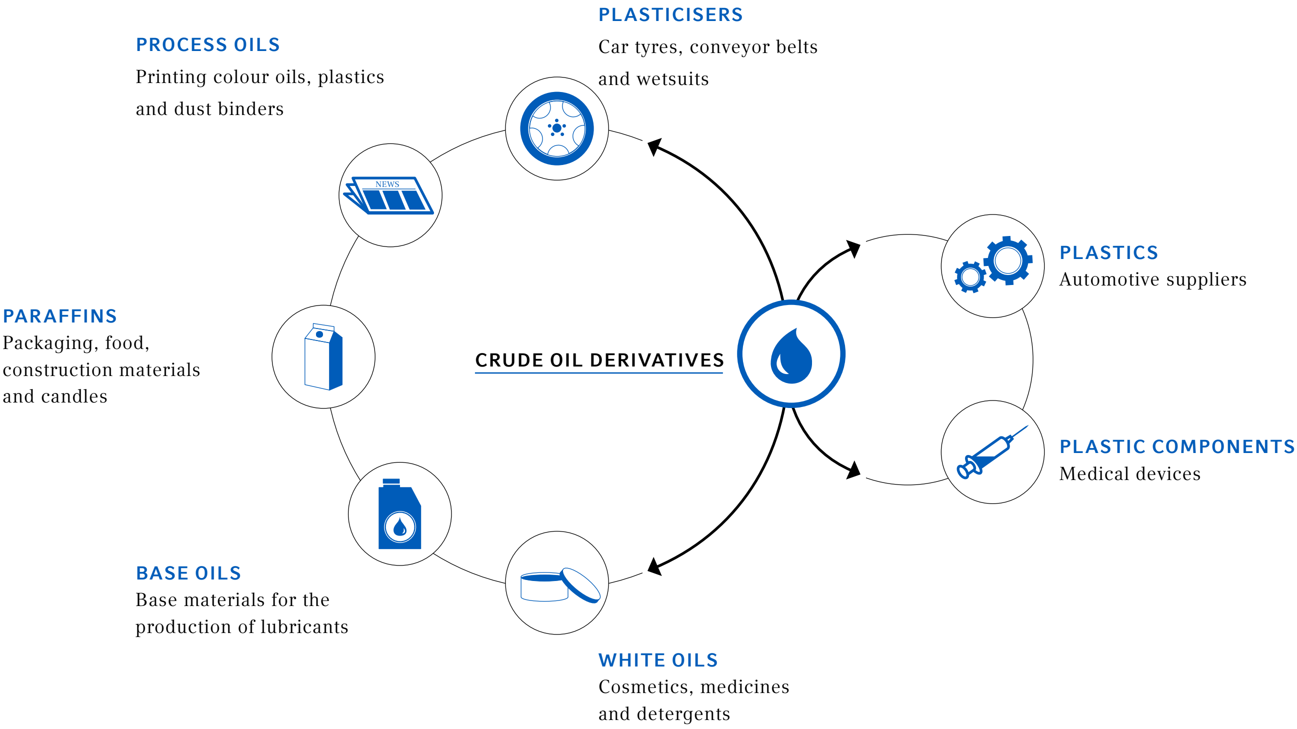
Together with our subsidiaries, we form a global conglomerate of refineries, speciality production plants and sales companies that meet customers' requirements for white oils, wax emulsions, paraffins, plasticisers and many other products.

CHEMICAL-PHARMACEUTICAL RAW MATERIALS
Hamburg/Salzbergen (Germany) // Laverton (Australia) // Tipton (Great Britain) // Mumbai (India) // Port Klang/Batu Caves (Malaysia) // Auckland (New Zealand) // Nuth (The Netherlands) // Singapore (Singapore) // Durban (South Africa) // Bangkok/Si Racha (Thailand) // Prague (Czech Republic)

PLASTICS
Coburg (Germany) // Wuxi (China) // Dačice (Czech Republic)

Our business model

We take a product of crude oil destillation and apply intelligent processes to obtain more than 800 innovative, environmentally friendly and high-quality products such as plasticisers, white oils and paraffins. High-precision plastic parts complete our product portfolio. Our input material has an almost inexhaustible potential, and our products are an important building block in the processes and products of a great number of industries. These are excellent conditions that promise success also for the future.



Together

In collaboration with all Group units, we will continue to improve our value creation and our processes in 2014. To this end, we have identified many optimisation options, which we will be implementing together.

Contents

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

Further information

Informative notes Information on sustainability Link to the H&R homepage Useful information

Sites and business model of H&R AG

TO THE SHAREHOLDERS

2013 was not our most successful year. However, H&R has embarked on a course to success.

The year 2013 proved to be a challenging year for H&R AG.
Right at the start of the year, we were required to take strong and effective measures in order to contain the effects of the earnings development and the difficult market trends of the turn of the year 2012/2013. These measures involved, on the one hand, continued focusing on efficiency increases and improvements in our value creation approach. On the other hand, we found a new approach to what was probably the greatest challenge for our business by adding a differentiation to our business model: squeezing our margins and palliating the burdens created by economically weakening markets.

Since 1 July 2013, therefore, our refinery site in Salzbergen has been operating as a contract manufacturing facility for high quality specialty products. In addition to higher earnings reliability, it is in particular the lower net working capital requirement that provides relief for our debt situation.

Key topics in 2013

- Conversion of the Salzbergen refinery site to a contract production model

- Constant improvement of EBITDA until the end of the third quarter of 2013, but overall no satisfactory result owing to the tense market situation

- Market price risk and difficult margin situation at the Hamburg site led to impairments in the third quarter of 2013 and higher write-downs for the overall results for 2013

- Nonetheless, a distinct recovery in terms of cash flows and net indebtedness

Dear Shareholders, dear Partners of H&R AG,

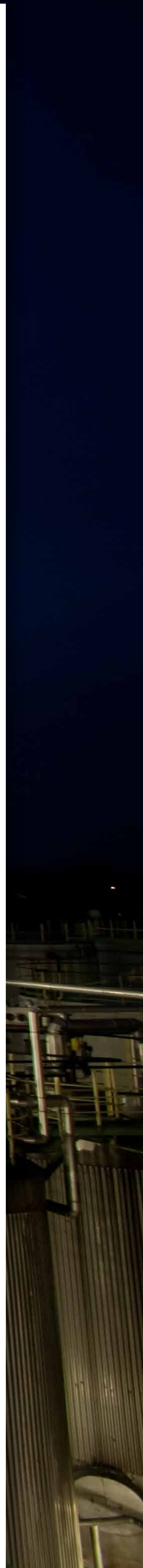
The financial year 2013 held many challenges for your H&R AG.

The year started out by demanding tough and efficient measures from us to respond both to the earnings development and to the challenging market trends at the turn of the year 2012/13. We chose a two-pronged approach: On the one hand, we continued to focus on increasing our efficiency and on improving our value creation. The figures of our internal company programs show that measurable success has been achieved.

On the other hand, we differentiated our business model to re-address what looks like the biggest challenge impacting our business: the compression of our margins and the economic slowdown of many markets. Since 1 July 2013, our Salzbergen refinery site has been operating as contract manufacturer of high-grade specialty products. As a key benefit, contract manufacturing provides us with more reliable earnings. Under the old scheme, H&R AG bore the full risk of price fluctuations for both purchased raw materials and finished products. Today, only the Hamburg site bears this risk. In Salzbergen, the contracting company supplies the raw materials, while we manufacture the specialties they require on their own account. In return, H&R AG receives a fixed processing fee which is not subject to any market risks.

An additional and even more important effect is the lower capital demand. The clear-cut optimizations of our net working capital management serve to re-enhance our positive net debt development: Standing at just over €73 million, our debts were almost halved by the 2013 year-end accounting reference date. In the preceding year, we still required special agreements with the banks, while in 2013 we fully complied with all financing terms.

Our plastics segment also reports positive developments: After our negative operational results in the preceding year, the segment shows a small operating profit in 2013. Despite these positive developments, we do not want to conceal our dissatisfaction with the development of the business. In total, the Group sales of €1.21 billion remained at the previous year's level (2012: € 1.23 billion). Revenue losses in the Chemical-Pharmaceutical business significantly reduced our year-on-year operating profit (EBITDA): Standing at just under €33 million, it only reached the lower end of our expectations range which was last up-dated in autumn.



Our results were also impacted by extraordinary impairments of our Hamburg site assets. These non-cash-effective, non-recurring items, amounting to over €12 million, were booked at the end of the third quarter 2013, resulting in a corresponding increase in depreciations. All in all, H&R AG generated a consolidated Group deficit of €12 million attributable to the company's shareholders.

Judging from these financial data only, our performance in financial year 2013 seems poorer than in the preceding year. However, there are several good reasons for looking ahead with confidence:

These reasons include, first of all, measures undertaken in the past year to lay the foundation for a more stable development of our company's earnings. In addition to the Salzbergen change-over, the company's leadership initiated far-reaching cost reduction projects in all divisions throughout the Group. Under these programs, essential cost factors were analyzed, and resulting cost-cutting measures introduced. They will start to have an impact from 2014 onwards. Effective 2013 we were already able to cut down fixed costs significantly. In addition, we made a series of organizational and staff changes. They will have an impact on several levels in 2014, boosting the company's resilience and vigour.

It would be the wrong strategy to stop half way now, hoping for fairer winds, i.e. for the self-propelled recovery of the markets. That is why the executive board decided to improve earnings further by adding new components to the measures already initiated and implemented in the year under review to stabilize the earnings situation: One key focus is on optimizing the energy and raw materials management in our Hamburg refinery. Processes in raw material management were realigned to increase value creation significantly. A second key focus is on leveraging the potential in purchasing: Renegotiated financing conditions now allow faster reactions than in the past, giving more flexibility to exploit market opportunities. A third focus will be on analyzing further strategic options to identify interfaces which offer additional synergy potential for the H&R Group.

If these measures are successful – and we are sure they are – we expect a moderate improvement of our operating results, provided that market conditions remain unchanged.

Special thanks go to our customers, suppliers, and investors. Their confidence in our company has laid the foundation for our stability and it has provided the basis for the recent set of measures designed to get us back on track for success.

We would also like to express our sincere gratitude to our employees. Their great commitment has made an important contribution to our joint effort of further improving the efficiency of our organization. Their dedication ensures that we are all set for the challenges ahead. Our company is an established global player in the market for specialty products based on crude oil, and for high-precision plastic

components. This solid basis is a reason for pride, but also the foundation to build on, when we penetrate the market further in 2014.

In particular we thank you, our shareholders, for your trust in our shares. Your capital contribution provides the vital economic basis that empowers us to implement our strategy of sustainably increasing the company value of H&R AG.

Together we will succeed in stabilizing H&R AG further, step by step, developing its strength, and returning it to its role of generator of sustainable good returns.

Best regards,

Your H&R AG Executive Board

Niels H. Hansen　　Detlev Wösten　　Wolfgang Hartwig

Salzbergen, March 2014

Company representative bodies

The representative bodies of H&R AG consist of personalities characterised by a combination of entrepreneurial thinking and professional competence. They complement one another by their individual skills, capabilities and varied expertise, which they contribute to the achievement of our common corporate goals.

Corporate Management

H&R AG's corporate management currently consists of three members. Each member of the Executive Board is responsible for one or more functions within the H&R Group.

Niels H. Hansen
Chairman of the Executive Board

Detlev Wösten
Deputy Chairman - Refineries,
Production and Technology

Wolfgang Hartwig
Chief Financial Officer

The Supervisory Board

The Supervisory Board of H&R AG is responsible for the appointment and supervision of the Executive Board as well as for the approval of significant corporate procedures. The Supervisory Board of H&R AG comprises the members set forth below. The Chairman of the Supervisory Board of H&R AG is Dr Joachim Girg.

Chairman of the Supervisory Board:

Dr Joachim Girg
Managing Director of H&R Beteiligung GmbH

Members of the Supervisory Board:

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

Nils Hansen
Personally liable member of the H&R Group

Anja Krusel
CFO, Microsoft Deutschland GmbH

Dr Ing. Hartmut Schütter
Consulting Engineer

Dr jur. Rolf Schwedhelm
Tax attorney and partner of the law firm
Streck Mack Schwedhelm

The Advisory Board

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

Reinhold Grothus
Works Council Chairman of H&R ChemPharm GmbH

Harald Januszewski
Thermoplast Work Preparation at GAUDLITZ GmbH

Rainer Metzner
Sales Manager Medical Devices at GAUDLITZ GmbH

Honorary Chairman of the Supervisory Board:

Bernd Günther
Honorary Chairman of the Supervisory Board of H&R AG since June of 2012.

Harald Baumgart
Managing Director of KG Deutsche Gasrußwerke GmbH & Co

Eckbert von Bohlen und Halbach
Managing Director of Bohlen Industrie GmbH

Sabine Dietrich
Member of the Board of Directors of BP Europa SE

Dr Ing. Bernd Drouven
Chairman of the Supervisory Board of the Northern Institute of Technology Management

Dr Erwin Grandinger
Businessman

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

Wilhelm Scholten
Managing Director of Ölfabrik Wilhelm Scholten GmbH

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

Together

Difficult market conditions were a major challenge for us last year as well. This environment and some other essential parameters of our business, such as raw materials costs or product prices are only slightly, or even not at all, within our sphere of influence. However, we do not aimlessly drift about. In collaboration with all Group units, we have identified numerous optimisation options, which we already started implementing in 2012 and 2013.

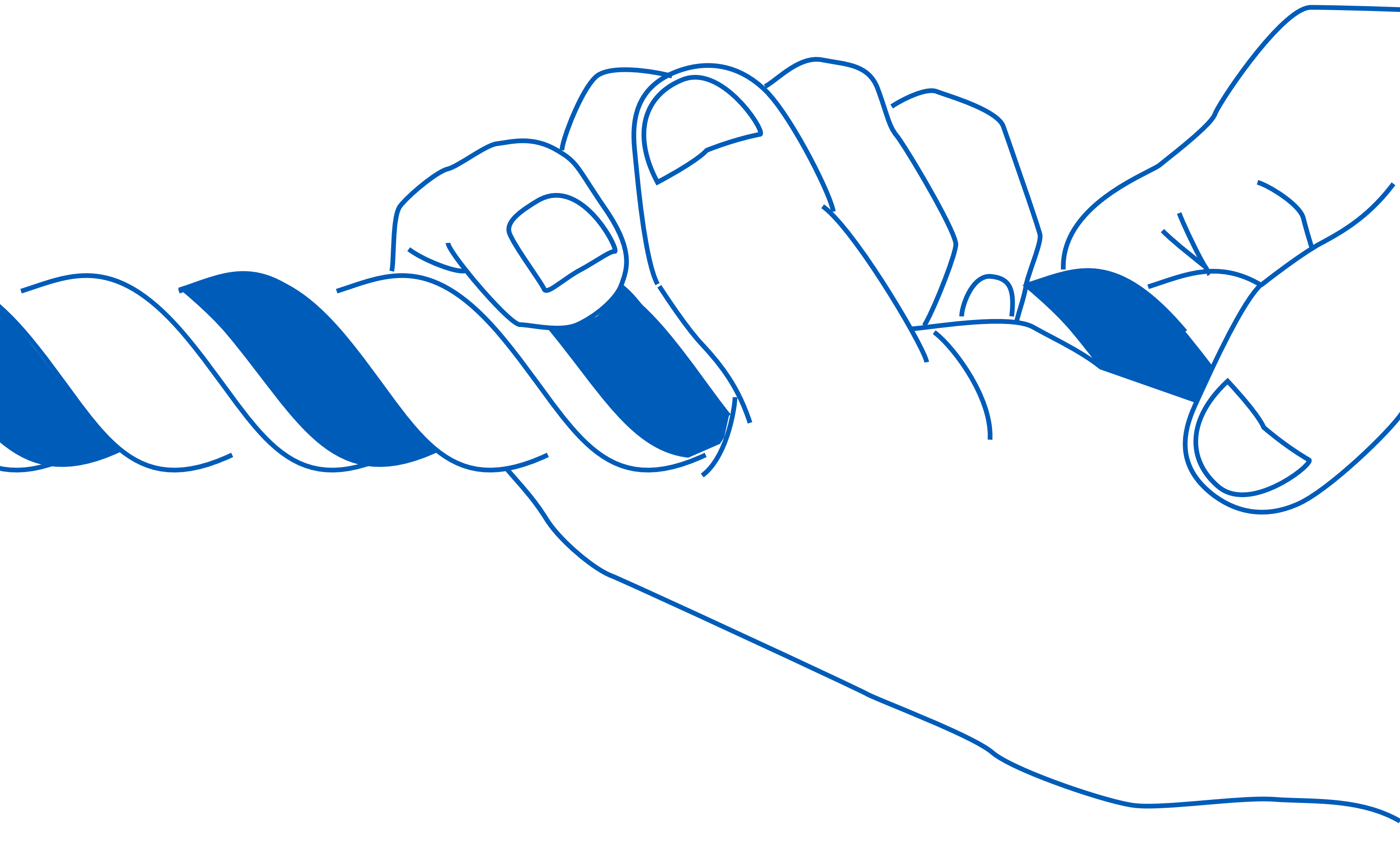
Even if our earnings once more noticeably declined in 2013, with our efficiency and optimisation programmes we have been able to lay the foundations for a more successful financial 2014. Together we will raise additional potentials in our value creation and our processes and continue on the path to an operationally improved and more stably profitable H&R AG.

How...

does H&R remain stable, also in turbulent times?

*By working **together** as a real team!*

High raw material requirements, low base oil prices and volatile margins have been real challenges for us in the past financial year as well. In order to counter these effectively and at the same time plan a future with stable earnings, we have tested every area of our Group and every aspect of our business model for improvement potential and implemented a number of pertinent measures. Solving these problems has placed high demands on our employees. They had to commit a great deal of dedication in order to implement the optimisation processes within the company. This also required a number of concessions. Yet, a number of benefits also materialised: jointly meeting challenges has a uniting effect. The hard work of our employees, the enormous commitment that spanned the entire Group of companies and their determination to give their best in all areas of the company show that we are a real team and we will regain our successful position in our market.



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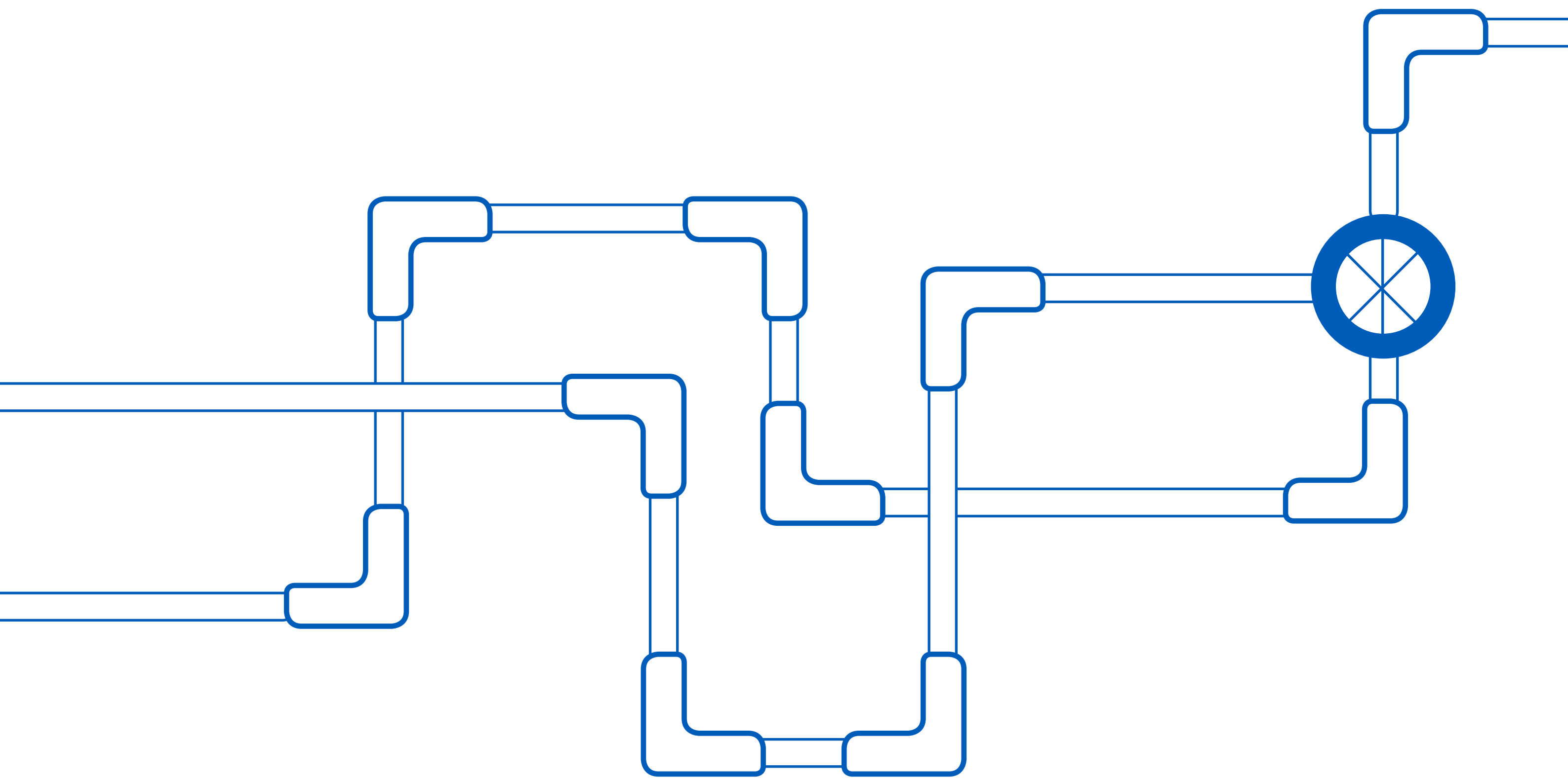
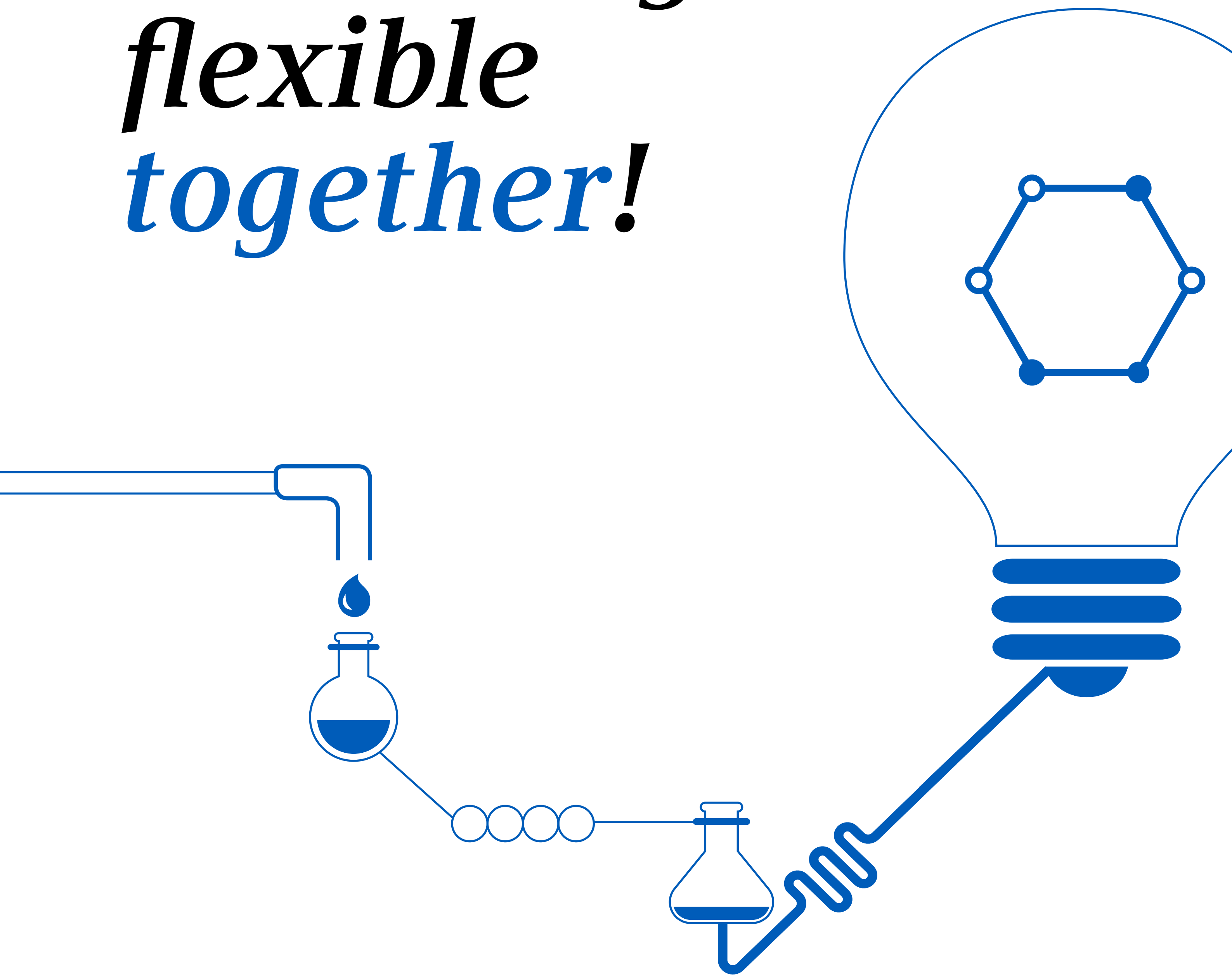
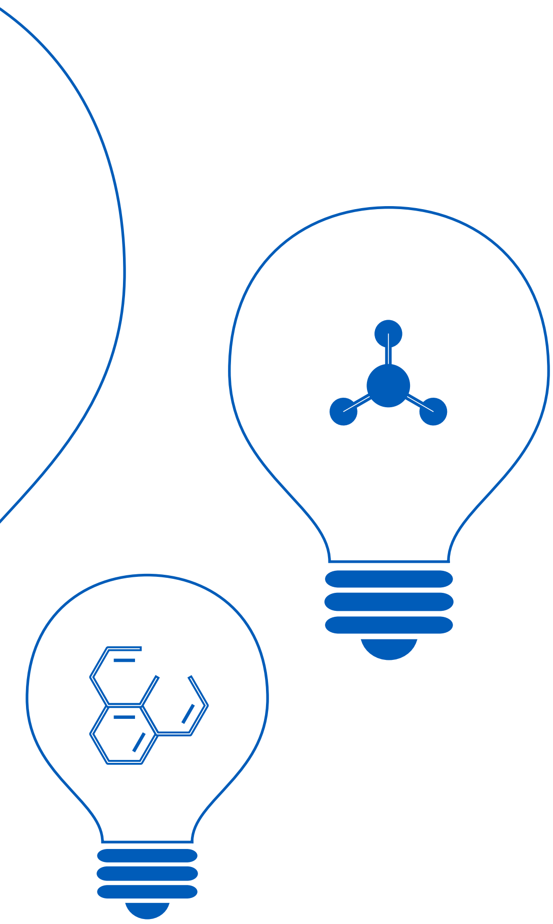


*will we,
also in future,
guarantee our
competitive
edge?*

By remaining flexible together!



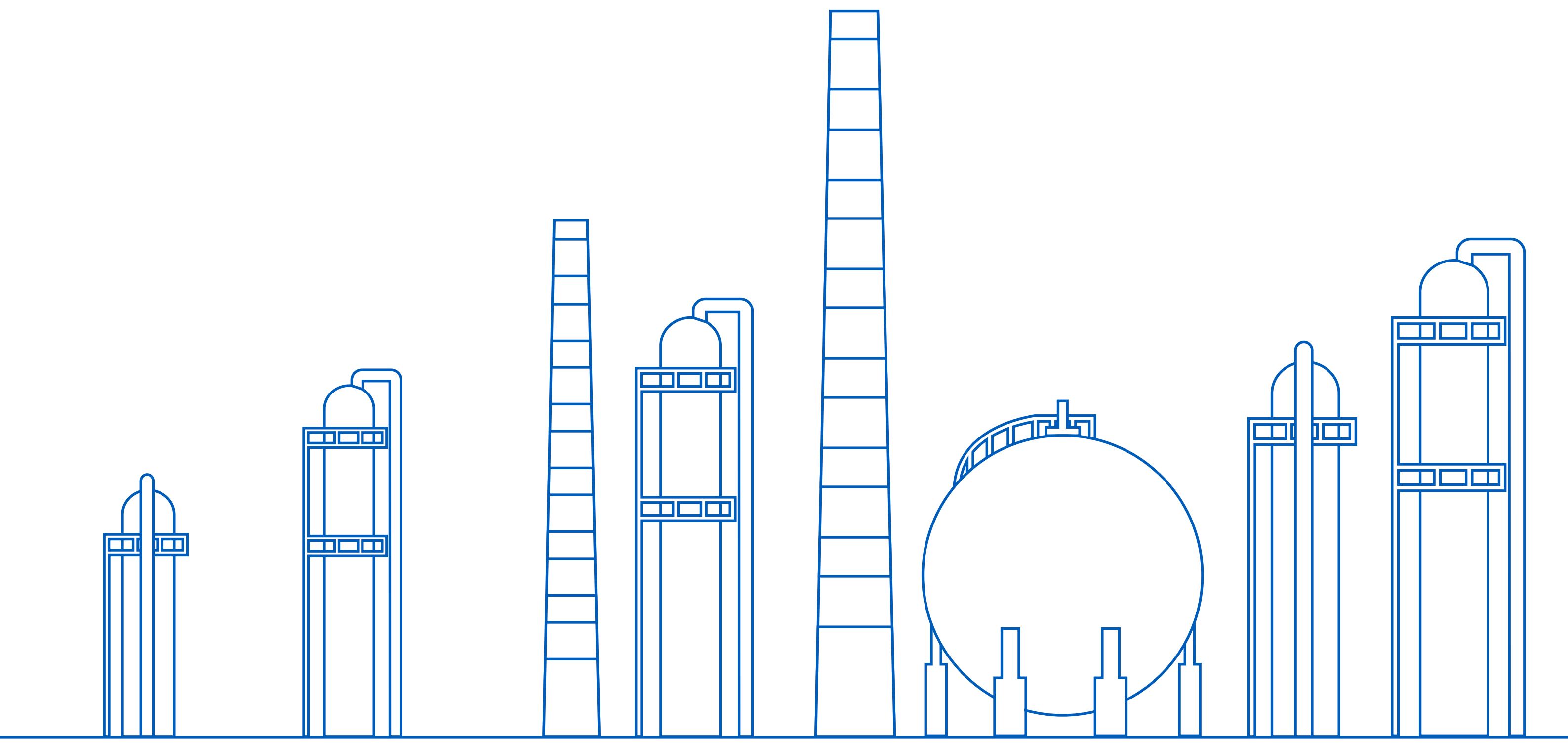
More than 800 high quality specialties are developed from our inputs – that is a uniquely broad range in the industry. However, in order to remain competitive also in the future, we cannot simply rest on our laurels. We must remain flexible. Continuing to optimise production techniques, recognising our customers' needs, even better understanding their own challenges and finding new, innovative solutions to increase the depth of our value creation and continuing to process and enhance our products in an even more sophisticated manner are the goals that preoccupy our R&D people on a daily basis. In this way, our earnings will be able to become more independent from raw materials prices, and therefore grow more stably, and we will be able to assure our competitive and future survival over the long term.



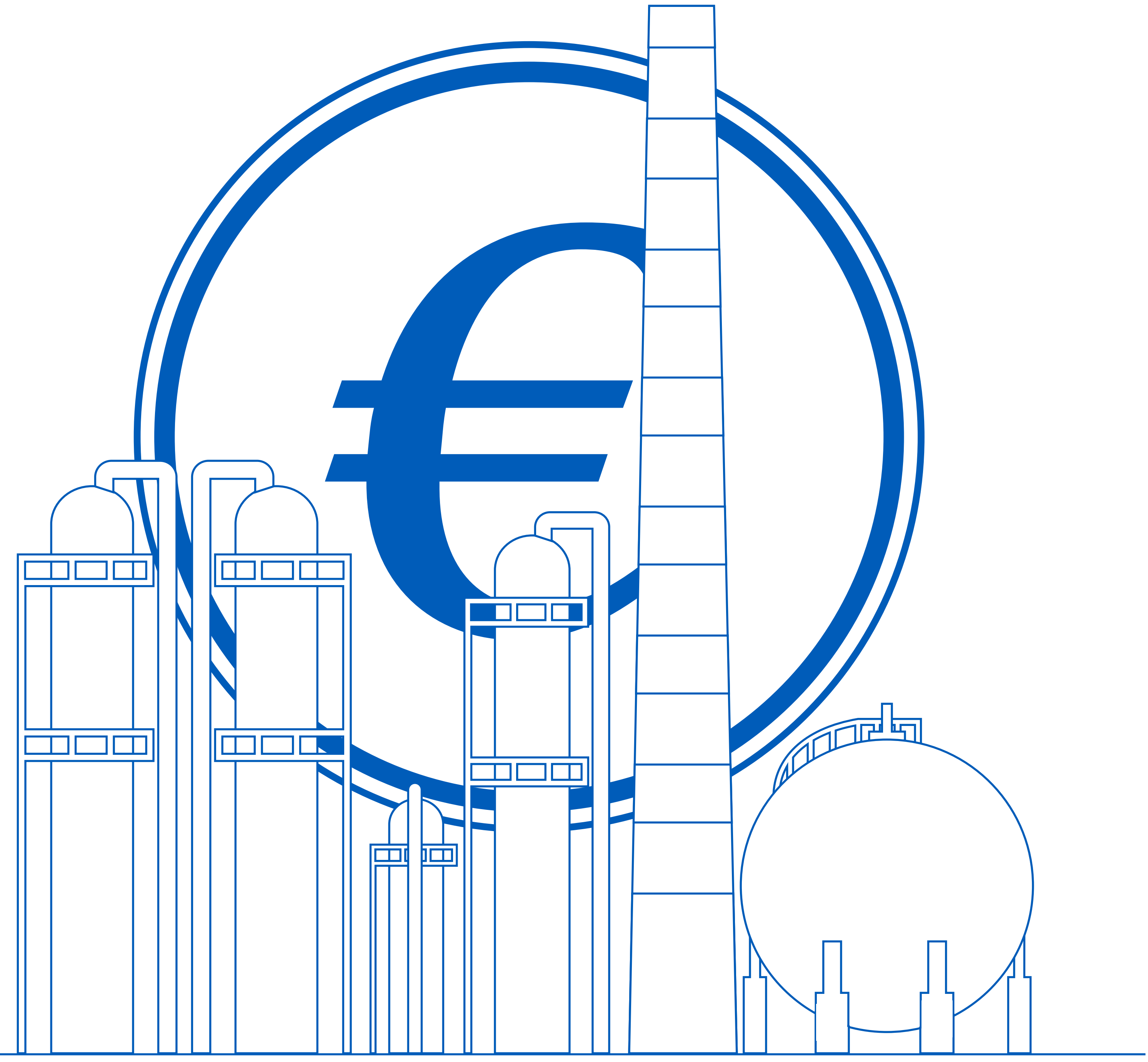
How…

can we enhance our earning power?

By together improving our efficiency even further!



Maximum flexibility, efficiency, avoidance of errors and coverage contribution optimisation are the leading principles that will take us far beyond 2014. This is why all cost and efficiency measures of the last two years must be smoothly and consistently carried on and further developed. The progress that will be made in the areas of energy and raw materials management will also be decisive. The environment is certainly not easy, but we can already record some partial successes. Together with our experience, our competence and our competitive advantages, these programmes will contribute to a renewed profitability power in the future.



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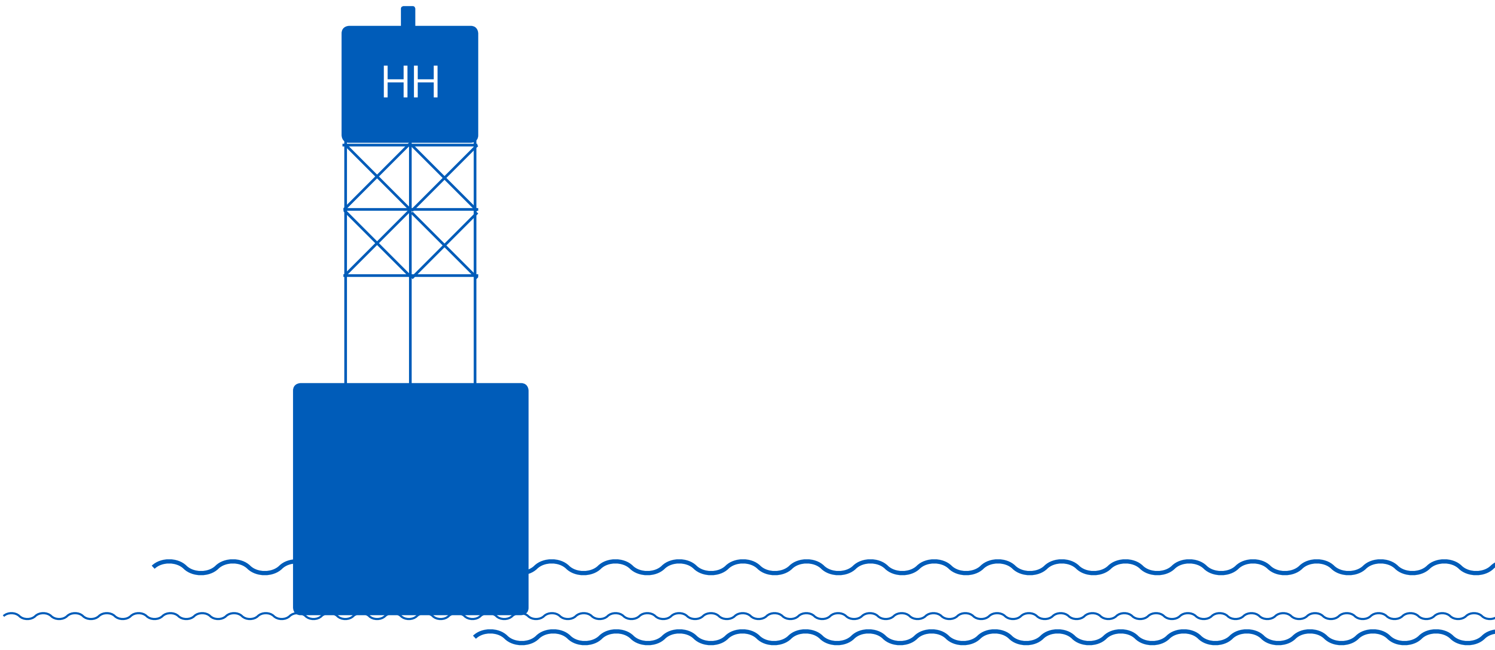
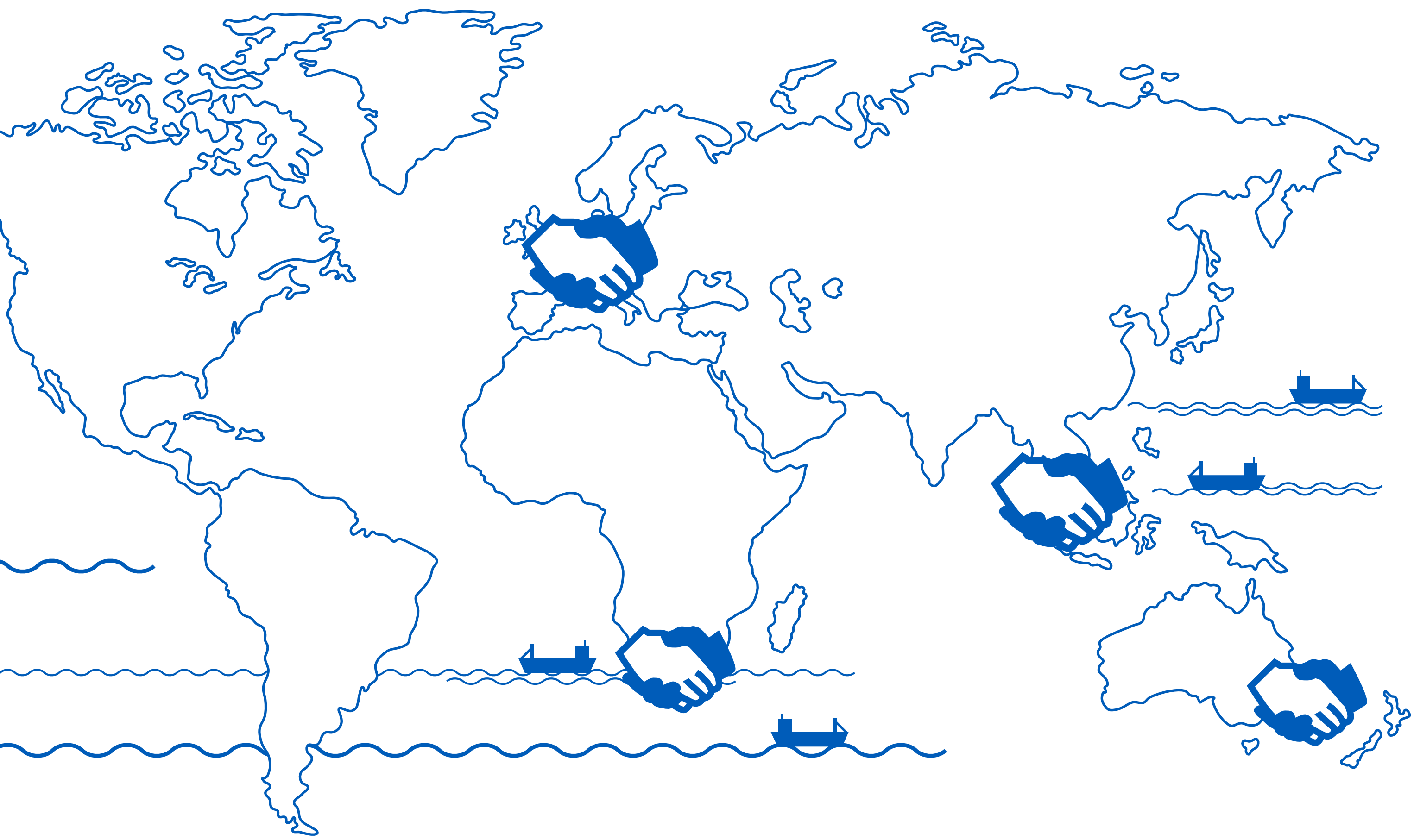


can we win new, suitable customers?

By *together* continuing to conquer the international markets!

We recognised the prospects of international trading streams and global economic networking at an early stage. Today, with its high quality specialty oils, H&R AG has become established far and beyond its original German market. In the coming years, we are intending to continue developing new markets in high growth regions of the world. In doing so, we will remain faithful to our tried and trusted concept and start the expansion process by means of trade and production partnerships.

It is especially in the closeness to our customers that we see a decisive success factor for H&R. With our local presence, we can distinctly benefit from the dynamics of foreign markets while providing the best possible service to our customers. Regardless of the nature of the relationship, our product portfolio, our process know-how and our Group-wide understanding of quality are important factors that will enable us to attain our goal, namely once again significantly to increase sales outside of Europe.



Dear Shareholders,

2013 was another extremely challenging business year for H&R AG. Revenue declines, starting in the second half year 2012, continued unabated. Both the duration and intensity of this revenue erosion are remarkable, even when allowing for the cyclical development of our core business. Building on the experience of the preceding year, the Supervisory Board re-scrutinized the vital parameters of our organization in 2013 and re-aligned the focus for H&R AG together with the Executive Board. Responding to the pricing and competitor landscapes, it became necessary to plan and subsequently pursue structural and organizational changes vigorously. The most important stabilizing pillars for our company were: the contract manufacturing scheme of our refinery in Salzbergen, far-reaching operational cost-reduction programs, as well as staff changes at several decision-making levels.

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

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

THE WORK OF THE SUPERVISORY BOARD COMMITTEES. In order to carry out its responsibilities efficiently, and complying with the rules of procedure, the Supervisory Board set up a total of five standing committees. In addition, the Board decided to leverage the option of setting up an ad-hoc committee for the business year 2013. The committees prepare resolutions and topics to be discussed by the full Supervisory Board. The committee chairpersons report to the Supervisory Board on the work of their respective committees at the subsequent meeting. In the business year 2013 a total of twenty committee meetings took place. The dates of the meetings, their participants, and a content summary are listed in a separate survey table below.

The members of the **Supervisory Board's Executive Committee** met three times. Their first meeting after the Shareholder Meeting on 23 July 2013 was on 5 August. Key topics on the agenda were the general performance evaluation of the Executive Board, the scheduled resignation of Board Member Mr Luis Rauch, and the recommendation that the Supervisory Board return the Executive Board to its former size of three.

In addition, the committee discussed the remuneration of board members. As a result, it was proposed to the Supervisory Board to reduce the fixed remuneration of Executive Board members by 15 percent, applicable initially up until the end of the 2013 business year. Against the backdrop of cancelled dividend payments to the shareholders and in view of contributions to be made by the employees (e.g. the introduction of the 40-hour-week at the Hamburg refinery site and a postponement of pay rises), the Executive Committee also recommended to cut the fixed remuneration of Supervisory Board members by the same percentage. After intense deliberation on related economic and legal aspects, it was recommended to the Supervisory Board at its meeting on 22 August to accept the settlement agreement with Mr Luis Rauch. Focus topics of the December session were the economic situation of the company and the results of the executive search so far.

T. 03 **EXECUTIVE COMMITTEE**

Date	Participants	Agenda
5 August 2013	**Supervisory Board:** Dr Joachim Girg, Roland Chmiel, Nils Hansen, Reinhold Grothus	- General evaluation of Executive Board's performance - Cutback of Executive Board's remuneration - Resignation Luis Rauch - Recommendation for Supervisory Board re. Executive Board's extension
22 August 2013	**Supervisory Board:** Dr Joachim Girg, Roland Chmiel, Nils Hansen, Reinhold Grothus	- Settlement agreement Luis Rauch After intense deliberation on related economic and legal aspects, it was recommended to the Supervisory Board to accept the agreement.
20 November 2013	**Supervisory Board:** Dr Joachim Girg, Roland Chmiel, Nils Hansen, Reinhold Grothus	- Company's economic situation - Preparation of next board meeting, scheduled for 17 December 2013 - Personnel issues; Results of previous executive search

Attendance rate: 100 %

The **Audit Committee** net five times. In the presence of the auditors and the Chief Financial Officer it repeatedly dealt in detail with the financial statements and combined management report for H&R AG and the Group, the subordinate status report, and the appropriation of net income. The Audit Committee also recommended auditors to the Supervisory Board for its proposal to the Annual Shareholders' Meeting. In addition, the following topics were discussed in detail: the appointment of the auditor for the financial year 2013, the monitoring of his independence and qualifications, as well as the additional work carried out by him and the establishment of his fees.

At two other meetings the committee dealt with a whole range of topics: investment controlling, accounting procedures for the contract refinery Salzbergen, budget compilation for 2014 and beyond, the results of an external tax audit, and in particular with restructuring measures for GAUDLITZ GmbH. In addition, the Audit Committee examined the company's accounting process, the internal monitoring system and risk management system, and received reports on the audit results and audit plan of the internal audit function.

T. 04 **AUDIT COMMITTEE**

Date	Participants	Agenda
19 March 2013 (Telco)	**Supervisory Board:** Roland Chmiel, Dr Joachim Girg, Anja Krusel, **Executive Board:** Luis Rauch, Detlev Woesten, Niels H. Hansen	- Progress of annual audit process 2012 - Preparation subordinate status report 2012 - Fast-Close-Project - Internal audit results since 9/2012, audit plan 2013
25 March 2013	**Supervisory Board:** Roland Chmiel, Dr Joachim Girg, Anja Krusel **Executive Board:** Luis Rauch, Detlev Woesten **Auditors:** Niklas Wilke (PwC), Christoph Fehling (PwC)	- Progress of annual audit process 2012 - Audit subordinate status report 2012 - Appropriation of net income 2012
25 April 2013	**Supervisory Board:** Roland Chmiel, Dr Joachim Girg **Executive Board:** Luis Rauch, Niels H. Hansen **Auditors:** Niklas Wilke (PwC), Christoph Fehling (PwC)	- Results of audit process 2012 - Results of audit subordinate status report 2012 - Appropriation of net income 2012 - Recommendation for Supervisory Board's proposal to Annual Shareholder Meeting re. auditors 2013
23 Oct. 2013	**Supervisory Board:** Roland Chmiel, Dr Joachim Girg, Anja Krusel **Executive Board:** Niels H. Hansen **AG:** Wolfgang Hartwig (CFO), Alexander Simmat (Audit, temp.), Frank Wöllermann (Controlling, temp.)	- Group accounting - Internal control system - Risk management - H&R Group Services GmbH - Compliance with BaFin - Planning of audit process for financial statements 2013 - Progress of audit process for subordinate status report 2013 - Results BP
20 Nov. 2013	**Supervisory Board:** Roland Chmiel, Dr Joachim Girg **Executive Board:** Niels H. Hansen, Detlev Woesten **AG:** Wolfgang Hartwig (CFO)	- Measures for GAUDLITZ - Evaluation of investment controlling - Budget compilation 2014 - Accounting procedures contract manufacturing Salzbergen - Progress audit process for financial statements 2013

Attendance rate Supervisory Board members: 83.3 %

The **Committee for Refinery Technology and Strategy** (RTS) met three times last year. A two-day workshop and two additional meetings focused on strategic options, and went on to discuss and agree on short-, mid-, and long-term measures. Further items on the agenda were strategies for individual product groups and the optimization potential within the H&R Group.

Meetings in September and October included the presentation and discussion of the lubricant refinery benchmarking study compiled by the Research Company Solomon Associates. Unlike the other committees, participants in 2013 of this body included a broader range of delegates: In addition to the committee members and the Executive Board, refinery representatives and sales managers attended the meetings as guests. It should also be mentioned that Dr Bernd Drouven, Advisory Board of H&R AG, attended all three meetings. Whenever required, the number of participants was limited to the committee members to preserve confidentiality.

Measures launched in the previous year to ensure further improvements of our safety performance continued in business year 2013. All committee members participated in at least one refinery safety inspection in the past financial year. In addition, the RTS committee members were informed promptly on the steps taken to cope with the tidal surge in Hamburg during the night of 5/6 December 2013. As in the past, the Supervisory Board Chairman visited individual company sites in 2013. Some of his visits extended over several days and included whole-day familiarization tours of the production process.

T. 05 **COMMITTEE FOR REFINERY TECHNOLOGY AND STRATEGY**

Date	Participants	Agenda
10 -11 June 2013	**Supervisory Board:** Dr Joachim Girg **Executive Board:** Luis Rauch, Detlev Woesten, Niels H. Hansen **AG:** Wolfgang Hartwig; Refinery representative **Advisory Board:** Dr Bernd Drouven	- Refinery workshop (two-day)
25 Sept. 2013	**Supervisory Board:** Dr Hartmut Schütter, Dr Joachim Girg, Nils Hansen **Executive Board:** Luis Rauch **AG:** Wolfgang Hartwig; Refinery representative **Advisory Board:** Dr. Bernd Drouven	- Refinery workshop resumes - Short-, mid-, long-term measures - Results Solomon bench marking study on refineries
14 Nov. 2013	**Supervisory Board:** Dr Hartmut Schütter, Dr Joachim Girg **Executive Board:** Detlev Wösten **AG:** Wolfgang Hartwig; Refinery representative **Advisory Board:** Dr Bernd Drouven	- Strategies for individual product groups - Co-operation and optimization potential within the H&R Group - Results Solomon benchmarking study on refineries

Attendance rate Supervisory Board members: 72.2 %

The **Nomination Committee** met twice in 2013. In its February meeting, the Committee made a final evaluation for the Supervisory Board of the results of the executive search for a refinery expert. Hence it was suggested to the Supervisory Board to nominate Dr Hartmut Schütter as the Supervisory Board candidate for the Shareholder Meeting on 23 July. In August, the Committee's agenda focused mainly on the H&R AG Advisory Board. Among other topics, the participants discussed to what extent individuals presently serving on the Advisory Board will also be eligible for the Supervisory Board of H&R AG.

T. 06 **NOMINATION COMMITTEE**

Date	Participants	Agenda
5 Febr. 2013	**Supervisory Board:** Dr Joachim Girg, Nils Hansen, Dr Rolf Schwedhelm (informed via phone)	- Final evaluation of results of executive search for a refinery expert as Supervisory Board member - Introduction Dr Hartmut Schütter - Recommendation to Supervisory Board to nominate Dr Hartmut Schütter
28 August 2013	**Supervisory Board:** Dr Joachim Girg, Nils Hansen, Dr Rolf Schwedhelm	- Advisory Board of H&R AG; Potentials and co-operation

Attendance rate: 83.6%

The **Capital Measures Committee** met three times in 2013. Early in the year, the focus was on the company's economic situation and its finance restructuring at the turn of the year 2012/2013. In the June and September meetings a huge part of the deliberations focused on the Plastics Division (GAUDLITZ GmbH, Coburg), also once again on the company's refinancing, and on the compliance with financing conditions in the second half year 2013 and beyond.

T. 07 **CAPITAL MEASAURES COMMITTEE**

Date	Participants	Agenda
8 Feb. 2013	**Supervisory Board:** Dr Joachim Girg, Anja Krusel, Roland Chmiel **Executive Board:** Luis Rauch (phone)	- Company's economic situation - Overview re. finance restructuring and costs for waiver amendments 2012 - Annual reporting process 2012
28 June 2013	**Supervisory Board:** Dr Joachim Girg, Anja Krusel, Roland Chmiel **Executive Board:** Luis Rauch, Niels H. Hansen	- Segment Plastics Division (GAUDLITZ) - Finance restructuring of AG - Compliance with financial covenants; measures
5 August 2013	**Supervisory Board:** Dr Joachim Girg, Anja Krusel, Roland Chmiel **Executive Board:** Luis Rauch, Niels H. Hansen Luis Rauch, Detlev Wösten **GAUDLITZ:** Lens-René Lübben (Managing Director), Prof. Dr Bernd Schmideck (Advisor)	- Segment Plastics Division (GAUDLITZ) - Finance restructuring of AG - Compliance with financial covenants
Attendance rate Supervisory Board members: 100 %		

Responding to the significant deterioration of the business environment of the refinery industry that became apparent at the end of 2012, the Supervisory Board appointed an **ad-hoc committee** in early February 2013. Committee members are the Chairman of the Supervisory Board, the Chairman of the Audit Committee, and Mr Nils Hansen. The ad-hoc committee met five times between 7 February and 4 April combining topics and responsibilities of the Audit Committee, the Capital Measures Committee, and the Refinery Technology and Strategy Committee.

During the challenging phase at the start of the year, the ad-hoc committee conducted intensive discussions with the Executive Board on the company's revised planning, on options to reduce the debt burden, on the short-term further development of the company's business model, and on postponing and preparing the shareholder meeting. Inevitably, the opportunities and limitations of Salzbergen's change-over to contract manufacturing and the resulting reductions of the company's debt burden by approx. €72.0 million were given great prominence in the deliberations. The ad-hoc committee completed its work in mid-April 2013, and transferred the different topics to the regular committees. The three committee members relinquished their statutory entitlement to committee remuneration and attendance fees.

The attendance rate throughout the twenty Committee Meetings was 85.4 percent.

T. 08 **AD-HOC COMMITTEE**

Date	Participants	Agenda
7 Feb. 2013 21 Feb. 2013 7 March 2013 21 March 2013 4 April 2013	**Supervisory Board:** Dr Joachim Girg, Roland Chmiel, Nils Hansen **Executive Board:** Niels H. Hansen, Luis Rauch, Detlev Wösten	- Planning - Development business model - Issues re. finance restructuring - Contract manufacturing Salzbergen - Preparation Annual Shareholder Meeting
Attendance rate Supervisory Board members: 100 %		

Topics discussed by the full Supervisory Board

In 2013, the Supervisory Board convened for seven in-person meetings – one of them a 2-day session in Hamburg. In addition, there were five conference call meetings, allowing non-Hamburg based Board members to participate via telephone. A survey of the dates, focus topics, and important decisions of the meetings is listed on page 40.

For further information see page 40

Items discussed regularly in the plenary sessions included the sales and earnings development of H&R AG, as well as its financial position and performance – each topic broken down by the segments Chemical-Pharmaceutical Raw Materials Domestic and International, and the Plastics Division. The Executive Board updated the Supervisory Board at regular intervals with in-depth information on business operations and the state of the company. Recurring topics of our meetings also included compliance with financial conditions (covenants) and reports from the Committees.

At the meeting on 26 March 2013 we discussed with the Executive Board the current state of the annual financial report and the company's revised planning. In addition, Dr Hartmut Schütter introduced himself to the Board as their nominee for the shareholder meeting. The change-over of Salzbergen refinery to contract manufacturing and the resulting reduction of net working capital in conjunction with the company's lower finance requirements were also given great prominence in the deliberations.

On 25 April 2013 we examined the financial statements for 2012 in the presence of the auditors. After in-depth discussions, both the separate and consolidated financial statements for H&R AG were approved as was the proposal to cancel dividend payments. Other important topics were the divestment of H&R Infotech GmbH and an update on the current situation regarding the "paraffin-wax cartel". In preparation of this meeting, on 14 April 2013, a telephone conference discussed in detail and then adopted both the company's revised planning and the term sheet for the Salzbergen refinery change-over.
The meeting on 23 Mai 2013 was dedicated to preparing the annual shareholder meeting. The agenda and invitation message for the shareholder meeting on 23 July 2013 were discussed and approved. Further topics were the production at the refinery sites, and the plastics division.

On 22 August the Supervisory Board focused on the implementation of H&R Group Services GmbH. H&R Group Services is responsible for merging H&R AG's controlling and treasury functions with certain H&R KG's sub-functions under the company roof of the AG. This step will help the AG and KG to grow closer together. After in-depth discussions, the Supervisory Board gave the green light for H&R Group Services GmbH to start on its mission.

Another item on the agenda was to determine the priority themes of Supervisory Board activities in the second half year. Upon request of the Supervisory Board, the Executive Board presented the results of the company's risk inventory. Subsequently a Supervisory-Board-members-only session discussed several topics concerning the Executive Board. This included the adoption of the Executive Committee proposal to reduce the fixed remuneration of the Executive Board members by 15 percent for the period from August to December 2013. The proposal to reduce the fixed Supervisory Board remuneration by the same percentage for the same period was also adopted. These two steps and the waiver of remuneration for efforts in the ad-hoc committee reduced the cost for the two bodies – Executive Board and Supervisory Board – by almost €65 thousand.

As in the previous year, the September meeting was scheduled for two days. On 25 September 2013 the agenda featured tours of both H&R Ölwerke Schindler in Hamburg and the R&D laboratory. The results of Solomon's refinery benchmark study were presented and discussed in detail. Further topics were: the optimization potential of the Hamburg refinery, the Raw Material Purchasing division, and Quality Assurance topics. On the second day, the agenda featured a first feedback presentation on the change-over at Salzbergen refinery. In addition, delegates discussed latest developments at GAUDLITZ, the earnings situation in the second half year, and the current state of the bank negotiations, including possible scenarios resulting from them.

The meeting on 5 November 2013 took place in Salzbergen. Apart from taking a tour of the refinery site, the delegates discussed a time-table for the year 2014, including budget, planned actions and measures, as well as goals. The agenda also included detailed discussions on the company's international business.

On 17 December 2013 the main focus of the agenda was on bank negotiation results and on the discussion and approval of the revised version of the syndicated loan. The Executive Board presented the final budget for 2014 which was adopted by the Supervisory Board after detailed deliberation. Also on the agenda were an update on the revision of distribution agreements, the annual efficiency review, H&R AG's compliance declaration for 2013 submitted by the Executive Board in accordance with the German Corporate Governance Code, and its approval. With few exceptions, H&R

AG currently complies with the recommendations of the German Corporate Governance Code Commission as published on 15 June 2013. You will find our compliance declaration according to §161 of the German Companies Act (AktG) on page 41ff. of this report or online in the H&R AG section at www.hur.com.

For further information see page 41ff.
www.hur.com

The attendance rate of Supervisory Board members at the meetings was 93.4 percent.

Audit of the separate and consolidated financial statements

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, (PwC) audited the separate and consolidated financial statements and the combined management report for H&R AG and the Group for the financial year 2013, and issued an unqualified audit certificate for each. The separate financial statements for H&R AG and the combined management report for H&R AG and the Group were prepared in accordance with German commercial law.

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the European Union (EU), and the supplementary provisions of German commercial law required by §315a para. 1 of the German Commercial Code (HGB). The auditor carried out the audit in accordance with §317 HGB and with the generally accepted auditing principles defined by the Institute of Public Auditors in Germany (IDW). The Executive Board distributed the aforementioned documents to the members of the Supervisory Board in good time. The separate and consolidated financial statements and the combined management report were also dealt with in depth at the Audit Committee meeting on 11 March 2014.

PwC's audit reports were distributed to all Supervisory Board members and were reviewed thoroughly in the presence of the auditor at the Supervisory Board's meeting also held on 11 March 2014 to discuss the financial statements. The auditor reported on the main findings of his audit and confirmed that the internal control and risk management system had no major flaw as far as the accounting process was concerned. In addition, the auditor talked about significant transactions and measures that had been taken concerning the financial statements. The Chairman of the Audit Committee gave an extensive report to the full Supervisory Board on the Audit Committee's review of the separate and consolidated financial statements.

Once the separate and consolidated financial statements and the combined management report had been reviewed and discussed by the Supervisory Board, we accepted the result of the audit, in line with the recommendation of the Audit Committee and approved both the separate and the consolidated financial statements. The separate financial statement was hereby adopted. As the separate financial statements showed no distributable profit for the reporting year, the Executive Board did not present a proposal for the appropriation of net income to the Supervisory Board.

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

"Having carried out the audit and assessment dutifully we confirm that

1. the factual information provided in the report is correct,

2. the payments made by the company for the legal transactions listed in the report were not inappropriately high,

3. there are no grounds for a significantly different assessment of the measures listed in the report to that made by the Executive Board."

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

Changes in the Supervisory Board and Executive Board

After comprehensive Board changes in the previous year, financial year 2013 saw only one change each for the Supervisory Board and the Executive Board of H&R AG.

On 23 May 2013, the shareholder meeting elected Dr Hartmut Schütter to the Supervisory Board as a new member. An engineer, holding a PhD in chemistry, Dr Schütter offers many years of experience in the refinery business. Mr Schütter's election as a member of the Supervisory Board had become necessary following the sudden death of Mr Volker Woyke on 9 October 2012.

Effective 31 August 2013, Mr Luis Rauch, Executive Board Member responsible for Finances, has resigned from the Executive Board of H&R AG. Resulting from developments since the start of the year and the resulting launch of H&R Group Services GmbH, the Supervisory Board and Mr Rauch agreed to terminate his contract with H&R by mutual agreement effective 30 September 2013.

His successor as CFO is Mr Wolfgang Hartwig. Mr Hartwig joined the company on 1 August 2013 and presently reports to the Executive Board and the company's extended leadership team. For the time being, Mr Rauch's duties at Executive Board level will be carried out by CEO Niels H. Hansen.

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

On behalf of the Supervisory Board

Joachim Girg

Dr Joachim Girg
Chairman

T. 09 **MEETING AND TELEPHONE CONFERENCES**

Date	Type	Focus	Relevant Resolutions
28 Jan. 2013	Telephone conf.	Budget 2013-2015 (I)	- Budget revision
30 Jan. 2013	Telephone conf.	Budget 2013-2015 (II)	- Approval budget 2013-2015
13 March 2013	Telephone conf.	Variable remuneration Exec. Board	
26 March 2013	Meeting in Hamburg	- Introduction Dr Schütter - Progress annual statements and reporting process - Revised planning - Change-over of Salzbergen refinery to contract manufacturing - Issus re. Exec. Board; performance evaluation	- Nomination of Dr Hartmut Schütter as Board's recommendation to Annual Shareholder Meeting - Approval of contract manufacturing in Salzbergen (for 18 to 24 months) - Postponements of publication of annual financial statements and report - Approval of modified Declaration of Compliance
14 April 2013	Telephone conf.	- Final presentation of revised planning - Term sheet change-over of Salzbergen refinery to contract manufacturing	- Approval revised planning - Approval term sheet change-over
25 April 2013	Meeting in Hamburg	- Annual financial statements and report 2012 - Development of business model - Divestment H&R Infotech - Update antitrust suit	- Approval of separate and consolidated financial statements 2012 of H&R AG - Cancellation of dividend payments - Approval of founding a jointly-operated company for outsourcing the IT's data center
23 May 2013	Meeting in Hamburg	- Preparation Annual Shareholder Meeting - Production refineries - Segment Precision Plastics / GAUDLITZ - Advisory Board H&R AG	- Approval of Advosory Board's extension by two members (Ms Sabine Dietrich; Dr Bernd Drouven) - Approval of shutting down H&R Czechia
22 Aug. 2013	Meeting in Hamburg	- Main focus for second half-year 2013 - Risk inventory - Start of H&R Group Services activities - Issues re. Exec. Board	- Amendment to the Articles of Association - Approval of founding H&R Group Services - Approval of contract extension with Detlev Wösten - Cutback of Executive Board's fixed remuneration by 15 % until 12.2013 - Cutback of Supervisory Board's fixed remuneration by 15 % until 12.2013 - Settlement agreement with Luis Rauch - Executive search
25-26 Sept. 2013	Meeting in Hamburg	- Refinery tour at OWS, Hamburg - Visit at R&D laboratory - Results Solomon study - Restructuring planning OWS - Raw material purchasing - Foirst feedback for contract manufacturing Salzbergen - GAUDLITZ	
28 Oct. 2013	Telephone conf.	- Issues re. Exec. Board	
5 Nov. 2013	Meeting in Salzbergen	- Refinery tour Salzbergen - Time-table for 2014 (budget, planned actions, measures, targets) - International business	
17 Dec. 2013	Meeting in Hamburg	- Progress bank negotiations and restructuring of syndicated loan - Budget 2014 - GAUDLITZ - Contract manufacturing - Distribution agreements - Declaration of Compliance - Efficiency audit	- Approval of restructured syndicated loan - Approval budget 2014 - Approval of presented waiver process incl. amendment application - Approval Declaration of Conformity

Attendance rate: 93.4 %

Corporate Governance

Declaration on Corporate Governance and the Corporate Governance Report

The term "corporate governance" refers to a company's system of decision-making and control processes. Good corporate governance is characterised by a commercial approach designed to create added value in the long-term, effective cooperation between the Executive Board and Supervisory Board and a high degree of transparency in corporate communications. These factors are the key guiding principles when it comes to the management and supervision of H&R AG.

The Executive Board hereby issues the following declaration on company management, in accordance with article 289a of the German Commercial Code (HGB), which forms part of the summarised status report, thereby also fulfilling recommendation no. 3.10 of the current German Corporate Governance Code (preparation of corporate governance reports).

Declaration of Compliance 2013/14

The Executive Board and Supervisory Board issued the said declaration of compliance, in accordance with Article 161 of the German Companies' Act (AktG), on 27 March 2013. The following declaration refers, for the period between the publication of the previous declaration of compliance and 15 June 2013, to the version of the German Corporate Governance Code published on 15 May 2012 and, for the period from 16 June 2013, to the recommendations of the version of the Code from 13 May 2013, as published in the German Federal Gazette (Bundesanzeiger) dated 15 June 2013.

The Executive Board and Supervisory Board of H&R AG hereby declare that the recommendations of the Government Commission of the German Corporate Governance Code have been and are being complied with, with the following exceptions:

– Item 4.2.3, paragraph 2 of the Code:
  The variable remuneration components paid to Detlev Wösten, Deputy Member of the Executive Board, are made up equally of the annual consolidated operating result (EBITDA), adjusted for any extraordinary result as defined in Art. 275 Para. 2 No. 16 of the German Commercial Code (HGB), and a second so-called "earnings component" dependent on personal targets. As of the company's 2013 financial year, this will be a maximum of 100% of the annual fixed remuneration. This form of variable remuneration was decided upon in light of Detlev Wösten's position on the Executive Board being limited to the end of 2013.

  This agreement was initially extended in August 2013, without any amendment to the provisions regarding remuneration, until the end of 2014. Although a long-term basis theoretically exists for calculating the amount of variable remuneration for a further year, it does not take possible negative developments into account. The Executive Board and the Supervisory Board are confident that this form of variable remuneration does not represent any kind of false incentive to the company's sustainable development, as the variable-remuneration component represents at most 100% of the annual fixed remuneration from the fiscal year 2013 onwards. Should Mr Detlev Wösten's position on the Executive Board be extended until the end of 2014, this form of variable remuneration will be examined in the light of the corresponding legal requirements and the Code's recommendations.

– Item 4.2.3, paragraph 3 of the Code: The German Corporate Governance Code recommends that no subsequent changes be made to the targets or comparison parameters for variable remuneration components. The executive employment contracts of all Executive Board members ensure that the variable remuneration is limited in case of extraordinary developments in the company that could not have been foreseen at the time the contract was drawn up or at the time when targets were defined and that are deemed to make the payment of the agreed variable remuneration or the achievement of the defined targets unreasonable. This could also be dealt with by appropriate amendments to the targets already defined for the payment of variable remuneration. It is the opinion of the Executive Board and the Supervisory Board that this does not represent any form of prohibited repricing as defined in Item 4.2.3, Para. 3 of the

German Corporate Governance Code, but rather an amendment of the agreed targets that, due to unforeseen circumstances, could be interpreted as false incentives. Since the decision of whether the amount of variable remuneration or the predetermined targets could be deemed unreasonable lies with the company, a subsequent change of the targets to the detriment of the company is precluded.

– Item 4.2.3, paragraph 4 of the Code: In the case of Board member Niels H. Hansen and former Board member Luis Rauch, terminating their executive roles prematurely, the calculation of the compensation cap is not and has not been based on total remuneration of the previous financial year or the estimated total remuneration for the current financial year, but rather solely on their annual fixed remuneration without consideration of the variable remuneration components. This arrangement is more beneficial to business than the recommendation of the Code, and is therefore in the company's interest.

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

– Item 5.4.6, paragraph 2 of the Code: The annual variable remuneration of Executive Board members is linked, according to article 15, sect. 1 of the Articles of Association, to the return on capital employed (ROCE), which is calculated on the basis of the audited and approved consolidated financial statements by dividing the earnings before interest and tax (EBIT) by the interest-bearing capital, i.e. the sum of net financial debt, equity and pension provisions. This financial year related variable remuneration is not geared to sustainable commercial development over a period spanning several years, as envisaged in Article 87, Sec. 1, Subsections 2 and 3 of the German Companies' Act (AktG), insofar as they refer to management remuneration. The current provisions of the Articles of Association were drawn up before the Code's recommendations came into force, and have therefore not taken these new recommendations into account. The Executive and Supervisory Boards are currently deciding on whether to suggest an amendment to the Supervisory Board's variable remuneration at the Annual Shareholders' Meeting, in light of the new recommendations contained in the Code.

– Item 7.1.2, paragraph 3 of the Code*: The Consolidated Financial Statements for the financial year 2012 were not published within the 90-day period established in Article 7.1.2 of the Code, but did comply in this respect with Article 62, Sec. 3 of the Frankfurt Stock Exchange regulations, Article 37v, Sec. 1 of the German Law on Securities Trading (WpHG) and Article 325, Section 4 of the German Commercial Code (HGB), which establish a four-month publication deadline. The time required to prepare the Consolidated Financial Statements meant that an earlier publication date was not possible. Preliminary key performance indicators have already been published in advance. The company will in the future once again comply with the Code's recommendations in this respect.*

Salzbergen, 17 December 2013

Niels H. Hansen	Detlev Wösten	Dr Joachim Girg
Chairman of the Executive Board	Deputy member of the Executive Board	Chairman of the Supervisory Board

* By publishing the Annual Report 2013 on 31 March 2014, H&R AG fully complies with the Code's recommendation.

Compliance

Management and control at H&R AG are based on the Articles of Association, the rules of procedure for the Supervisory Board and Executive Board, the German Corporate Governance Code and the relevant national legislation. Corporate management practices going over and beyond the statutory provisions are summarised in a Group-wide Code of Conduct. This Code defines binding rules of conduct derived from our corporate policy. Our values and the resulting corporate policy can be consulted online at www.hur.com under the heading "About H&R". We carefully make our employees aware of the need to behave in accordance with the Code of Conduct when performing their tasks. Depending on the staff member's range of duties, we perform comprehensive training on special topics. These courses at H&R focus on topics relating to occupational health and safety, environmental protection and anti-trust legislation.

Compliance violations are systematically followed up on and consistently sanctioned. Compliance with the requirements of the Group-wide Code of Conduct is regularly the subject of the deliberations of the Supervisory Board.

Shareholders and General Meeting

Our shareholders decide on issues of fundamental importance for the company by exercising their voting rights at a Shareholders' Meeting, which is held at least once a year. The shareholders entitled to participation and voting are those who on the 21st day before the General Meeting (Record Date) are holders of H&R shares and who correctly register for taking part in the General Meeting. Each share entitles its holder to one vote (one-share-one-vote principle). Every shareholder holding voting rights is entitled to exercise his/her voting right in person, to have himself/herself represented by proxy or to waive the opportunity to vote. In addition, we offer shareholders the option to pool their votes via our instruction-bound representative.

Shareholders have the right to speak at the Annual Shareholders' Meeting and request information about matters concerning the company and its affiliated companies insofar as is necessary to reach a constructive assessment of an item on the agenda. Our Annual Shareholders' Meeting elects six of the nine members of the Supervisory Board. It also makes decisions on the appropriation of distributable profit, the discharge of the Supervisory and Executive Boards, the appointment of the auditors, equity transactions and amendments to the Articles of Association. Sufficient notice of the meeting is given in the H&R AG section of our website, www.hur.com. All documents to be made accessible to the Annual Shareholders' Meeting are also published there in good time. After the General Meeting, the voting results and attendance information can also be found in this area.

www.hur.com

Cooperation between the Executive Board and the Supervisory Board

In accordance with statutory provisions, we have implemented a dual management system with a strict separation between corporate management and control functions: The Executive Board manages the company independently and under its own responsibility. The Supervisory Board appoints, supervises and controls the Executive Board on the basis of rules of procedure adopted by the Supervisory Board, which, inter alia, regulate the Board's reporting to the Supervisory Board. It is directly consulted and involved in decisions of fundamental importance for our company. The Supervisory Board has also adopted pursuant to § 111 para 4 sentence 2 AktG, a catalogue of Board-approval requiring transactions.

Supervisory Board

In accordance with Art. 8 para. 1 of the Articles of Association in conjunction with Art. 96 para. 1 clause 4, 101 para. 1 sentence 1 AktG in conjunction with Art. 1 para. 1 sentence 1 no. 1, para. 2 sentence 1 no. 1, 4 para. 1 of the German One Third Employee Participation Act (DrittelbG), our Supervisory Board is composed of nine members in total, of whom six are appointed by the Annual Shareholders' Meeting, with no obligation to follow proposals made by the company, and three by the employees in accordance with the regulations on co-determination. The board is therefore subject to co-determination in accordance with the German One Third Employee Participation Act (DrittelbG).

For the period until close of the General Meeting 2017 which will decide on discharging the members of the Supervisory Board for fiscal year 2016, Dr Joachim Girg, Mr Nils Hansen, and Ms Anja Krusel were elected to the Supervisory Board as shareholder representatives. Mr Sven Hansen was elected as a substitute member for Supervisory Board member Nils Hansen, on condition that he will become a member of the Supervisory Board if Mr Nils Hansen were to leave the Supervisory Board before his regular period of office. As a replacement for Mr Volker Woyke, who died in October of 2012, the 2013 General Meeting elected Dr Hartmut Schütter to the Supervisory Board. His period of office will end at the close of the 2018 General Meeting. The period of office of the members elected by the 2011 Annual General Meeting, Supervisory Board members Mr Roland Chmiel and Dr Rolf Schwedhelm already ends at the close of the 2016 Annual General Meeting.

The chairmanship of the Supervisory Board has been exercised by Dr Joachim Girg since his election to the Supervisory Board at the 2012 General Meeting.

The period of office of the three employee representatives in the Supervisory Board, Mr Reinhold Grothus, Mr Harald Januszewski and Mr Rainer Metzner, will also end with the close of the 2017 General Meeting.

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

Five committees were formed from among its members:

- A Steering Committee chaired by Dr Joachim Girg; the other members are Mr Roland Chmiel, Mr Reinhold Grothus and Mr Nils Hansen. This committee is responsible for making preparations for the appointment of Executive Board members and carries out long-term succession planning. In addition, the committee is expected to make proposals for resolutions regarding Executive Board remuneration to the Supervisory Board plenum.

- A Capital Measures and Investment Committee chaired by Dr Joachim Girg; the other members are Mr Roland Chmiel and Ms Anja Krusel. This committee prepares Supervisory Board votes on capital measures.

- An Audit Committee chaired by Mr Roland Chmiel; the other members are Dr Joachim Girg and Ms Anja Krusel. As an auditor, Mr Chmiel has specialist knowledge and experience of applying accounting principles and internal control procedures. This is a requirement for chairing this committee under Item 5.3.2 of the German Corporate Governance Code. Moreover, in the opinion of the Supervisory Board he is qualified as an independent financial expert according to Art. 100 para. 5 AktG.

  The Audit Committee's responsibilities include supervising the accounting process, monitoring the effectiveness of the risk management system and overseeing the audit of the financial statements.

- A Nomination Committee chaired by Mr Nils Hansen; the other members are Dr Joachim

Girg and Dr Rolf Schwedhelm. This committee's remit is to identify suitable Supervisory Board candidates that are then suggested by the Supervisory Board plenum to the Annual Shareholders' Meeting. To this purpose, the committee orientates itself – apart from qualifications relating entirely to the professional background – at the principle of diversity, and has set the target to fill one fifth of all positions within the Supervisory Board which have to be newly occupied, with women.

- A Refinery Technology and Strategy Committee chaired by Dr Hartmut Schütter (since July 2013); the other members are Dr Joachim Girg and Nils Hansen. The Committee's purpose is to provide advice and supervision for the Executive Board in the strategic further development of the H&R Group's refinery sites.

As a result of the ban on simultaneous membership of the Executive Board and the Supervisory Board, both bodies are highly independent from each other. At present, there are no former members of the Executive Board among the members of the Supervisory Board.

To enable the members of the Supervisory Board diligently to prepare for meetings, they are informed by the Executive Board in advance of the topics to be addressed.

Pursuant to Section 5.4.1 of the Code the Supervisory Board has set concrete objectives regarding its composition. These objectives are as follows:

- Maintain a female share of at least 10% until the election of shareholder representatives in 2017; further increasing the participation of women in the Supervisory Board at the next regular election of shareholder and employee representatives. The proportion of women shall reach at least 20%, maintaining an equal share to shareholders and employees.

- Maintain the composition of the Supervisory Board members with an international background at least at current levels.

- Consideration of special knowledge and experience in the application of accounting principles and internal control procedures.

- Consideration of technical expertise, particularly in the field of refining technology.
- Consideration of knowledge of the company.

- Independence of its members.

- Avoid conflicts of interest.

- Consideration of the age limit of 70 years at the time of the election.

With regard to the criterion of independence of its members the Supervisory Board believes that, based on a Supervisory Board consisting of nine members, the number of independent board members should at least be six, taking into account the employee representatives. The Supervisory Board considers the employee representatives in connection in Annex II, paragraph 1 letter b) of the Commission Recommendation of 15 February 2005 on the role of non-executive directors / supervisory directors of listed companies and on the committees of the (OJ L 52, 25.02.2005, p.51) to be independent. By separate resolution of the shareholder representatives on the Supervisory Board these have set the number of independent shareholder representatives to at least three.

The current composition of the Supervisory Board of H&R AG complies fully with the above-mentioned specific objectives. From the perspective of the Supervisory Board, the Board includes four independent shareholder representatives, Ms Anja Krusel and Messrs Roland Chmiel, Dr Rolf Schwedhelm and Dr Hartmut Schütter. Thus, the total number of independent board members is – with consideration of the employee representatives on the supervisory board – seven.

Further details concerning the work of the Supervisory Board during the reporting period can be found in the Supervisory Board report on pages 32 to 40 of the present annual report.

For further infor-metion see pages 32-40

Executive Board

The Executive Board manages the business of H&R AG independently and under its own responsibility, subject to statutory provisions, the Articles of Association, and the resolutions of the General Meeting. Its actions are always directed at generating a sustainable increase in the value of the company. In financial year 2013 the Board consisted at first of three, then, from 1 September 2013 onwards, of two individuals, entrusted with the following responsibilities among others:

Niels H. Hansen,
Chairman of the Executive Board:
Corporate strategy, Research & Technology, Capital Market Communications, Sales and Distribution Companies,
International Business and IT

Luis Rauch,
until 31 August 2013, Chief Financial Officer:
Accounting, Financing, Human Resources

Detlev Wösten,
Deputy Director Refineries:
Refineries, Production, Technology

Effective 31 August 2013, Mr Luis Rauch, at the time CFO of H&R Aktiengesellschaft, left the Board of H&R Aktiengesellschaft by mutual consensus between the parties.

The new CFO of H&R AG is Mr Wolfgang Hartwig, whose role in the organisation is directly below Board level, reporting directly to Mr Niels H. Hansen, Chairman of the Board, since 1 September 2013.

Cooperation within the Executive Board is regulated in detail by rules of procedures issued by the Supervisory Board. Each Board member is under the obligation unrequestedly to inform the other Board member(s) of all significant events in the areas under his responsibility. In addition, the rules of procedure define other situations that require unanimous decisions from the entire Board. Because of its comparatively small size, the Board has not formed any Committees.

Audit of the financial statements by PwC

Both the consolidated financial statements for H&R and the quarterly reports were produced in line with International Financial Reporting Standards (IFRS). The separate financial statements for H&R AG were drawn up in accordance with the German Commercial Code (HGB). The separate and consolidated financial statements for H&R AG for the 2013 financial year have been audited by PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Hamburg, (PwC) which has declared itself to be independent as required by Item 7.2.1 of the German Corporate Governance Code. It was agreed with PwC that the Supervisory Board Chairman would be notified immediately of any grounds for debarment or conflicts of interest which may arise during the audit, unless these are resolved immediately. It was also agreed that the Supervisory Board would be notified immediately of any findings and occurrences arising during the audit that are significant to the duties of the Supervisory Board. Finally, PwC is obliged to inform the Supervisory Board should any facts be identified during the audit which would render incorrect the Declaration of Compliance issued by the Executive and Supervisory Boards in accordance with Art. 161 of the German Companies Act (AktG).

Risk management

We have an early-warning risk detection system that is audited by the independent auditors. For a detailed description of the system, please refer to the section entitled "Risk report" within this Annual Report.

Avoiding conflicts of interest

There were no consulting or other service agreements and contracts between the Supervisory Board and the company during the reported year. Conflicts of interest of Executive or Supervisory Board members, which had to be disclosed to the Supervisory Board without delay, did not occur.

Seats held on supervisory boards or comparable German and foreign control bodies of business enterprises that are perceived by the Executive Board and the Supervisory Board members, can be found on page 156 of this report in the section "(41) Bodies of the company". Relations with related parties are given in the notes to the consolidated financial statements beginning on page 156.

For further information see page 156

Deductible for D&O insurance

The company has concluded a property damage liability insurance (D & O) for the members of the Executive Board and the Supervisory Board with an appropriate deductible in accordance with § 93 Section 2 Sentence 3 AktG (Executive Board members) or in accordance with the German Corporate Governance Code (Supervisory Board members).

Shares held by members of the Supervisory Board and Executive Board

As of 31 December 2013, the members of our Supervisory Board held a total of 15,194,942 H&R shares and thus distinctly more than 1% of the authorised capital of H&R AG.

According to the voting rights statement of Mr Nils Hansen of 23 December 2010, his share of the authorised capital as of 17 December 2010 exceeded the 50% mark, amounting to 50.06% at the time, which is equivalent to 15,004,658 H&R shares.

These shares are held by H&R Beteiligung GmbH and are allocated to Mr Nils Hansen via the parent company H&R Holding GmbH. According to his last informal communication, as of the end of 2013 Mr Nils Hansen held another 206,389 H&R shares (percentage of the authorised capital: 0.69%) in his private ownership. Thus Mr Nils Hansen was deemed to hold a total of 15,211,047 H&R shares as of 31 December, corresponding to 50.75% of the authorised capital. As of 31 December 2013, the members of our Executive Board held a total of 1,100 shares and thus less than 1% of the authorised capital of H&R AG.

Directors' Dealings

In accordance with Art. 15a of the German Securities Trading Act (WpHG), management bodies and related individuals are obliged to disclose transactions involving H&R AG shares with a trading volume exceeding €5 thousand in the course of a calendar year.

The regulation also includes financial instruments such as derivatives based on H&R shares. The following transactions have been reported to H&R AG for financial year 2013:

T. 10 **DIRECTORS` DEALINGS 2013**

Date	Place	Name	Function	Denomination of the financial instrument	Type of transaction	Number	Price per unit	Transaction volume
06/3/2013	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	2,026	11.99	24,288.32
27/3/2013	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	3,000	10.82	32,449.20
28/3/2013	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	10,000	9.85	98,490.60
30/5/2013	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	5,000	9.44	47,178.65
13/6/2013	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	4,000	9.25	36,988.00
19/6/2013	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	5,000	8.99	44,959.55
26/6/2013	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	5,000	8.31	41,535.95
05/9/2013	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	3,000	8.90	26,692.11
16/10/2013	Stuttgart	Nils Hansen	Supervisory Board	H&R share	Purchase	3,000	9.11	27,330.00
18/11/2013	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	10,000	8.70	86,989.30
04/12/2013	XETRA	Nils Hansen	Supervisory Board	H&R share	Purchase	5,000	8.13	40,658.50

Transparency

The prime objective of our communications is to provide comprehensive, prompt and equal information to shareholders, financial analysts, journalists, staff and interested members of the public alike.

For this purpose, important documents - such as quarterly and annual reports, ad-hoc statements and press releases, the Declaration of Compliance with the German Corporate Governance Code, the Articles of Association, the invitation to the Annual Shareholders' Meeting and the financial calendar – are all published in the Investor Relations section of the H&R AG website. Interested parties can also register to receive the latest company news automatically via an email newsletter. Free copies of the reports are available on request. The

Executive Board and Investor Relations team are in regular contact with both institutional and private investors at capital market conferences and shareholder events. For a detailed description of our capital market activities we refer to the section entitled “H&R on the Capital Markets” on pages 52 to 55 of this Report).

Remuneration report

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

Remuneration of the Executive Board

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

Following these requirements, the total remuneration of the Directors of H&R AG comprises both profit unrelated and profit related components. The profit unrelated portions consist of a fixed salary and benefits, while the profit related consist of a two-step variable remuneration with a sustainability component and an annual special or recognition bonus determined at the discretion of the Supervisory Board limited to a maximum of €100 thousand.

There are special arrangements with respect to the variable remuneration components paid to the deputy member of the Executive Board Detlev Wösten, who had initially been appointed for only a three year period of office, extended this year by a further year, whose variable remuneration is derived in equal parts from the annual operating group profit (EBITDA), adjusted by an extraordinary result within the meaning of § 275 Sec. 2 No. 17 HGB and from personal goals.

The criteria for the measurement of the Board members‘ remuneration include the economic situation, the company’s success and its future prospects. In addition, the individual remuneration is dependent on the different duties of the members of the Executive Board and on their individual performance. The amount and structure of the remuneration paid to the Executive Board is reviewed regularly and adjusted as necessary by the Supervisory Board. To evaluate appropriateness, the Directors’ remuneration is compared to that of other stock exchange listed companies in similar industries of a similar size and complexity as ours as well as with the remuneration structure within the company itself. Moreover, it is also set at a level that is competitively attractive for highly qualified top managers.

Fixed remuneration

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

The fixed remuneration is reviewed regularly every two years.

The former Chief Financial Officer Luis Rauch was the only board member who had also contractually guaranteed pension entitlements. However, these are expired under the settlement agreement reached with Mr. Rauch. Mr. Rauch has also left the H&R AG before reaching the entitlement requirement of being three years on the Board.

Variable remuneration

The variable remuneration paid to Executive Board members, apart from Mr Detlev Wösten, is based on a hurdle system with a target range determined using the Group's operating result for the year (EBITDA) and certain long term objectives for a rolling three-year period. In the case of Mr Niels H. Hansen the maximum annual bonus is limited to 100% of the pertinent gross annual salary from time to time. For Mr Luis Rauch, who left the Executive Board on 31 August 2013, the target bonus was limited to 62.5% of the respective gross annual salary.

One half of the variable remuneration consists of a component with a short-term incentive effect (referred to as "results component") based on the annual operating group profit (EBITDA), adjusted by an extraordinary result within the meaning of § 275 Sec. 2 No. 16 HGB with the other half being a component with a long-term incentive effect (referred to as „sustainability component").

The earnings component can be up to 50% of the target bonus and depends on whether the EBITDA defined in the business plan is achieved. If EBITDA is 110 % or more above plan, the Executive Board member is entitled to 100 % of the earnings component (equivalent to 50% of the annual target bonus). The maximum entitlement to the earnings component is reduced on a straight-line basis by the amount by which EBITDA is below plan. The sustainability component provides for a variable bonus based on the average return on capital employed (ROCE) over a rolling three-year period. The return is calculated as the ratio of EBIT to average capital employed (equity plus net financial debt, pension provisions and other non-current provisions). A maximum of 50 % of the annual target bonus is paid if the average annual ROCE reaches 20 % or more. The maximum entitlement to the sustainability component is reduced pro rata to 0 % for a ROCE of up to 5 %. By including this component we comply with the requirements of Art. 87 para. 2 sentence 3 AktG, which stipulates that variable remuneration components must be calculated based on a timeframe spanning several years.

Should a Board member's executive role be terminated prematurely, any payments agreed – including fringe benefits – should not exceed the value of two annual salaries (severance pay cap) or the value of the remuneration that would be payable for the remaining term of the executive employment contract. This is stipulated in recommendation number 4.2.3 para. 6 of the German Corporate Governance Code as amended on 13 May 2013. The company has followed this recommendation to the extent legally possible by including what are known as "coupling clauses" in executive employment contracts. They provide that in the event of a cancellation of the order, after the resignation of the Board member for cause or other termination of appointment by the company, the employment contracts of Executive Board members will terminate within two years after the end of the office, but no later than the planned end of the appointment.

The executive employment contracts of all Executive Board members ensure that the variable remuneration is limited in case of extraordinary developments in the company that could not have been foreseen at the time the executive employment contract was drawn up or at the time that targets were defined, which are deemed to make the payment of the agreed variable remuneration or the achievement of the defined targets unreasonable. This could also be dealt with by appropriate amendments to the targets already defined for the payment of variable remuneration. The company does not use securities-based incentive systems such as stock option programmes. No loans or advances were granted to members of the Executive Board.

Pursuant to the resolution of the meeting of the Supervisory Board of 22 August 2013, the Executive Board waived 15% of its fixed remuneration for the months of August through December 2013 included.

T. 11 **EXECUTIVE BOARD REMUNERATION**

Allocation granted	Niels H. Hansen		Luis Rauch		Detlev Wösten	
	Chairman of the Executive Board		Chief Financial Officer		Deputy Director, Refineries	
	Chairman of the Executive Board since 1 January 2012		Member of the Executive Board 1 January 2012 to 31 August 2013		Member of the Executive Board since 1 August 2011	
IN €	2013	2012	2013	2012	2013	2012
Fixed remuneration*	284,702*	356,586	294,933*	407,106	194,077*	206,586
Fringe benefits**	251	251	337,770**	11,112	14,741	14,468
Total	**284,953**	**356,837**	**632,703**	**418,218**	**208,818**	**221,054**
Var. remuneration	74,375	80,762	75,000	57,688	120,000	43,601
of which long-term	–	–	–	–	–	–
Total compensation	**359,328**	**437,599**	**707,703**	**475,906**	**355,318**	**264,655**

* Pursuant to the resolution of the meeting of the Supervisory Board of 22 August 2013, the Executive Board waived 15% of its fixed remuneration for the months of August through December 2013 included.
** Comprises among others the use of the company car and accident insurance contributions. This sum also includes payments in relation to the leaving compensation of Executive Board member Luis Rauch amounting to €330 thousand.

Supervisory Board remuneration

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

Every member of the Supervisory Board receives a fixed annual payment of €20 thousand in addition to the reimbursement of out-of-pocket expenses. The Chairman of the Supervisory Board receives three times and his deputy one and a half times this amount. In addition to this, every member of the Supervisory Board receives variable annual remuneration linked to the return on capital employed (ROCE), which is calculated on the basis of the audited and approved consolidated financial statements for the respective year. The return is calculated by dividing the earnings before interest and tax (EBIT) by the interest-bearing capital, i. e. the sum of net financial debt, equity, pension provisions and non-current provisions. A minimum return of 10 % must be achieved in order for variable remuneration to be paid. If the minimum return is achieved, €10 thousand is paid to each Supervisory Board member per financial year. For each percentage point over the 10 % minimum return, the variable remuneration increases by €1.5 thousand for each Supervisory Board member per financial year. The variable remuneration is limited to a total of €32.5 thousand per Supervisory Board member and financial year.

Supervisory Board members who belong to one of the Supervisory Board's committees receive an additional 1/8 of the annual fixed remuneration per committee. Members of the company's Audit Committee receive 1/4 of the annual fixed remuneration. Supervisory Board members who chair one of the committees receive twice the remuneration payable for membership of the committee in question. The members of the Supervisory Board receive an attendance fee of €200 for each Supervisory Board or committee meeting they attend.

Pursuant to the resolution of the meeting of the Supervisory Board of 22 August 2013, the Supervisory Board waived 15% of its fixed remuneration for the months of August through December 2013 included.

Within the scope of a consulting contract with the company controlled by the former chairman of the Supervisory Board, Mr Bernd Günther, i.e. Idunahall Verwaltungs-Gesellschaft m.b.H., the fees paid in 2013 amounted to €75 thousand (prior year: €60 thousand).

T. 12 **SUPERVISORY BOARD REMUNERATION)**

IN €	Fixed remuneration		Remuneration for Supervisory Board activities		Variable remuneration		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Dr Joachim Girg (Chairman)	56,250	47,541	20,000	11,107	–	–	76,250	58,648
Roland Chmiel	28,125	21,639	15,000	12,910	–	–	43,125	34,549
Anja Krusel	18,750	11,694	7,500	3,689	–	–	26,250	15,383
Dr Rolf Schwedhelm	18,750	20,000	2,500	3,770	–	–	21,250	23,770
Nils Hansen	18,750	20,000	10,000	13,811	–	–	28,750	33,811
Dr Hartmut Schütter (from 23/7/2013 onwards)	7,572	–	1,555	–	–	–	9,127	–
Reinhold Grothus	18,750	20,000	2,500	1,230	–	–	21,250	21,230
Harald Januszewski	18,750	11,694	–	–	–	–	18,750	11,694
Rainer Metzner	18,750	20,000	–	–	–	–	18,750	20,000
Former members								
Bernd Günther[1)] (until 31/5/2012)	–	24,918	–	7,268	–	–	–	32,186
Volker Woyke (from 31/5/2012 to 31/10/2012)	–	20,847	–	4,980	–	–	–	25,827
Holger Hoff (until 31/5/2012)	–	8,306	–	–	–	–	–	8,306
Total	**204,447**	**226,639**	**59,055**	**58,765**	**–**	**–**	**263,502**	**285,404**

* Pursuant to the resolution of the meeting of the Supervisory Board of 22 August 2013, the Supervisory Board waived 15% of its fixed remuneration for the months of August through December 2013 included.

H&R on the capital market

Stock and share price performance

SHARES COVETED INVESTMENT FORM IN 2013. The low interest rates offered by banks on saving accounts could hardly convince investors in 2013; nor did the conditions for government bonds provide much incentive either. Last year's general recommendation was: "Focus on shares." This was an overall successful strategy for investors: European stock indices rose between 10 and 20 percent. The U.S. stock market and its benchmark Dow Jones index rose by more than 26%.

The stakeholders on the German stock market were able to draw a positive balance for the reporting period. With an increase of 22.8% from 7,778 points at the beginning to 9,552 points at the end of trading in 2013, the German stock index (DAX) looks back on another strong year with more than 25% growth. By international comparison, the German stock thus once again confirmed its high quality.

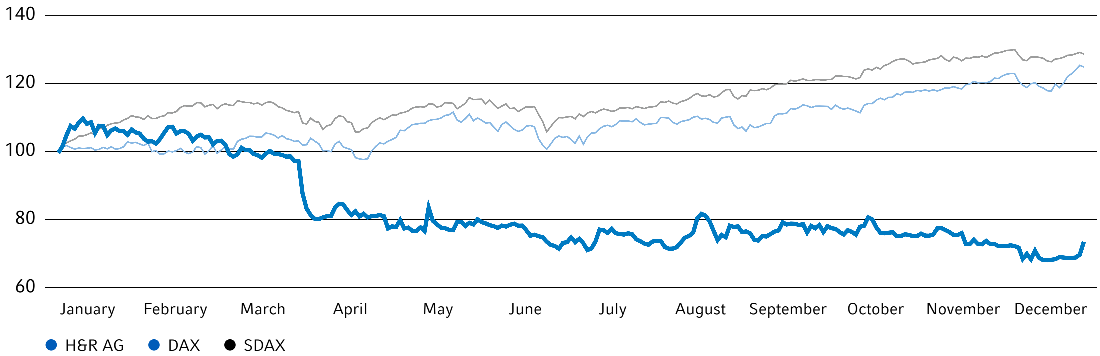
In 2013, stock markets started not just on an optimistic base, though: after the positive previous year, some banks barely expected any development potential and at the same time warned against a "political market year". In the end, however, elections in several German states and the federal election barely had an impact on investors' "share hunger".

H&R SHARE TREND SHORT OF EXPECTATIONS. H&R shares appeared largely disconnected from general market trends and mainly moved sideways since the price drop following the publication of the 2012 Annual Report. Short-term price changes came predominantly in connection with our corporate newsflow. No significant signs of recovery materialised. In particular, the conversion of the business model for the refinery in Salzbergen and the ensuing prospects for H&R AG's business and earnings situation did not awaken the interest of investors and analysts and have not yet reflected in rising prices.

Having started in fiscal year 2013 with an opening price of €12.55, the H&R shares ended the reporting period with a closing price of € 8.70 on 30 December. The shares' lowest quotation in 2013 was at €8.05.

G. 01 **PERFORMANCE OF THE H&R SHARE, DAX, SDAX**

(INDEX 30/12/2013=100)



T. 13 **BASIC DATA ON THE H&R SHARE**

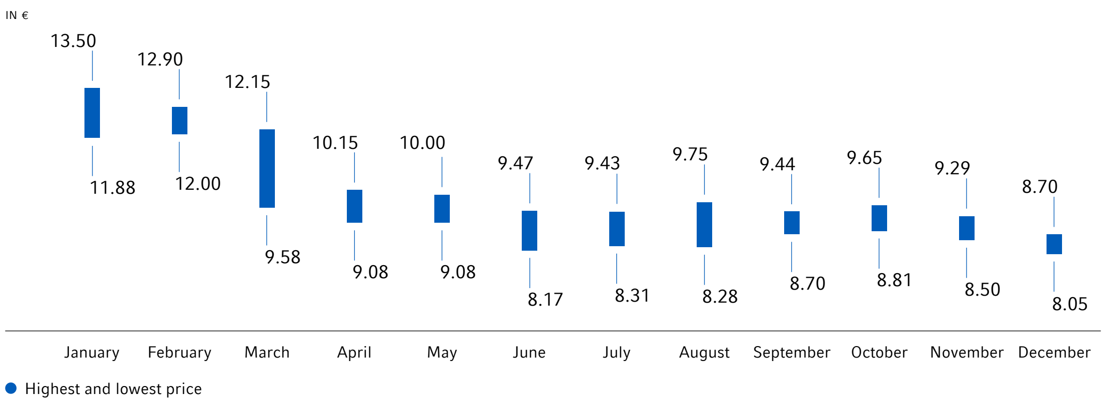
ISIN/WKN	DE0007757007 / 757007
Abbreviation	2HR
Type	No-par bearer shares
Listings	Official market Frankfurt (Prime Standard), Hamburg and Düsseldorf, freely traded Stuttgart and Munich
Index	SDAX, Prime Standard All Share, Classic All Share, Prime Chemicals und Prime IG Chemicals Speciality, DAXPlus Family-Index
Designated Sponsor	Close Brothers Seydler Bank AG

NUMBER OF SHARES, MARKET CAPITALIZATION AND TRADING VOLUME. At a constant number of shares, the market value of our company was €260.7 million on 31 December 2013 (31 December 2012: €354.6 million). As a result of the lower market capitalization, relating to this criterion for SDAX companies of Deutsche Börse we slipped down the index ranking. Since this review focuses exclusively on free float, Deutsche Börse values our market capitalization again significantly lower and rated our securities at rank 104 (31 December 2012: 85th place).

In terms of stock exchange turnover our share ranking fell by the end of the reporting period from rank 70 to rank 95. Overall, H&R shares were traded in 2013 with a total value of €77.6 million on XETRA and on the German stock exchange in Frankfurt. This corresponds to an average daily turnover of €324 thousand. The vast majority of transactions in H&R shares was completed via the electronic trading system XETRA.

Thus, H&R AG met the requirements for listing on the SDAX. The membership was again confirmed at the end of 2013 following a reassessment of the index composition. With effect from 24 March 2014, however, the Executive Board of Deutsche Börse AG followed a recommendation of the Research Committee for Equity Indices and took the shares of H&R AG out of the SDAX.

G. 02 **HIGHEST AND LOWEST PRICES OF THE H&R SHARE, FULL YEAR 2013**



T. 14 **KEY SHARE DATA**

	2013	2012	2011	2010	2009
Number of shares on 31 December	29,973,112	29,973,112	29,973,112	29,973,112	29,973,112
Earnings per share	€-0.47	€0.02	€1.29	€1.74	€0.83
Highest price for the year	€13.03	€17.90	€21.86	€22.89	€16.85
Lowest price for the year	€8.05	€11.57	€12.98	€13.20	€7.55
Price on 31 December	€8.70	€11.83	€16.55	€21.05	€14.98
Performance (excluding dividend)	-28.1%	-28.2%	-21.4%	40.5%	37.4%
Market capitalisation on 31 December	€260.7 million	€354.4 million.	€496.1 million	€630.9 million	€449.0 million
Dividend	–	–	€0.60	€0.65	€0.45
Dividend yield	–	–	3.6%	3.1%	3.0%
Average daily trading volume	€ 324 thousand	€ 522 thousand	€ 575 thousand	€ 666 thousand	€ 423 thousand

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

The Supervisory Board member Nils Hansen increased his holdings of H&R shares in 16 steps by a total of 55,016 shares.

For further information see page 47

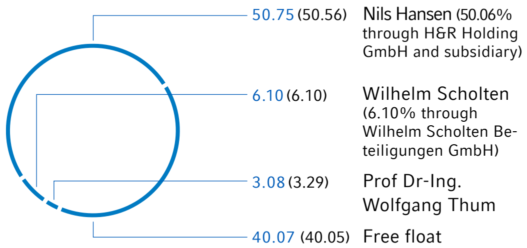
The individual transactions are listed in the "Directors' dealings" section on page 47 of this report.

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

According to the last informal notification received from Mr Hansen, he held an additional 0.69% of the voting rights in person as of year-end 2013.

G. 03 **SHAREHOLDER STRUCTURE AS OF 31/12/2013**

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



According to a disclosure under the German Securities Trading Act (WpHG) dated 2 April 2003, Mr Wilhelm Scholten held 6.65% of the voting rights on 28 March 2003 via his company Wilhelm Scholten Beteiligungen GmbH. Following the dilution of voting rights caused by the conversion of preferred shares into ordinary shares in 2008, this corresponded to a stake of 6.08% on paper. According to his most recent informal disclosure, Mr Wilhelm Scholten held an unchanged 6.10% of the voting rights as of 31 December 2012.

According to a disclosure under the German Securities Trading Act (WpHG) dated 3 February 2009, Prof. Dr-Ing. Wolfgang Thum held 4.13% of the voting rights in H&R AG on 28 January 2009. According to an informal disclosure, his share of voting rights came to 3.08% as of year-end 2013.

The remaining 40.07% of H&R shares were in free float as of 31 December 2013.

ANNUAL SHAREHOLDERS' MEETING WELL ATTENDED. Our Annual Shareholders' Meeting held in Hamburg on 23 July 2013 was another encouraging confirmation of the great interest shown by our shareholders in the affairs of the company. The meeting was attended by 74.8% of voting capital (previous year: 74.0%), on a par with the good level seen in recent years. All the agenda items put forward for voting were approved by more than 97.0% of represented capital.

Investor Relations

INTENSIVE COMMUNICATION WITH THE CAPITAL MARKET. As part of our investor relations activities, we maintain a steady, continuous and open exchange of information with the various stakeholders of the capital market. The year 2013 presented – with its various subjects, including the implementation of the manufacturing model - very special demands on efficiency and direction of our communication activities.

At a total of six (previous year: eleven) conference and roadshow days in Baden-Baden, Frankfurt, Düsseldorf and Hamburg, directors and investor relations staff spoke to some 100 institutional investors and analysts. Particular attention was paid to the presence at selected conferences of a large number of investors and a bundled approach. This concept has reduced our time and improved the efficiency of our communications work once more.

In addition, our production sites in Hamburg and Salzbergen were visited by numerous investors to get a first-hand impression of our refineries.

We were also present on roadshows for private investors: we reported about the company on events of the Schutzvereinigung der Kapitalanleger (SdK) in Bad Mergentheim and Parchim and on the Hamburg Stock Exchange Day, and held lively discussions with private investors about the business development and prospects of H&R AG. Additionally, we gave private investors and other interested parties an opportunity to visit the refineries in Hamburg and Salzbergen.

Many investors took advantage of the additional possibility to obtain information about the current business from us between releases of the quarterly and annual reports by telephone or e-mail.

T. 15 **INVESTOR RELATIONS**

- Banks offering research coverage	7
- Participants at the analysts' conference	9
- Roadshow and conference days involving the Executive Board	6
- Events for private investors	3

RESEARCH COVERAGE STILL OF THE HIGHEST QUALITY. During the reporting period, the number of banks involved in a coverage of H&R shares has decreased. This is mainly due to adjustments on the part of the analyst firms, some of which have gone out of business and others have merged their research departments throughout the year. Overall, analysts from seven banks wrote research studies on H&R shares and informed investors with regular updates.

T. 16 **RESEARCH-COVERAGE OF THE H&R SHARE**

Bankhaus Lampe
Kepler Chevreux
Close Brothers Seydler (new in 2012)
Commerzbank
LBBW
NordLB
SRH Alster Research

WE WOULD BE GLAD TO HEAR FROM YOU. Our company reports can be downloaded from the H&R AG section of our website, www.hur.com. We will be happy to send you a printed copy on request. We would also be glad to keep you up to date with the latest developments at the company via our email newsletter.

www.hur.com

You can register for these publications in the Investor Relations section of our website.

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GROUP MANAGEMENT REPORT[1) 2)]

1) For the remuneration report and the declaration on corporate governance pursuant to Art. 289a HGB, which form part of the Group management report, please refer to the corporate governance report on page 41 ff. of this report.
2) Combined management report for H&R AG and the H&R Group.

Key topics in 2013

– Conversion of the Salzbergen refinery to contract manufacturing

– Continuous improvement in EBITDA from the beginning of 2013 to the end of the 3rd quarter, but overall unsatisfying level of earnings as a result of the tight market situation

– Market price risk and difficult margin situation lead to impairment for the Hamburg site in the 3rd quarter of 2013

– Total amount of non-cash effects € 12.1 million

– Impairment resulted in higher write-downs on the overall result

Group fundamentals

Group business model and structure

Sectors and organisational structure

The H&R Group organises its operating activities into two business Divisions: the large Chemical-Pharmaceutical Division and the smaller Plastics Division.

The H&R Group has three operating segments: the Chemical-Pharmaceutical Raw Materials Domestic, Chemical-Pharmaceutical Raw Materials International and Precision Plastics segments.

Our most important segment (percentage of sales in 2013: 75.7%), Chemical-Pharmaceutical Raw Materials Domestic includes the refineries in Hamburg-Neuhof and Salzbergen. The main products that we manufacture at these plants are crude oil-based speciality products such as plasticisers, paraffins, white oils and base oils. Over 800 different products are created in the course of our production processes. They are used in more than 100 client industries.

For further information see the glossary on page 166 f.

Our Chemical-Pharmaceutical Raw Materials International segment (percentage of sales in 2013: 19.1%) bundles numerous blending and conversion plants as well as distribution sites in other European countries and overseas. The segment's main products include label-free plasticisers for the tyre industry and wax emulsions for the building materials industry.

For further information see page 124

In the Plastics Division (percentage of sales in 2013: 5.2%) we produce high-precision plastic parts and the moulds needed to manufacture them. In addition to the headquarters in Coburg, we also operate production sites in Eastern Europe and Asia. The automotive industry is our Plastics Division's main customer. Areas of increasing importance include medical devices and other industrial applications.

H&R AG continues to own land with quartz sand mining potential in Haltern am See. The strip-mining utilisation of the approximately 13.5 million tonnes deposit as well as alternative options for the use of the land are currently being examined.

Legal structure

As the Group's holding company, H&R AG is in charge of the strategic management of our business operations. It is responsible for communication with the public and the capital market, and for the Group's financing. In addition, various management, assistant and support services are provided centrally for our subsidiaries.

At the end of the reporting period, the number of consolidated subsidiaries was 29 (31 December 2012: 28): The company H&R Singapore Pte Ltd. joined the scope of consolidation during the reporting period. It strengthens our positioning in the South East Asia markets and connects our production sites in Thailand with the region.

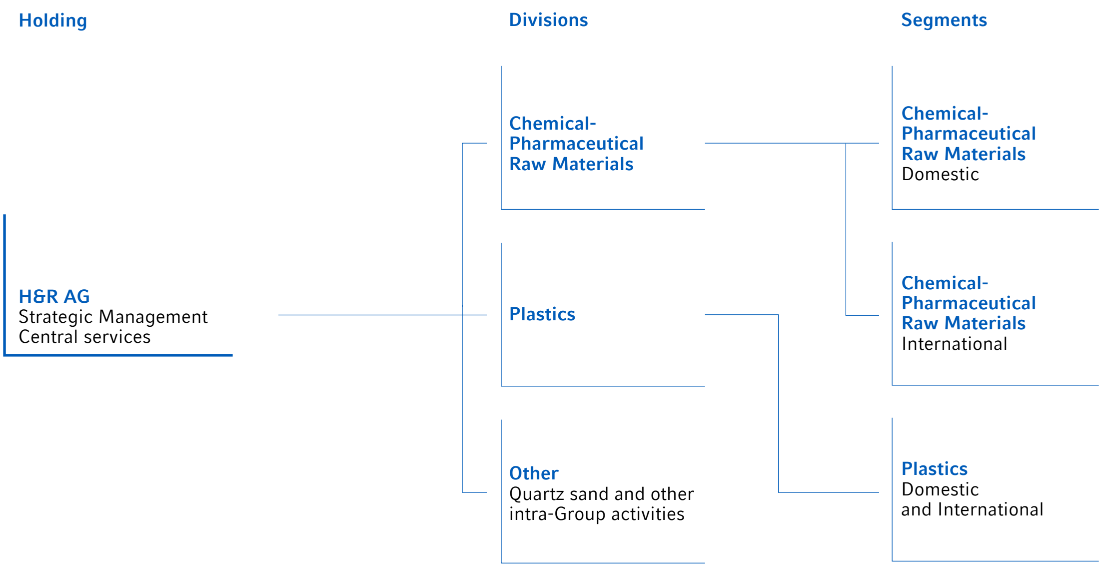
Our subsidiaries can be found in the list of shareholdings in the Group notes under „(5) Holdings and Scope of Consolidation".

The organisation of the individual segments reflects the regional distribution of the sites and the circumstances specific to the different industries. Thus the Chemical-Pharmaceutical Division Domestic, which comprises the refineries in Hamburg and Salzbergen uses a functional management structure owing to the similarity and regional proximity of the production sites. Managerial staff within this Division are responsible for key functions such as raw materials purchasing, project management, accounting and sales at both sites.

In the International Division, the responsibility for all functions is held by local Managing Directors who report directly to the Group's Executive Board.

There are two management levels at the Plastics Division: Managing Directors at the international sites report to the divisional Management Team, which is also responsible for the domestic production plant in Coburg, Germany.

G. 04 **PRESENTATION OF GROUP STRUCTURE**



Sites

At year-end 2013, our Group employed 1,405 people around the world. The following overview shows our most important sites with more than ten members of staff:

T. 17 **MAIN SITES IN THE H&R GROUP**

Continent	Country	City	Business Division	Employees
Africa	South Africa	Durban	Chemical-Pharmaceutical Raw Materials	41
Asia	China	Wuxi	Plastics	142
	Malaysia	Port Klang/Batu Caves	Chemical-Pharmaceutical Raw Materials	17
	Thailand	Bangkok/Si Racha	Chemical-Pharmaceutical Raw Materials	33
Australia	Australia	Laverton	Chemical-Pharmaceutical Raw Materials	35
Europe	Germany	Hamburg	Chemical-Pharmaceutical Raw Materials	245
		Salzbergen	Chemical-Pharmaceutical Raw Materials	359
		Coburg	Plastics	345
	UK	Tipton	Chemical-Pharmaceutical Raw Materials	40
	The Netherlands	Nuth	Chemical-Pharmaceutical Raw Materials	19
	Czech Republic	Dačice	Plastics	93

Main products, services and business processes

So-called long residue and vacuum gas oil are the primary raw materials used at our specialist refineries in Germany. More than 800 other crude oil-based speciality products are generated in joint production processes from these derivatives resulting from the distilling of crude oil in fuel refineries. In addition to base oil as a raw material for lubricant production, our products can essentially be broken down into the following groups: plasticisers for the rubber industry, technical and medical white oils, and paraffin/speciality wax products. In our propane deasphalting facilities, ancillary products undergo efficient further processing: This creates more high-grade crude oil-based speciality products and a new by-product, bitumen, used for road building.

For further information see the glossary on page 166 f.

While in Hamburg we exclusively manufacture our own specialties, since 1 July 2013 the Salzbergen production site has been acting as a service provider: for one of our main customers, we manufacture products meeting these specifications on a contract basis. Furthermore, in a special filling facility we also mix lubricants based on different end customers' formulations.

We also refine crude oil-based feedstock at the Chemical-Pharmaceutical Raw Materials International segment's blending and conversion plants. Production here centres on environmentally friendly, label-free plasticisers and wax emulsions. By means of partnerships with local producers, we lower our investment costs, limit risks and accelerate our growth.

In the Plastics Division, we produce high-precision, injection-moulded plastic components and the moulds needed to manufacture them. A special competence of this division consists in producing complex plastic components that require the use of different types of materials.

Key sales markets and competitive position

With our consistent focus on customer needs we have achieved a highly solid market position as a provider of crude oil-based speciality products. A comparative study published by the renowned US research organisation Solomon Associates 2013 with the participation of just on 50% of the worldwide refinery capacities in the lubricants segment evaluates H&R as being in a good competitive situation: refineries as core elements of our Domestic Chemical-Pharmaceutical segment are, especially as concerns their efficiency and productivity, within the first or second quartile of the refineries taking part in the comparison.

Our environmentally friendly, label-free plasticisers are used in rubber blends for almost all renowned car tyre manufacturers as well as in additional rubber and caoutchouc products. Our main competitors in this product area are the major oil companies.

Our paraffins are used for a wide variety of applications: in the food industry, for example, cheese rinds are coated with paraffin to prevent the cheese from drying out. The packaging industry has various uses for paraffin, including coating the inside of Tetra Pak cartons. In the construction industry, wax emulsions provide construction materials with water repellent characteristics. We and other competing companies jostle for second place behind the market leader.

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

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

The customers of our Plastics Division can be divided into three groups: the automotive industry continues to be the largest by far. Other increasingly important customer groups are the medical technology and other industries. In the latter group, we primarily include products for customers from the electrical, measuring and control technology and mechanical engineering segments. The market for plastic components is highly fragmented and comprises hundreds of competitors in Germany alone.

Legal and economic factors

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

Implementing this reduction in the permitted level of sulphur in shipping fuel will most likely restrict the marketing opportunities for our high-sulphur content residue in future. By using our propane deasphalting plants, we can convert the residue into environmentally friendly, crude oil-based speciality products and an asphalt for use in the road building industry. Further products for alternative applications will have to be properly established over the next few years.

At our speciality refineries in Germany we primarily use long residue as the feedstock for our products. The price of this derivative, which is produced when crude oil is distilled at fuel refineries, correlates with the current price of crude oil. Product margins are often reduced temporarily as a result of the interaction between raw materials prices and base oil prices. Base oil is a by-product of our joint production process and is used to make engine oils, among other things. As rising raw materials prices can generally – if at all – only be passed on in the form of higher product prices with a certain delay, the price of base oil can have an overproportional effect on margins. General effects on our margins trends also result from supply and demand.

Company control

Internal management system

A value-based management system is used to guide and manage the Group. At the heart of this system is a comprehensive ratio reporting method that supports management in the monitoring of profitability, liquidity, the capital structure and operating performance. In addition to this, we monitor early indicators relating to both the company and the macroeconomic environment. At production level, this means data relating to plant availability, reject rates and quality fluctuations. In sales, we examine sales volume statistics, general market data and leading macroeconomic indicators.

The system also consists of monthly reports from the divisions, the management of risks and opportunities, and our functional management structure whereby responsibility is assigned for more than one site in important fields such as raw materials purchasing, project management and sales.

Over the past year, the changed framework conditions has also caused a shift in the focus of our control instruments to more short-term success parameters.

We measure and control profitability in particular by means of profit contributions. Manufacturing planning is based on an optimisation of coverage contributions; the business segments are controlled by means of EBITDA and EBT ratios.

The long-term WACC (Weighted Average Cost of Capital) ratio, which consists of the weighted capital costs of our equity and borrowed capital, was no longer used as a control parameter in the course of the year under review, but only taken into account in the medium and long term planning. This also applies for the ROCE profitability indicator (Return On Capital Employed), with which the earnings before interest and taxes are compared to the average committed capital necessary for operations.

For further information see the glossary on page 166 f.

LIQUIDITY. By focussing on our free cash flow, we ensure that the H&R Group will continue to retain its financial solidity in the future. Our free cash flow is essentially determined by the operating result (EBITDA), the change in net working capital

For further information see the glossary on page 166 f.

(total of inventories and trade accounts receivable less trade accounts payable) and capital expenditure/investments.

T. 18 **FREE CASH FLOW**

IN € MILLION	2013	2012	2011	2010	2009
Cash flow from operating activities	88.9	84.7	-11.8	52.1	21.5
Cash flow from investing activities	-16.2	-33.7	-42.3	-32.8	-23.6
Free cash flow	72.8	50.9	-54.2	19.3	-2.1

For further information see the glossary on page 166 f.

We sustainably improved cash flow from operating activities in 2013, mainly by means of a distinct reduction in our net working capital. The essential effect in the past period results from the conversion of the Salzbergen refinery site to contract manufacturing as of 1 July 2013, whereupon the indebtedness was reduced by €72.0 million by the transfer of inventories to the client. Positive effects were also obtained through supplier financing (including guarantees and letters of credit) as well as by optimising inventory management.

In 2013 we again limited our capital expenditure primarily to small and medium-scale maintenance and modernisation work. Consequently, we were able to generate a distinctly positive free cash flow again in 2013 just as in 2012.

CAPITAL STRUCTURE. We aim for a balanced capital structure that optimises our equity and debt capital costs. Under the terms of our loan agreements and our borrower's note loans, we are first and foremost obliged to uphold two financial covenants, which relate to our equity and the ratio of our net debt to operating earnings (EBITDA).

For further information see the glossary on page 166 f.

Net gearing is another key performance indicator for our capital structure. This expresses our net debt in relation to equity. By reducing our indebtedness, in spite of the lower equity ratio, this ratio improves from 73.4% to 38.6%.

T. 19 **CAPITAL STRUCTURE**

	2013	2012	2011	2010	2009
Net debt/EBITDA	2.24	2.96	2.06	1.07	1.79
Equity ratio in %	31.8	34.2	38.0	42.5	39.3
Net gearing in %	38.6	68.6	77.5	48.8	64.5

OPERATIVE PERFORMANCE. We essentially measure our operating business based on sales and absolute earnings indicators such as EBITDA, EBIT and EBT as well as by sales volumes of our chemical-pharmaceutical speciality products. As crude oil prices have an impact on our raw materials costs, the price of many of our products is also subject to considerable fluctuations. Our revenue is therefore only of limited use as a sole indicator of growth.

The ratios sales and EBITDA are determined both for the individual segments and also for the Group as a whole. Together with Net indebtedness, they constitute the primarily essential and significant parameters for the control and direction of our company.

T. 20 **EARNINGS AND VOLUME GROWTH**

IN € MILLION	2013	2012	2011	2010	2009
Sales volume main products in KT*	734	839	872	932	812
EBITDA	32.6	49.4	89.1	103.4	65.6
EBIT	-4.1	25.5	68.1	82.0	44.7
EBT	-16.8	1.6	54.5	73.6	36.2

* Chemical and Pharmaceutical Raw Materials Division.

Research and development

Focus of our R&D activities

Our crude oil-based speciality products and plastic parts are directly incorporated into our customers' products; we maintain a close collaboration with them to optimise the value the components we supply for their end product. Another focal point of our R&D work aims to make our production processes more efficient and thereby to increase the creative value we add. Research activities are managed at division level. Our Chemical-Pharmaceutical Division operates R&D laboratories at its domestically located refineries in Hamburg and Salzbergen. This enables valuable synergies to develop in the dialogue between these areas but also in the communication with other production areas. We apply a similar concept in the Plastics Division by bundling our R&D work at the headquarters in Coburg. As had already been the case in prior years, in 2013 we once again closely collaborated with universities and research institutions. Insofar as possible and expedient, we try to protect our own research results from external use by obtaining the appropriate patents.

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

CHEMICAL-PHARMACEUTICAL RAW MATERIALS. Our overall total of around 800 products are used in more than 100 different industries. Equally large is the potential for the development of new or improved products. An important source of ideas for product innovations are our sales staff and partners. As a result of their long-term customer relationships, they have an excellent feel for how clients' needs change over time. Our research activities are particularly intense in the product groups paraffins, plasticisers and white oils. In addition to existing patents, over the reporting period our research activities have led to further patent applications in the relating to alternative production methods for some of our specialties.

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

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

PLASTICS. The increasingly complex technologies now used in vehicles to reduce fuel consumption and CO_2 emissions lead to a growing demand for lightweight and simultaneously complex plastic parts. We often develop such parts – which consist of several different materials – in conjunction with our clients, who are mainly subsuppliers to the automobile industry.

We again stepped up our research and development work in the field of medical devices – an increasingly important market segment for the Plastics Division.

R&D expenses, staff and key figures

The importance of our research activities has for years been reflected in our consistently high spending and the recruitment of additional highly qualified staff in this field. All employees in the Research & Development department have outstanding qualifications, either in the form of technical training in a chemicals-related profession or in some cases a master's qualification. Other highly qualified staff include engineering graduates and scientists holding doctorates in chemistry.

At nearly €1.9 million, R&D spending was slightly below the previous year's figure. Our R&D ratio, defined as R&D expense in relation to revenue, fell slightly from 0.17% to 0.16% in spite of regressive revenue.

T. 21 **RESEARCH AND DEVELOPMENT COSTS**

IN € THOUSAND	2013	2012	2011	2010	2009
Research and Development costs	1,906	2,072	2,117	1,783	1,477
of which Chemical-Pharmaceutical Raw Materials Division	1,585	1,720	1,817	1,424	1,147
of which Plastics Division	321	352	300	359	330
as % of annual revenue	0.16	0.17	0.18	0.17	0.19

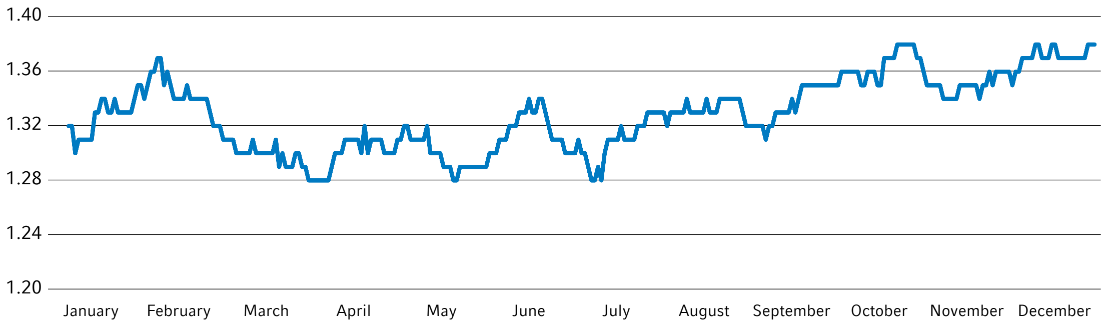
Financial report

Global economic conditions

In 2013 H&R AG generated some 68.9% of their sales in Germany. In that country, the economic climate dynamics experienced a revival in the course of 2013. This expansion in the domestic economy has been primarily supported by significantly stronger consumption. As of the end of the year, there was also a slight increase in orders from industry, although the demand from abroad remained somewhat slow. Owing to this trend, companies continued to exercise restraint in regard to their investments. Overall, the experts of the Institute for World Economy in Kiel (IfW) ultimately reckoned on an increase in the gross domestic product of 0.4% in 2013.

G. 05 **EXCHANGE RATES US$ PER € IN 2013**

(CLOSING RATE US$ PER €)

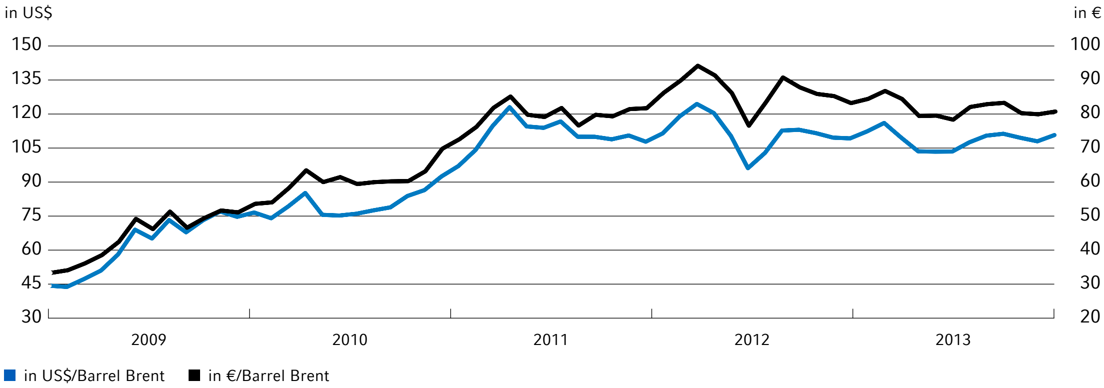


The euro, which is the determining currency for the calculation of the profit trends at H&R AG, was distinctly more stable in 2013 than in the prior year. In addition to the improved position of some European countries whose problems had still previously fuelled the ongoing discussion about the future of the Common currency, euro exchange rates primarily benefitted also from the weakness of the US economy and of the dollar as the leading international currency.

Certain factors that had substantially burdened the global economy over the past two years lost some of their importance in 2013. In the United States, consolidation in the private sector has made significant progress and the economic situation finally regained momentum in the important emerging countries last. According to the IfW, the increase in global production will likely have been of around 3.1% in 2013.

G. 06 **OIL PRICES 2009-2013**

(AVERAGE MONTHLY PRICES)



In the first half of the year, crude oil prices (all data refer to a barrel of North Sea Brent) fell from an average of US$112.32 in January to an average of von US$103.37 as of the end of June. In the second half, the price per barrel increased US$110.67 by the end of the year.

Industry-specific climate

The industry association VCI forecasts chemical production in Germany to be 1.5% over the prior year in 2013. Overall, however, the German chemical industry experienced an erratic year. Owing above all to lower chemical prices, industry sales rose only by 0.5% to €187.7 billion. Chemical product prices declined by 1.0% in 2013.

Independently of the general industry conditions and the difficult profits situation for refineries, the experts of the renowned US consulting company Solomon Associates assess our two refinery sites in Hamburg and Salzbergen as being in a good position in comparison to our well-known competitors in lubricant refineries. This refers both to operating and to earnings relevant features.

Course of business at a glance

In 2013, H&R AG sold a total of 734,000 tonnes of major products of the Chemical-Pharmaceutical Raw Materials Division (2012: 839,000 tonnes). In this connection, a significant volume effect resulted from the conversion to contract manufacturing as of 1 July 2013. Adjusted by this volume effect, the domestic business could even be deemed to have improved. However, the continuing high competitive pressure in many product segments had a negative effect on prices. As a consequence, H&R AG could not match the profit levels of previous years in 2013. The operating Group profit (EBITDA) declined by 34.0% to €32.6 million.

Events with a major impact on the course of business

In summary, at €1.21 billion, the Group achieved sales matching the prior year's level (2012: €1.23 billion). Adjusted for sales effects due to the conversion of the Salzbergen site to contract manufacturing, after two stable starting quarters, in the third quarter market trends led to a slight decline in sales. This decline was made up for in the fourth quarter of 2013. The sale of the inventories as part of the contract manufacturing conversion in Salzbergen realised a peak revenue event in the third quarter of 2013. At 734,000 tonnes, the volume of main products sold was below that of the previous year. The reason for this is the conversion of the Salzbergen site to contract production. Thus the two sales figures are not directly comparable.

i For further information see the glossary on page 166 f.

Several factors are of importance in order to understand the earnings trends in the last year. On the one hand it was clear from our experiences in the previous year that the market related burdening factors, in particular the margins situation in the domestic and international business, would represent a fundamental challenge in connection with chemical-pharmaceutical raw materials in 2013. Accordingly, in the spring this knowledge became a decisive factor for comprehensive measures intended for a sustainable risk relief for H&R AG. Contract manufacturing is the result of these efforts directed at de-risking and de-leveraging: Contract manufacturing transferred the inventories and the related external financing to the pertinent client. In addition, together with the contract manufacturing the client also assumes the risk for volatile raw materials and product prices. This results in a smoothing of the results curve for the Salzbergen refinery.

As a further contribution to profit improvements, Management initiated wide-reaching cost reduction projects in all Group divisions. Subsequently, all essential cost blocks were analysed and cost reduction measures were introduced that will take effect in 2014 and the following years. Last year, fixed costs were already reduced by more than €7.2 million.

At the same time, our plants operated without disruptions and under full capacity conditions. With the exception of the scheduled shutdowns for routine TÜV tests, we were able to keep operations interruptions to a minimum.

The Group result reported was quite substantially affected by the €12.1 million impairments in the Hamburg refinery. The reduced long-term profit prospects rendered an adjustment unavoidable. An impairment test in the autumn of 2013 resulted in impairments to goodwill and fixed assets. They are recorded in the profit and loss in the depreciation line item, and will in future lead to lower depreciations.

In addition to the absence of a perceptible market price recovery, these factors were largely responsible for the fact that we were not able to maintain the previous year's earnings level over the full year 2013 at Group level.

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

The expectations with which H&R AG started financial year 2013 were decisively marked by the experiences of the previous year. Therefore, the forecast for the business and profit expectations for 2013 was accordingly dampened: at sales levels that should approximately have resembled those of 2012, we initially still expected an operative result (EBITDA) similar to the 2012 value. In the course of the summer, we first slightly adjusted our expectations and considered an excess of the EBITDA of €49 million as being "unlikely". With the publication of the nine-month period, in November 2013 we performed a distinct correction of €33 million to €38 million. At €32.6 million, the EBITDA recognised in the Group income statement for the financial year was just below the forecast range.

T. 22 **FORECAST FOR FINANCIAL YEAR 2013**

Forecast date	25/4/2013	14/8/2013	11/10/2013	Actual value
Sales in the Chemical-Pharmaceutical Raw Materials Division	≈ €1.100 bn to € 1.300 bn.	Not defined	Not defined	€1,151.7 million
Sales in the Plastics Division	≈ €65 million	Not defined	Not defined	€62.7 million
EBITDA at Group level	≈ €49 million	< €49.0 million	≈ €33.0 million to €38.0 million	€32.6 million

* Total sales proceeds were updated.

At €1,151.7 million, the sales of the Chemical-Pharmaceutical Raw Materials Division were below those of the previous year (2012: €1,173.3 million), but above the lower limit of the forecast range.

The Plastics business met forecasts more closely than in 2012. While in the previous year the division had clearly missed the target of €65.0 million also applied to 2013 (2012: €55.6 million), it was able almost to catch up on expectations in the previous year with an amount of €62.7 million.

The fact that H&R AG so clearly missed the targeted operating result was essentially due to the continuing tense market situation for our products. The Hamburg refinery, which does not operate as a contract production facility and thus continues to bear the full risk of price volatilities in the procurement of raw materials and the sale of the products, fell distinctly behind the planned profit contributions. This then resulted in long-term changes in the profit prospects, resulting in the need for writedowns. The pertinent impairments in the amount of €12.1 million are recorded in the profit and loss in the depreciation line item.

Overall, H&R AG is certainly looking back on an unfavourable business trend in 2013 with hardly satisfactory results. Nonetheless the Executive Board evaluates the effective manner in which the major organisational and structural challenges of the past year, in particular the contract manufacturing initiative, were implemented, as highly positive.

Economic position of the H&R Group

Earnings position

In financial year 2013 we generated revenues of €1,214.4 million similar to last year's (€1,228.9 million). The downward trend in proceeds from the Chemical-Pharmaceutical business (proportion of sales in 2013: 94.8%) were partially made up for in the Plastics business (proportion of sales in 2013: 5.2%). Overall, the lower proceeds also reflected on profits. This was due to the substantial price pressure on many of our products, in particular the low level stagnation of base oil prices over long periods in financial year 2013.

The regional focus of our business activities is on Germany, where 68.9% of revenue was generated. This percentage includes transactions with our sales partner – the Hansen & Rosenthal Group – which, conversely, derives a large proportion of its revenue abroad. The actual percentage of products purchased by foreign end customers is therefore higher than our statistics suggest. Of the remaining 31.1% of revenue, other European countries account for 13.7 percentage points, while the rest of the world makes up 17.4 percentage points.

Financial year 2013 began for H&R AG under the premise that after the poor performance at the end of 2012 a new foundation had to be found for the future development of the business. Because of the market situation, appropriate structural and organisational changes were decided and implemented in the course of the year. In addition to the conversion of the Salzbergen refinery to contract manufacturing and far-reaching cost reduction measures, there were also changes in the Group's management structures.

However, the Executive Board did not count on a distinctly improved profit trend as soon as in financial year 2013. Nonetheless, the conversion to the contract manufacturing method – accompanied by some easing on the raw materials side – led to a stabilisation of the Group's earnings position in the second half of the year as compared to the previous quarters.

The operating Group profit (EBITDA) fell by 34.0% to €32.6 million (prior year: €49.4 million). The EBITDA margin deteriorated by 1.3 percentage points, to 2.7% after 4.0% in financial year 2012.

Impairments particularly impacted our Hamburg site. These one-time non-cash effects in the amount of €12.1 million were recognised at the end of the third quarter of 2013, thus increasing depreciation from €23.9 million to €36.7 million. This had a matching negative impact on the Group's earnings before interest and taxes: 2013 EBIT dropped to €-4.1million (previous year: €25.5 million).

In addition, and in spite of lower interest expense for our finance instruments and an improved financial result, earnings before taxes (EBT) declined distinctly to €-16.8 million after €1.6 million in 2012. The Group's results after impairments recorded €-14.0 million (prior year: €0.5 million). After €0.02 in the previous year, for 2013 earnings per share recorded a deficit of €0.47.

i For further information see the glossary on page 166 f.

T. 23 **DEVELOPMENT OF REVENUE AND EARNINGS**

IN € MILLION	2013	2012	2011	2010	2009
Revenue	1,214.4	1,228.9	1,209.5	1,056.8	762.3
Operating result (EBITDA)	32.6	49.4	89.1	103.4	65.6
EBIT	-4.1	25.5	68.1	82.0	44.7
Earnings before taxes	-16.8	1.6	54.5	73.6	36.2
Consolidated earnings before minority interests	-14.0	0.4	38.5	52.0	25.1
Group profit/loss after minority interests	-14.0	0.5	38.5	52.0	25.0
Earnings per share (€)	-0.47	0.02	1.29	1.74	0.83

Orders trend

Over the entire course of 2013, new orders for the products in our chemical-pharmaceutical division remained at a stable level.

By the middle of the year, the Plastics Division saw an increase to around €40.0 million. This trend was largely driven by customers from the automotive industry. The second half of the year was characterised by receding demand; nonetheless, at €36.8 million the division's order book recorded higher levels at the end of 2013 than at the same time of the previous year (31 December 2012: €34.0 million).

Trends in the main items in the income statement

Stocks of finished and unfinished products fell by €56.5 million in the reporting period. The decline most substantially resulted from the conversion of the Salzbergen refinery site to contract production. As opposed the situation in earlier years, the raw materials inventories as well as the finished and semi-finished products manufactured there are now the property of the customer.

In 2013, our materials expenditure reduced by 3.5% to €981.3 million (previous year: €1,017.4 million), thus following the sales trend. The deteriorated material expenditure rate of 83.2% to 84.7% in the prior year period is essentially due to the conversion of the Salzbergen refinery site to contract production: as before, the entire raw materials requirement for both refineries is centrally purchased via Hamburg, and the portion intended for Salzbergen is then immediately sold onward to the contract manufacturing customer.

Personnel expenses reduced because of lower staff numbers, declining by 2.1% to €71.4 million (previous year: €72.9 million).

Relief was brought primarily by capacity adjustments at the three German facilities. The reduction of high wage costs at those sites more than compensated for the capacity increase intended to strengthen the international business.

Depreciation and amortisation significantly rose by 53.1% to €36.6 million after €23.9 million in the previous year. Scheduled depreciation accounts for €24.6 million, while extraordinary depreciation of goodwill and fixed assets as a consequence of the impairment tests at the end of the third quarter are taken into account at €12.1 million.

T.24 **DEVELOPMENT OF MAIN ITEMS IN THE INCOME STATEMENT**

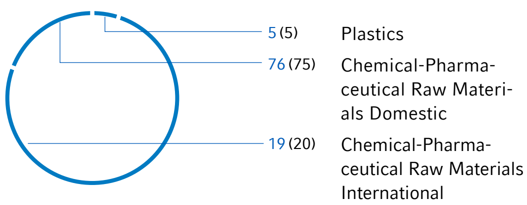
IN € MILLION	2013	2012	2011	2010	2009
Revenue	1,214.4	1,228.9	1,209.5	1,056.8	762.3
Changes in inventories	-56.5	-6.4	29.0	20.3	3.4
Other operating income	22.3	19.7	21.0	21.3	15.6
Cost of materials	-981.3	-1,017.4	-987.3	-812.8	-557.6
Personnel expenses	-71.4	-72.9	-76.2	-74.5	-67.9
Depreciation and amortization	-36.7	-23.9	-21.0	-21.4	-20.8
Other operating expenses	-95.2	-102.9	-107.2	-108.1	-90.4
Operating profit/(loss)	-4.5	25.2	67.8	81.7	44.7
Financial result	-12.4	-23.6	-13.4	-8.1	-8.5
Earnings before taxes	**-16.8**	**1.6**	**54.5**	**73.6**	**36.2**
Consolidated earnings before minority interests	**-14.0**	**0.4**	**38.5**	**52.0**	**25.1**
Group profit/(loss) after minority interests	**-14.0**	**0.5**	**38.5**	**52.0**	**25.0**

Interest expense declined in 2013. Some relief was experienced from – among other factors – lower waiver costs and lower interest swap costs. The expenditure from the early repayment of €21.0 million of the 10-year tranche of the borrower's note loan in the spring had already been recognised in the 2012 year-end financial statements. Repayment of the remaining €10.0 million led to costs of €0.3 million.

This improved the financial result which at €-12.4 million was distinctly better situated than the prior year's value of €-23.6 million. Our tax expenditure of €1.2 million in the previous year was countered by tax earnings of €2.8 million in 2013. This represents a tax rate of 16.7%.

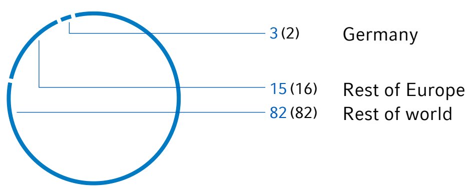
G. 07 **REVENUE BY SEGMENT IN 2013**

IN % (PREVIOUS YEAR'S FIGURES)



G. 09 **REVENUE BY REGION IN THE CHEMICAL-PHARMACEUTICAL RAW MATERIALS INTERNATIONAL SEGMENT IN 2013**

IN % (PREVIOUS YEAR'S FIGURES)



Earnings trends in the segments

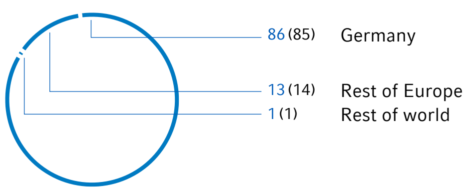
CHEMICAL AND PHARMACEUTICAL RAW MATERIALS DOMESTIC. Sales volumes of major products at our Group's largest segment definitely fell vis-à-vis last year owing to the contract manufacturing paradigm. At the same time, the competitive pressure impacted the prices of our products. Overall, in financial year 2013, the segment's revenue eased by 1.2% to €941.0 million (previous year: €952.2 million). On the other hand, the operating result (EBITDA) for the segment declined essentially based on the above described pricing and margin situation by 37.8% to €20.6 million (previous year: €33.1 million).

CHEMICAL AND PHARMACEUTICAL RAW MATERIALS INTERNATIONAL. In the international segment, the 8.8% decline in sales to €231.7 million (previous year: €254.1 million) was both volume and price related. The decline in sales is partially due to extraordinary effects. As speciality products with more stable margins account for a larger share of the product portfolio, and although at €16.5 million the operating result (EBITDA) was also lower than in the prior year (2012: €19.3 million), at 14.5% the decline was more moderate than in the "Domestic" segment.

PLASTICS. Our Plastics Division benefited from a good order level at the end of the previous year, which could be fulfilled in the course of the year under review. Consequently, the business volume rose by 12.8% and generated revenue of €62.7 million (previous year: €55.6 million). After recording an operating deficit (EBITDA) of €0.8 million in the previous year, we reported a positive EBITDA of €0.7 million in the reporting period.

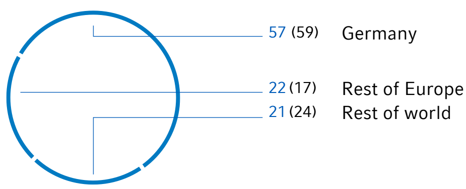
G. 08 **REVENUE BY REGION IN THE CHEMICAL-PHARMACEUTICAL RAW MATERIALS DOMESTIC SEGMENT IN 2013**

IN % (PREVIOUS YEAR'S FIGURES)



G. 010 **REVENUE BY REGION IN THE PLASTICS SEGMENT IN 2013**

IN % (PREVIOUS YEAR'S FIGURES)



T.25 KEY FIGURES FOR THE SEGMENTS (IFRS)

IN € MILLION	2013	2012	2011	2010	2009
Revenue					
Chemical and Pharmaceutical Raw Materials Domestic	941.0	952.2	943.2	808.1	583.2
Chemical and Pharmaceutical Raw Materials International	231.7	254.1	249.6	229.8	158.8
Plastics	62.7	55.6	52.6	42.8	38.7
Carry-over	-21.0	-33.0	-35.9	-23.9	-18.4
Operating result (EBITDA)					
Chemical and Pharmaceutical Raw Materials Domestic	20.6	33.1	71.3	86.7	51.7
Chemical and Pharmaceutical Raw Materials International	16.5	19.3	19.0	20.7	19.7
Plastics	0.7	-0.8	2.3	-0.3	-3.0
Carry-over	-5.1	-3.2	-3.5	-3.7	-2.8

Net assets and financial position

Financial management principles and objectives

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

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

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

In November 2011 we replaced the syndicated loan taken out in 2008 for up to €250.0 million with borrower's note loans and a new syndicated loan. The borrower's note loans currently amount to a total of €119.0 million with terms of five to seven years and serve mainly to refinance already existing investments. An additional 10-year tranche of €31.0 million was repaid in the spring of 2013 with a nominal €21.0 million and in the autumn with a nominal €10.0 million originating entirely from our own liquidity.

For further information see the glossary on page 166 f.

As a result of the conversion of the Salzbergen refinery site and the related relief for our working capital requirements, we reduced the syndicated loan with a term of five years and a maximum utilisation of €150.0 million. The upper limit for the utilisation of this financing buffer for further investments was of €60.0 million as of the balance sheet date of 31 December 2013.

Within the scope of the changed financing requirements, on 7 February 2014 a conversion of the syndicated loan to a letter of credit and cash credit line increased by a further €12.5 million for a total of 72.5 million was agreed upon. There is a further increase option to €90 million.

T.26 MAIN FINANCING INSTRUMENTS IN THE H&R GROUP

	Sum in million €	Year issued	Maturity
Syndicated loan	up to 60.0	2011	30/11/2016
Bonded loans	66.0	2011	30/11/2016
Bonded loans	53.0	2011	30/11/2018
Syndicated loan (redeemable loan)	50.0[1]	2011	30/12/2020
Redeemable loan	20.0[1]	2009	30/6/2019

IN € MILLION	2014[2]	2013	2012
Trends in the consolidated net financial debt	≈110.0	73.1	146.3

[1] Before capital repayments. [2] Forecast earnings development.

Within the scope of a further syndicated loan, we took out ten-year loans of €20.0 million in May 2009 and €50.0 million in January 2011 via the Reconstruction Credit Corporation [Kreditanstalt für Wiederaufbau (KfW)]. These loans are part of a funding scheme which offers financing for environmentally friendly investments at particularly favourable conditions.

In addition to other conditions, the utilisation of the loans is subject to two covenants: the ratio of net debt to operating result (EBITDA) and the economic equity ratio.

For precautionary purposes only, a waiver was agreed in connection with the covenant breach in the fourth quarter of 2012 to maintain the financing arrangements and avert potential liquidity risks. We agreed a standardisation of the covenant structures with the financing banks and thus to an increase in our indebtedness ratio. All financing conditions were fulfilled without fail in 2013.

The interest payable on one €80.0 million tranche of the borrower's note depends on general developments in money market rates. In order to increase the visibility of our future interest payments and to lock in historically low interest rates for the long term, we took out interest rate hedges for this amount. The hedging relationships for the interest rate swaps recognised as cash flow hedges ceased to exist in the 2013 financial year, because the criteria for their effectiveness were no longer met.

We made very little use of derivatives to hedge against the risks inherent in raw materials prices, exchange rates and other risks in the reporting period because, in our view, the cost of these instruments exceeded the potential benefit.

Analysis of the cash flow statement

In spite of a weak period result after impairments, interest and tax of €-14.0 million, our cash flow from operating activities over the reporting period was once again substantially positive at €88.9 million (previous year: €84.7 million). Operating cash flow again saw some relief through a reduction in net working capital of €82.2 million. The reason for this was the conversion of the Salzbergen site to contract production. In addition, the outbound cash flow from paid income taxes in the prior year (€9.3 million) was countered by a cash inflow of €1.9 million. Cash flows used in investing activities were halved to €16.2 million (previous year: €33.7 million). The lower expenditure primarily related to modernisation and replacement work at our refineries. Accordingly, free cash flow (total cash flow from investing and operating activities) was substantially positive again at €72.8 million (previous year: €50.9 million).

Approximately €49.6 million were employed in the repayment of financial debts. In financial year 2012, this line item had been recognised at merely €6.2 million with amortised financial debt. €0.1 million (2012: €8.6 million) were added as new financial liabilities. Overall, the financing activity resulted in an outflow of payment resources of €-49.2 million (prior year: €-15.3 million).

At the end of the reporting period, cash and cash equivalents amounted to €109.6 million, having totalled €89.6 million one year earlier.

Existing payment obligations in the current year consist of €0.6 million for finance leases and €4.7 million for operating leases. The total amount of liabilities falling due to banks in 2014 is €13.3 million as of the reporting date.

T.27 **FINANCIAL POSITION**

IN € MILLION	2013	2012	2011	2010	2009
Cash flow from operating activities	88.9	84.7	-11.8	52.1	21.5
Cash flow from investing activities	-16.2	-33.7	-42.3	-32.8	-23.6
Free cash flow	72.8	50.9	-54.2	19.3	-2.1
Cash flow from financing activities	-49.2	-15.3	91.3	-26.9	8.3
Financial resources as of 31/12	109.6	89.6	53.1	16.2	20.9

Capital expenditure

During the reporting period, our capital expenditure distinctly fell to €13.1 million (previous year: €36.7 million). These investments were destined almost entirely to fixed assets.

T.28 CAPITAL EXPENDITURE IN THE SEGMENTS

IN € MILLION	2013	2012	2011	2010	2009
Chemical and Pharmaceutical Raw Materials Domestic	12.0	30.8	37.9	33.3	22.0
Chemical and Pharmaceutical Raw Materials International	0.5	1.8	1.3	3.5	1.5
Plastics	0.6	3.3	1.4	1.6	0.7
Transfer/Reconciliation (other activities)	-	0.8	0.5	0.9	0.2
Group	13.1	36.7	41.1	39.3	24.4

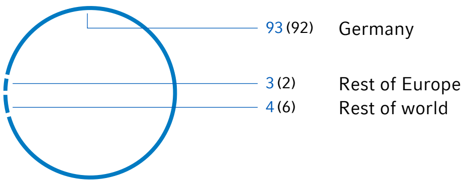
We invested a total of €12.5 million (previous year: €32.6 million) in the Chemical-Pharmaceutical Raw Materials Division in the 2013 financial year. In total, this reduced our investments by 61.7%.

No expansion investments were made in addition to the total investments in the paraffin and white oil hydration. A large proportion of the total (€12.0 million) was for replacement investments at the refinery sites in Hamburg and Salzbergen. The division's remaining capital expenditure of €0.5 million was divided among our international sites. Capital expenditure in the Plastics Division also distinctly dropped from €3.3 million in 2012 to €0.6 million in the reporting year. We invested the bulk of this amount in our Chinese site. Smaller investments were made in our Czech site as well as in our Coburg headquarters.

Because of the investment in our refineries, the bulk of our capital expenditure (at 92.6% of total expenses – prior year 92.0%) again took place in Germany.

G.11 INVESTMENT BY REGION 2013

IN % (PREVIOUS YEAR'S FIGURES)



T.29 NET CAPITAL EXPENDITURE VOLUME

IN € MILLION	2013	2012	2011	2010	2009
Capital expenditure	13.1	36.7	41.1	39.3	24.4
Depreciation	36.7	23.9	21.0	21.4	20.8
Disposal of assets	0.2	0.4	0.6	0.1	0.3
Net capital expenditure volume	**-23.8**	**12.4**	**19.5**	**17.8**	**3.3**

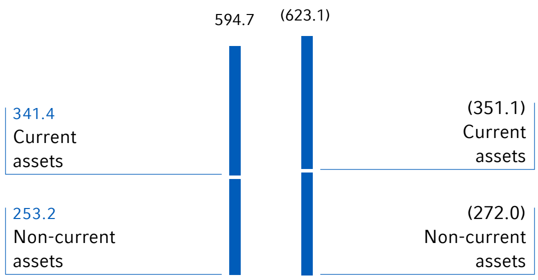
Balance sheet analysis

The balance sheet total shrank by 4.6% to €594.7 million as of year-end 2013 (31 December 2012: €623.1 million). On the assets side, cash and cash equivalents distinctly increased by 22.3% to €109.6 million as compared to €89.6 million at the end of the prior year.

Trade receivables rose by 56.7% by the end of the reporting period to €109.7 million (31 December 2012: €70.0 million). The increase in this balance sheet position is based on the balance sheet date valuation as of 31 December 2012: Higher factoring sales, combined with an equally lower business volume as of year end resulted in according-

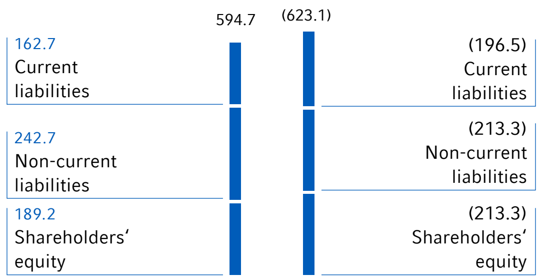
G.12 **ASSETS 2013**

IN € MILLION (PREVIOUS YEAR'S FIGURES)



SHAREHOLDERS' EQUITY AND LIABILITIES 2013

IN € MILLION (PREVIOUS YEAR'S FIGURES)



ly lower recognition in the previous year. Also as a result of the contract production model, inventories and/or the related transfer of the stocks to the customer distinctly declined by 35.7% to €116.2 million (31 December 2012: €180.6 million).

Overall, current assets declined by 2.8% to €341.4 million as of 31 December 2013, compared with €351.1 million a year earlier. Their share of the balance sheet total increased to 57.4% (31 December 2012: 56.3%).

In financial year 2013, long-term assets reduced by 6.9% to €253.2 million as against €272.0 million as of 31 December 2012. The essential driver of this decline was the fixed assets position reduced by 9.7% from €219.1 million to €197.9 million. Among other things, this position takes into account the write-downs resulting from the impairment test at the Hamburg refinery site.

On the liabilities side of the balance sheet, short-term liabilities fell by 17.2% from €196.5 million to €162.7 million. Their share of the balance sheet total accordingly decreased to 27.4% (31 December 2012: 31.5%). The debt owed to credit institutions was distinctly reduced to €13.3 million (from €69.6 million) as a result of restructuring, and was essentially counterbalanced by liabilities in respect to goods and services, which increased to €121.7 million (31 December 2012: €61.7 million). Significant relief could be recorded in the balance sheet in regard to the Other financial liabilities, which reduced from €45.5 million last year to now only €4.6 million.

On the other hand, long term liabilities increased over the same period as a result of the restructuring of the loans by 13.8% to €242.7 million (31 December 2012: €213.3 million), which corresponds to a change in the balance sheet sum share from 34.2% to 40.8%.

As of the end of the reporting period, H&R AG's equity capital amounted to €189.2 million, and was therefore around 11.3% lower than in the previous year (31 December 2012: €213.3 million). Retained earnings, including Group profits, declined by 12.7% to €102.8 million after €117.7 million at the end of the prior year. In addition, negative effects from currency translation resulted in a reduction in equity. In analogy to the equity capital figure, the equity ratio also declined. However, it remained at a solid 31.8% as of the reporting date (31 December 2012: 34.2%). Net gearing (net debt in relation to equity) dropped by 30.0 percentage points from 68.6% to 38.6%.

i For further information see the glossary on page 166 f.

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

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

Non-financial performance indicators

Sustainability

“Oil is far too good to burn!” – Under this motto, H&R AG acts not only to meet its economic necessity, although the optimal use of our raw materials is ultimately also essential for the company from a financial point of view.

However, we do not exist within a vacuum. Wherever we work, we are always also partners for our customers. We bear the responsibility for our employees and their working conditions. We are part of the same community and share the same resources. We can therefore only succeed in a harmonic consonance of economic, social and ecological targets in our goal to strengthen our Group and successfully maintain its standing.

In this context, we actively face the manifold challenges involved in our mission. Thus our customers demand not just the same product quality they have enjoyed for years, but nowadays H&R AG must be in a position to deliver these products in an environmentally friendly version and, if possible, backed by the appropriate certifications. Guidelines intended to guarantee ethical conduct sweep out to include all partners in addition to our own company. This takes place before and also after our own value creation chain.

Demographic change requires us to obtain a long-term commitment from our qualified staff. This can only succeed if we offer our employees good and future guaranteed positions, with commitment and enthusiasm. And, after all, climate change and the scarcity of resources also continue to gain importance.

The following pages bear witness to what we have already been able to achieve.

Employees

The number of employees at the H&R Group decreased as of year-end 2013 by 53 to 1,405 (31 December 2012: 1,458). Their distribution among divisions is as follows:

T.30 EMPLOYEES BY DIVISIONS

	2013	2012	2011
Employees	1,405	1,458	1,409
of which Chem.-Pharm.	801	835	836
of which Plastics	580	578	532
Personnel expense in million €	71.4	72.9	76.2

Most of our employees work in the domestic refineries in Hamburg and Salzbergen. As of the end of the reporting period, the refineries employed 610 people (31 December 2012: 644).

Our performance-related pay schemes and flat hierarchies also make us an attractive employer for experienced professionals. The increasing complexity of our plants and equipment requires well-trained employees. Thus for example, for the supervision of the processes in the refineries in the measurement and control rooms we only use experienced employees who are ready and willing regularly to expand their knowledge by means of further training and education.

As we can only compete internationally when we have superbly trained employees on board, we see our spending on professional training as an investment in the future of our company. When choosing training courses we follow an individual approach, which fosters employees’ strengths and helps them in the achievement of their career goals.

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

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

Occupational health and safety

A focal issue in all of our sites is the further training and education of our employees: We carry out regular training sessions concerning safety relevant topics and also commit all our employees regularly to visit our Internet based safety instruction system UWEB2000. Contractors working in our factories are also included in our safety strategy. Detailed analyses of potential losses, a special report on safety relevant ratio, safety inspections and an active inclusion of the Executive Board ensure a constant improvement of our safety performance.

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

The standards we apply are therefore much stricter than those called for by the employers' liability insurance associations in Germany, for instance. Over the last year, we have once more intensified our safety measures: The LWIF value of our refineries was 0.0 in 2013 (prior year: 1.4), i.e. there were no accidents involving absenteeism at our refinery sites.

In the field of healthy living and illness prevention we have a wide range of programmes on offer for our staff. At the Salzbergen head office, we offer exercises to prevent back injury, nutritional consulting, motion training and preventive health care checks.

Similar services are provided for our staff at other H&R Group sites.

For further information see the glossary on page 166 f.

T.31 **OCCUPATIONAL SAFETY AT THE H&R REFINERIES**

	2013	CONCAWE-standard	2012	2011	2010
Number of occupational accidents with a least one day lost per million working hours - (Lost Workday Injury Frequency; LWIF)	0.0	1.4	4.4	6.8	9.0
Number of occupational accidents with at least one day lost	0.0	–	8.0	11.0	14.0
Number of days lost due to accidents	13.0*	–	195.0	161.0	198.0
Number of working days lost per occupational accident (Lost Workday Injury Severity; LWIS)	0.0	30.0	24.8	14.6	14.1
Number of fatal occupational accidents	0.0	4.0	0.0	0.0	0.0

* Including accidents from the prior year whose days of absence continued over the year change.

Process safety

As an operator of refineries and production facilities, we are entrepreneurs and employers, users of natural resources and neighbours all in one. As such, we are under the obligation to act safely and sustainably. The processes of our refineries use a variety of substances that require extremely careful handling. Since the start of 2011 we have measured our performance in this area by means of the PSPI (Process Safety Performance Indicator). To calculate this figure we track incidents relating to the safety of our processes (PSE – Process Safety Events) per 1 million working hours. We benchmark our results by comparing them with the reference figure from the industry association CONCAWE. Since we began recording the PSE we have always been better than the CONCAWE reference standard. The last notifiable incident occurred in 2011.

Membership of industry associations

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

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

Environmental report

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

ENVIRONMENTALLY SOUND PRODUCTS. Our label-free plasticisers for the tyre industry reduce the environmental impact in two ways. Firstly, they improve the environmental compatibility of the tyre compounds and tyre particles. Furthermore, they lower the rolling resistance of the tyres and thereby make an important contribution to fuel saving efforts.

Our label-free plasticisers are also found in many kinds of lagging and insulation material, used to reduce heat loss from buildings. One of the uses of the white oils produced in our refineries is as components of pesticides to improve the yield of renewable raw materials.

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

The innovative products from our Plastics Division are increasingly being utilised as a substitute for parts used in the automotive industry that were previously made of metal. The weight reduction this brings about helps to reduce a car's fuel consumption even further. At the same time, the energy footprint for their production is much better than for comparable metal components.

ENERGY EFFICIENCY AND CLIMATE PROTECTION. In Germany, the high energy costs affect in particular energy intensive production operations such as our refineries. H&R AG consistently and systematically pursues lowering this cost factor. By the end of 2013, the cumulative saving compared with the internal reference figure of 2011 was around 5.2%. This is an achievement that also pays off in financial terms. Overall, thanks to greater energy efficiency, in 2013 the two refineries achieved savings of more than €3.9 million, part of which were lost due to increasing energy prices.

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

T.32 **EMISSIONS BY H&R REFINERIES**

PER TONNE OF FEEDSTOCK	2013	2012	2011
CO_2 for all energy sources (kg/t use)	397.7	397.6	398.1
Waste water (l/t use)	740.5	717.9	861.2
Waste (kg/t use)	1.59	2.14	3.09

CO_2-EMISSIONS. Our CO_2 footprint, together with our direct emissions, also create indirect effects, e.g. from purchasing additional energy. We reflect the extent of our value creation by evaluating the sum of all individual plant throughputs in the course of production. For the financial year 2013, our emissions per tonne of feedstock came to 397.7 kg. The past financial year was therefore at the same level as in the previous year and at the same time slightly under the 2011 reference value.

WASTE. We try to reduce the amount of waste caused by our production process as far as possible. A large proportion of unavoidable waste is recycled. Only when we have exhausted these means do we dispose of the remaining waste in an environmentally compatible way. Fortunately, the total amount of refuse generated by our refineries is low. In a year-on-year comparison between 2012 and 2013, we again reduced the quantity of waste sharply by around 48.0% as compared to 2011 and by almost 18% as compared to the prior year. Instead of 2.14 kg per tonne of feedstock, we only generated 1.59 kg per tonne last year.

WATER USE. Most of the water needed in our refineries is used for cooling. This water does not come into contact with our products and can directly be returned to the environment. Our closed circuit systems enable us to use our cooling water several times in some cases, thereby reducing our overall water consumption. A very small proportion of the water is used directly in our refinery processes. We use sophisticated procedures to purify this water so that it can be returned to the environment as wastewater without any concerns. In total, in 2013 we returned 740.5 litres of domestic or process wastewater per tonne of feedstock, thus performing well below our reference value of 2011. In the prior year, the comparative quantity was somewhat lower yet, at 717.9 litres.

Product responsibility

At all the sites in the Group, we strive to have uniform safety standards that go beyond statutory regulations. In doing so, we take the entire value chain into consideration: from the delivery of raw materials to the use of our components in our customers' products.

We base our product safety approaches on our system of material safety data sheets. This system gives our employees and customers around the world immediate access to key health, safety and environmental information about our products. Our database currently holds more than 2,000 material safety data sheets (MSDS) in 18 languages. These data sheets are constantly expanded and updated. This approach ensures that our products do not subject people or the environment to any dangers, provided that they are used appropriately.

We apply the standards laid down in REACH, the new EU regulation for chemicals. We successfully completed the relevant registration phase for substances with an annual production volume of more than 1,000 tonnes in 2010. In the reporting period, we incorporated the additional information required by the regulation into our material safety data sheets. In order to keep the costs of complying with REACH to a minimum and realise synergies we have played an active role in the CONCAWE association. At a local level, during the reporting period we also joined the REACH Hamburg expert network. Now that registration has been completed successfully, some of the substances we produce require authorisation. No costs were incurred for this in the 2013 financial year, however.

Supplier and customer relations

SUPPLIER RELATIONS. The main feedstock processed by our refineries in Hamburg and Salzbergen is so-called long residue – a derivative that is produced when crude oil is processed at fuel refineries. The main suppliers of our raw materials are the major oil companies. We sign volume contracts with several suppliers from different regions for a period of up to twelve months to reduce the risk of supply shortages. In order to diversify our sourcing even further and to benefit from short-term price movements, we also purchase additional quantities on the spot market.

The Plastics Division uses many types of plastic granulate and various metals as 'inserts'. In many cases our customers determine the materials and the supplier to be used for a given order themselves. We therefore normally bear joint responsibility, together with our customers, for sourcing raw materials.

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

CUSTOMER RELATIONSHIPS. Hansen & Rosenthal KG is responsible for the sales of a large part of the products from our Chemical-Pharmaceutical Division. Our sales partner has been trading in crude oil-based speciality products for over 90 years. Thanks to its established presence on the market, Hansen & Rosenthal has excellent market knowledge and close customer contacts. In our Plastics Division, the correlation to the performance of the automotive industry once again increased in 2013: customers from this market segment accounted for 66% of revenue in the reporting period, compared with 68% a year previously. The industrial segment in particular, where we primarily manufacture products for customers in electrical, measuring and control technology, was not able to maintain its revenue share, which declined from 19% to 17%. Revenue from customers in the medical devices segment was roughly stable at a low level.

General economic outlook

Assessment of the economic situation by company management

Over the reporting period, the economic situation of H&R AG developed differently than the Executive Board had expected at the beginning of the year. As compared to prior years, in 2013 H&R AG suffered a more unfavourable development. The minor failure to meet sales targets is relatively insignificant: overall, with more than €1.2 bn we once again achieved a good performance.

The operating result (EBITDA) of €32.6 million, on the other hand, is entirely unsatisfactory.

Overall, the profit contributions of all quarters remained below expectations and their respective contributions to the operating result for the full year were only in single figures. A major challenge for the company in 2013 were the difficult markets and significantly more stringent pricing environment. The Executive Board consequently reacted with a comprehensive package of measures in order to take control and sustainably reinforce the earnings situation by adapting the company's process flows, product portfolio, cost structure and strategic direction of the business to the pertinent requirements.

Essentially, to improve its results the H&R Group pursues the goal to continue optimising raw materials input costs by means of intelligent raw materials management and Group internal synergies within the H&R Group. In this connection, H&R Group Services GmbH was created, which is intended to structure the Group's business processes more efficiently.

We are pleased to acknowledge that also the renowned experts of the US consulting firm Solomon Associates have given a positive evaluation to our refinery sites in Salzbergen and Hamburg as compared to those of worldwide known competitors in the lubricant refineries sector. For the external, market-driven influences on our business we have developed a comprehensive portfolio of measures as part of the year end accounting and planning process 2012/13. With the conversion of the Salzbergen site to contract manufacturing for one of our main customers, H&R AG has moved closer to other parts of the H&R Group and, in the spring, initiated and implemented the core elements of these structural changes within an extremely short time. The positive effects of this measure can be seen in our figures, e.g. in the cash flow situation of H&R AG.

We therefore see the company as being distinctly more stable as even just a year ago. The measures that were implemented were necessary and appropriate in order to stabilise the earnings trends in the company in view of the difficult framework conditions and the increased pressure. To reverse the trend towards more positive results, it will, in the opinion of the Executive Board, not suffice merely to rely on an improvement of the overall economic and industry specific conditions. Rather, it will be necessary steadfastly to continue on the course embarked upon.

Presentation of the influence of financial policies on the economic situation

As in prior years, we have been conservative when making discretionary judgements and estimates. Our net worth and financial position also reflect the steps described with regard to working capital management (factoring, inventory management, payments on account, orders). For a full description of the assumptions and judgements made with respect to the measurement of assets and liabilities we refer to the presentation in the notes to the consolidated financial statements of this annual report.

For further information see page 124

Earnings, financial and asset position of H&R AG

T.33 **EARNINGS POSITION OF H&R AG UNDER HGB**

IN € THOUSAND	2013	2012	Change
Revenue	1,399	1,306	93
Other operating income	3,948	4,595	-647
Personnel expenses	-2,460	-2,468	8
Depreciation on intangible assets of the investment and fixed assets categories	-21	-18	-3
Other operating expenses	-7,349	-10,826	3,477
Income from profit transfer agreements	272	957	-685
Expenses from loss transfer agreements	-18,734	-7,741	-10,993
Revenues from financial assets borrowings	8	10	-2
Other interest and similar income	12,873	14,051	-1,178
Interest and similar expenses	-12,984	-17,917	4,933
Result of ordinary operations	**-23,048**	**-18,051**	**-4,997**
Extraordinary result	-53	-53	–
Taxes on income and earnings	45	-909	865
Other taxes	-1	-380	379
Annual deficit	**-23,057**	**-19,393**	**-3,664**
Loss carryforward	-19,393	0	-19,393
Balance sheet loss	**-42,450**	**-19,393**	**-23,057**

We have prepared the annual financial statements for H&R AG in accordance with the German Commercial Code (HGB). They are published in the Federal Gazette and are permanently available for downloading from the H&R AG section of the company website www.hur.com. For financial year 2013 we have combined the management reports of the H&R Group and of H&R AG.

www.hur.com

H&R AG's revenue is generated solely by services rendered to companies in the Group. At €1.4 million, it was slightly higher than in the prior year (2012: €1.3 million). At €2.5 million, personnel expenses were at the same level as in the prior year. At €21,000 as compared to last year's €18,000, depreciation also remained almost on the same level. Other operating expenses fell from €10.8 million to €7.3 million. Last year, the higher amount was related to a lower derivatives valuation, for which a provision for anticipated losses had been instituted in 2012. This was then not necessary in 2013.

Income from profit transfer agreements was again lower at €0.3 million (previous year: €1.0 million). The decline is principally the result of lower earnings from subsidiaries in the Chemical-Pharmaceutical Raw Materials and the Plastics divisions.

The generally unsatisfactory earnings situation at the subsidiaries with which profit transfer agreements exist was also the main reason for the rise in expenses from loss transfer agreements from €7.7 million a year previously to €18.7 million in the reporting period. The subsidiaries of H&R AG obtain funding for their financing needs from H&R AG, which in turn refinances its lending on the capital markets by means of credit lines and borrower's note loans. On the one hand, our Other interest and similar revenues slightly declined from €14.1 million to €12.9 million. On the other hand, the refinancing of the AG with lower funding costs showed its advantages in 2013: interest and similar expenses reduced from €17.9 million to €13.0 million. In the previous year, this position had been higher due to waiver fees and early repayment penalties for the premature repayment of the borrower's note loan. Overall, the result of ordinary operations fell to €-23.0 million (previous year: €-18.1 million).

Taxes declined slightly, falling from €0.9 million in the previous year to €45,000. As a result, H&R AG reported an annual net loss of €23.1 million (previous year: deficit of €19.4 million). Accordingly, once again no retained earnings were booked. The annual net loss was recognised in full as negative distributable profit. Our result does not allow for a dividend distribution.

T.34 **FINANCIAL AND ASSET POSITION OF H&R AG**

IN € THOUSAND	2013	2012	Change
Intangible assets	–	–	–
Land and buildings, land rights including structures on third party land	9	9	0
Other equipment, operational and office equipment	106	126	-20
Property, plant and equipment	**115**	**136**	**-21**
Shares in affiliated companies	76,714	85,414	-8,700
Loans to affiliated companies	57,617	74,804	-17,187
Investments	1,050	1,050	0
Loans to entities in which the company has a participating interest	138	187	-49
Financial assets	**135,519**	**161,455**	**-25,936**
Receivables from affiliated companies	116,447	171,579	-55,132
Other assets	374	6,150	-5,776
Receivables and other assets	**116,821**	**177,729**	**-60,908**
Securities	**297**	**252**	**45**
Bank balances	78,711	59,095	19,616
Current assets	**195,829**	**237,076**	**-41,247**
Deferred income	**519**	**607**	**-88**
Assets	**331,982**	**399,273**	**-67,291**
Subscribed capital	76,625	76,625	0
Capital reserve	31,225	31,225	0
Other retained earnings	29,866	29,866	0
Balance sheet loss	-42,451	-19,393	-23,058
Equity	**95,265**	**118,323**	**-23,058**
Provisions for pensions and similar commitments	2,646	3,004	-358
Tax provisions	1,165	1,430	-265
Other provisions	9,157	8,827	330
Provisions	**12,968**	**13,261**	**-293**
Liabilities to banks	178,422	198,790	-20,368
Trade accounts payable	196	204	-8
Liabilities to affiliated companies	38,140	35,623	2,517
Other liabilities	6,991	33,072	-26,081
Liabilities	223,749	267,690	-43,941
Equity and liabilities	**331,982**	**399,273**	**-67,291**

H&R AG's balance sheet total fell by 16.9% to €332.0 million as of 31 December 2013 (31 December 2012: €399.3 million). Loans to affiliated companies decreased sharply from €74.8 million to €57.6 million. The decline is largely due to loan repayments made by our subsidiaries. Here, again, we should mention the effects of contract manufacturing. Financial assets dropped as a result to €135.5 million, compared with €161.5 million at year end 2012.

Receivables from affiliated companies fell from €171.6 million to €116.4 million due to lower earnings at subsidiaries with which profit and loss transfer agreements are in place.

Bank balances rose substantially from €59.1 million to €78.7 million as of the reporting date. Repayments of loans made to our subsidiaries were the reason for the increase. Because our own financing arrangements have fixed repayment dates, we were unable to use these funds to repay our own liabilities, so we invested them instead.

All in all, current assets went down by 17.4% from €237.1 million to €195.8 million.

The net loss incurred in the reporting period was recognised at the full amount of €23.1 million as negative distributable profit, which therefore amounted in total to €-42.5 million. Altogether, shareholders' equity contracted from €118.3 million as of 31 December 2012 to €95.3 million at the end of the reporting period. The equity ratio fell to 28.7% (31 December 2012: 29.6%).

Additional provisions were made for income taxes in anticipation of the results of a tax inspection, taking the total to €1.8 million (31 December 2012: €1.4 million). The provision for anticipated losses relating to the valuation of interest rate swaps was increased by €152 thousand to €6.9 million.

Liabilities decreased distinctly by 16.4% to €223.7 million (31 December 2012: €267.7 million) and accounted for 67.0%, which in view of the lower balance sheet total reflects an approximately identical proportion to the previous 67.4%. An increase in liabilities towards affiliates of €35.6 million to €38.1 million was contrasted by €20.4 million of lower liabilities towards credit institutions as well as other liabilities reduced by €26.1 million as a result of repayments of further tranches of the borrower's note loan in the amount of €31.0 million.

Other statutory disclosures

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

Item 1: Composition of subscribed capital.

The subscribed capital (share capital) of H&R AG was unchanged as of 31 December 2013 at €76,625,044.11. It is divided into 29,973,112 no-par bearer shares. This corresponds to an accounting value of €2.56 per share. There are no different classes of shares; they are all ordinary shares. Each of these shares entitles the holder to one vote.

Item 2: Restrictions on voting rights or the transfer of shares.

The Executive Board of H&R AG is not aware of any restrictions affecting voting rights or the transfer of shares.

Item 3: Direct or indirect interests exceeding ten per cent of voting rights.

According to notification received from Mr Nils Hansen dated 23 December 2010, his share of voting rights exceeded the threshold of 50% on 17 December 2010 and came to 50.06% as of that date. These voting rights are held by H&R Beteiligung GmbH and are attributable to Mr Nils Hansen via H&R Holding GmbH. According to an informal notification, the equity interest attributable to Mr Hansen came to 50.75% on 31 December 2013. Of the total, 0.69% is held by Mr Hansen in person.

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 appointment and dismissal of Executive Board members and amendments to the Articles of Association.

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

Item 7: Powers of the Executive Board, particularly regarding the issuance or buyback of shares.

The Executive Board has various options for raising new capital. In accordance with Art. 4 Para. 4 of the Articles of Association, the Executive Board is authorised - with the Supervisory Board's approval - to increase the company's share capital by 30 May 2017 by a maximum of €37,312,522.05 by issuing up to 14,595,390 ordinary no-par bearer shares. The issue may be effected in one or more tranches in return for cash and/or contributions in kind (Approved Capital 2012). In principle, the shareholders have subscription rights. The new shares may also be acquired by one or more banks with the obligation to offer them for subscription to shareholders. Subject to the approval of the Supervisory Board, the Executive Board is entitled to suspend shareholders' subscription rights on one or more occasions,

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

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

c) to the extent that the new shares are issued for subscription in cash and the proportion of share capital attributable to the new shares does not exceed the lesser of €7,662,503.90 or 10% of share capital at the time this authorisation to exclude subscription rights takes effect and is exercised for the first time ("maximum amount"). Furthermore, the issue price of the new shares must not be significantly lower than the quoted price for company shares of the same type already listed on the stock exchange at the time the issue price is set definitively;

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

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

The Executive Board is authorised, with the approval of the Supervisory Board, to specify the further particulars of the capital increase and its execution, in particular the rights accruing to the shares and the terms of issue. The Supervisory Board is authorised to revise Art. 4 of the Articles of Association once the share capital increase has been fully or partly completed, subject to the utilisation of the approved capital from time to time and/or once the authorisation has expired.

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

The Supervisory Board is authorised to revise Art. 4 para. 5 of the Articles of Association once the share capital increase has been fully or partially completed or the authorisation has expired.

In 2013, the Executive Board made no use of this authorisation.

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

Treasury shares may not be acquired for trading. The authorisation can be exercised in whole or in part, once or several times, for the purpose of pursuing one or several objectives, either by the company, by its consolidated companies or by third parties for the benefit of the company or its consolidated companies.

At the discretion of the Executive Board, the acquisition may be made via the stock exchange or by way of a public purchase offer to all shareholders or by way of a public request to make such an offer. The details of the authorisation can be found in the proposal by the Executive Board and Supervisory Board published to accompany item 5 of the agenda for the Annual Shareholders' Meeting held on 27 May 2010, which will be sent by post on request.

There was no share buyback programme last year.

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 borrower's note loans have the right to call in the loans in the event of a change of 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.

In the event of a change of control, the Executive Board member Luis Rauch has the right to resign and to receive severance pay equivalent to his basic salary for the remainder of his term of service, up to a maximum of two years. Since Mr Rauch left the company as of 31 August 2013, this accommodation no longer exists.

Subordinate status report

Since late 2010 Mr Nils Hansen's voting rights have amounted to more than 50%. As less than 80% of the share capital is usually represented at our Annual Shareholders' Meetings, Mr Nils Hansen regularly had a de facto voting majority in prior years too. As Mr Nils Hansen is also the owner of our domestic distribution partner, the Hansen & Rosenthal Group, we produce a subordinate status report each year in accordance with Art. 312 AktG.In the report for the 2013 financial year, our Executive Board came to the following conclusion: "As regards the legal transactions and measures described in this report and based on the facts available to us at the time when said transactions were completed and measures were taken or omitted, the Executive Board of H&R AG received appropriate consideration for each legal transaction and was not disadvantaged by taking or omitting any such measure. H&R AG did not suffer disadvantages from any relationship with the controlling company or affiliates thereof."

Key events following the balance sheet date

On 7 February 2014 and within the scope of the Waiver and Amendment procedure begun in December of 2013, the syndicated loan of H&R AG was amended and restructured. In this connection, the syndicated revolving loan in the amount of €90 million was transformed into a bilateral revolver and letter of credit facility in the amount of €72.5 million with an increase option to €90 million.

No other events took place after the balance sheet date that could lead to a significant impact on the earnings, financial and net worth position of the H&R Group.

Forecast report

Orientation of the Group in financial year 2014

The challenges our company has to face in its markets and segments, and to which we reacted in 2013 with the conversion of Salzbergen to a contract manufacturing model as a fundamental change in our legal and organisational structure, will continue in financial year 2014. For this reason, we will, in order to accomplish our goal of sustainable earnings stability as the basis for future growth, test all options and consistently initiate the necessary steps.

For the statements concerning the short-term trends in the company from 1 January to 31 December of financial year 2014 we are, based on our current knowledge, assuming a Group structure without any fundamental legal or organisational changes.

Our Chemical-Pharmaceutical domestic business, which as a core competence was the main driver of revenue growth in the reporting period, will be prepared for future challenges by means of continuous modernisation and expansion work. This applies above all to the efficiency and value creation of our refineries. The experience that comes from operating these refineries will establish us as an innovative partner for our customers and as an expert market player. In the International Chemical-Pharmaceutical Segment, our strategy of forming production partnerships to supplement our own blending and conversion plants has proven to be successful. For the Plastics Division, the goal is to reduce dependency on the automotive industry by expanding the division's activities in the fields of medical, electrical, measurement and control technology.

Moreover, all areas of the organisation are called upon to examine their own structures and to contribute to a financially quantifiable optimisation of all processes wherever possible and necessary. The measures taken to realise our forecasts are intended more clearly to represent the market-driven influences on our business that are only partly within our control and at the same time improve the certainty of medium-term corporate planning. The intention is therefore to minimise the adverse effect of these volatile factors on our earnings.

The measures address the following topics:

- Reducing fixed costs
- Optimising raw materials management

With the continuation of the integration of the sites and utilisation of Group internal synergies we will obtain an optimisation of the fixed costs at the corporate (AG) level.

The much greater leverage for the optimisation of our results can be found in the costs of our raw materials inputs. In this regard, in 2014 and 2015 we will reinforce our efforts at finding solutions for an optimised raw materials selection and utilisation methodology and increase our know-how in order to improve this cost position. These measures are accompanied by an improved Net Working Capital Management successfully introduced in the second half of 2013.

Future sales markets

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

Outside Europe, the focus of our operations will remain on Asia. Our goal continues to be to increase the share of sales in those countries to at least 30% by 2015. We want to participate in the growth forecast for these regions' economies, not only by accelerating the expansion of our existing sales activities but also by forming new production partnerships. In Asia, our activities concentrate on the production and sale of wax emulsions for the building materials sector and of label-free plasticisers for the tyre industry.

Future use of new technologies and processes

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

By operating new equipment at our facilities, we increase the value added by our domestic refineries. This enables us to convert products previously not capable of being refined into high-grade crude oil-based speciality products and to minimise the amount of waste residue left over by the production process. In the Plastics Division, too, we work continuously to improve our production processes.

Future products and services

In future, we will continue our successful strategy of developing innovative products closely aligned with customers' needs. In the Chemical-Pharmaceutical Division our sales partner Hansen & Rosenthal KG acts as an intermediary between our customers and R&D departments. By constantly testing new product specifications, we aim to have our input materials help to achieve further efficiency gains in our customers' production processes and further increase the quality of their products. One of the focal points of our research and development activities is to ensure the continued diversification of our main products. We are already developing the next generation of these products in order to maintain our technological lead in this field. Work is also under way to develop innovative processes for manufacturing white oils and other crude oil based speciality products.

In the Plastics Division the aim of expanding our customer base in the medical devices sector is reflected in more intensive attention to our customers in the automotive segment: we will achieve a clear improvement of our medium term results by means of a reorganisation of operating processes and a new management structure.

Comparison of Actual and Plan ratio values

The following table compares the actual values of the main or key ratios used by H&R AG for the past financial year (FY) with the original forecast and shows the outlook for financial year 2014:

T.35 **COMPARISON OF ACTUAL VALUES WITH FORECAST**

KEY FIGURE / FINANCIAL RATIO	Forecast FY 2013	Actual FY 2013	Outlook FY 2014
Group sales	≈ €1,100 million to €1,300 million	€1,214.4 million	≈ €1,100 million to €1,200 million
of which Chem.-Pharm. Raw Materials Domestic*	N/A	€941.0 million	≈ 72%
of which Chem.-Pharm. Raw Materials International*	N/A	€231.7 million	≈ 23%
of which Plastics	≈ €65 million	€62.7 million	≈ 5%
Transfer	N/A	€-21.0 million	N/A
Consolidated EBITDA	≈ €49 million	€32.6 million	≈ €40 million
of which Domestic*	N/A	€20.3 million	≈ 66%
of which International*	N/A	€16.5 million	≈ 31%
of which Plastics*	N/A	€0.7 million	≈ 3%
Transfer	N/A	€-5.1 million	N/A
Net indebtedness	N/A	€73.1 million	≈ €110 million

* The sales and earnings forecasts for the individual Divisions are stated as a percentage distribution because of the ranges (sales) or approximations (earnings).

In the key ratio Sales by Divisions, the enterprise met the forecasts. In the operating results (EBITDA) on the other hand, the target values were missed. The Group indebtedness was not forecast for financial year 2013. As of the balance sheet date, the net indebtedness was €73.1 million (31/12/2012: €146.3 million). In 2014, this value should once again rise slightly through results optimised inventory management. We hope that this will bring about positive earnings contributions that will far exceed the financing costs.

Economic environment in the next financial year

Future macroeconomic situation

The outlook for the global economy has been more positive again recently. According to a forecast of the Institute for World Economy [Institut für Weltwirtschaft] in Kiel (IfW) the growth rate of the global gross domestic product will, at 4.0%, lie substantially above the level of the reporting period in 2014 (2013: 3.1%). For the Eurozone, the experts expect an increase in economic performance of 1.3%. With expected GDP growth of 1.7% in the current year, Germany should, in the opinion of the IfW, again be able to overtake the other countries in the Eurozone.

In the ASEAN-5-Zone, which is of great importance for H&R AG, the economic researchers of the Kiel Institute once again forecast higher economic growth rates after the slowdown in the past year. For this economic zone comprising Indonesia, Malaysia, the Philippines, Thailand and Vietnam, GDP is expected to be 5.2% in 2014. In this context, the experts evaluate the growth for Thailand as a result of the continuing political tensions somewhat more cautiously at 4.5%.

Our plans for financial year 2014 are based on an exchange rate of US$1.30 to the euro, in line with predictions by leading currency experts. For crude oil prices we also rely largely on the estimates published by the economics departments of major banks. For the budget year 2014, we reckon on a price of US$110.00 per barrel for North Sea Brent.

Future state of the sector

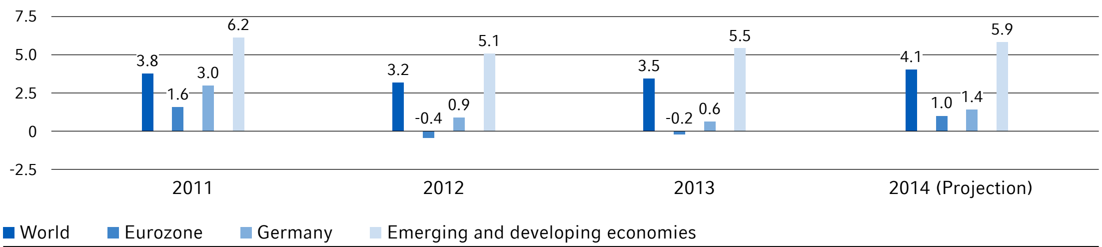
The German Chemical Industry Association [Verband der Chemischen Industrie (VCI)] is cautiously optimistic about the future and expects total production to exceed that for 2013 by 2.0%. Accordingly, companies in the industry also expect sales proceeds to increase by some 1.5%. On the other hand, the Association has a more critical view of price trends for chemical products: Losses of around 0.5% bear witness to new tensions in the market.

A continued restraint in the production capacities for speciality products can be observed in the chemical-pharmaceutical industry. Because of the economic framework conditions, this fundamentally positive development still continues to be overcompensated by the reduction in demand.

For the strongly fragmented plastics industry, in the coming years we expect a consolidation phenomenon by means of mergers and takeovers. Especially in the competition for the very important customer represented by the automotive industry only those companies capable of manufacturing high-quality products dependably and efficiently will remain on the market. The medical devices industry is another sector that is gaining in importance as a customer thanks to technological progress and demographic developments.

G. 13 **GLOBAL ECONOMIC GROWTH FORECAST**

IN %, SOURCE: IWF



Expected earnings position of the different divisions

Forecast revenue trends

Our revenue is affected considerably by the cost of raw materials for our Chemical-Pharmaceutical Division. We try to pass these costs on to our customers in the form of higher product prices. The price for our most important raw material, long residue, is closely correlated with the price of crude oil. If our planning assumptions for crude oil prices and the US dollar/euro exchange rate prove correct, we anticipate prices for raw materials and products to remain generally stable.

The conversion of the Salzbergen refinery to contract production overall leads to distinct changes in the sales driving factors. Instead of the sales of principal products effected to date, Salzbergen will now only contribute manufacturing related sales. At the same time, in Hamburg we are recording distinctly higher sales because of the raw materials sales to the Salzbergen customer. Overall, for 2014 we again expect Group sales at the level of between €1.1 bn and €1.2 bn. The share of our activities in the Chemical-Pharmaceutical Raw Materials Domestic segment will make up some 72% of these sums. The international business will account for approximately 23%. The Plastics Division should contribute between €55.0 million and €60.0 million, i.e. some 5%.

Forecast earnings development

With sales of €1.2 billion, the last financial year again closed at a good level, although the operating result of €32.6 million was down on the previous year and below our expectations.

The implementation of the profit stabilisation measures proved to be the correct step. At the same time, the past year made us aware of the fact that in spite of generally more positive statements on the part of economic and business experts, H&R AG still continues to face significant challenges in its specific markets. An improved earnings situation can therefore not be attained in 2014 by waiting for a better economic framework alone. Rather, the company must redouble its own efforts and implement its own solutions for an accelerated way out of the present situation.

The essential approaches for 2014 will be related to taking advantage of still unexploited potentials of several main cost factors:

In the area of fixed cost management, there are comprehensive plans for further cost optimisations in all main German sites; these plans can be realised among other things by means of restructuring measures and the creation of synergy effects. In the area of external energy costs, our measures result in clear savings effects.

However, raw materials management is by far the major driver for an improved profits situation. Our value creation and our margins are already affected by the things we use as raw materials in our facilities. Their composition has direct consequences on the exploitation and thus on the relationship between lucrative main products and weaker margin ancillary products. We had already distinctly improved our knowhow about raw materials sources in 2013. Raw materials purchasing should be assisted in this strategy by our newly negotiated financing conditions, which should enable faster reaction possibilities and more freedom of action. And, finally, we already succeeded in the autumn of 2013 to renegotiate purchasing conditions in our favour.

If these measures for financial year 2014 should prove to be effective and contribute their potential towards improving our results, we are expecting the consolidated operating result (EBITDA) for the current financial year, assuming a constant market environment and an unchanged margin situation, to be around €40.0 million. The contribution of our activities in the Chemical-Pharmaceutical Raw Materials Domestic segment will make up some 66% of these sums. The international business will account for approximately 31%. The Plastics Division should contribute around 3% to the Groups operating result (EBITDA).

Forecast developments in the main income statement items

After the completed conversion of the refinery in Salzbergen to contract processing in financial year 2013, no structural changes in the income statement are to be expected for 2014.

Expected financial position of the different divisions

Planned financing activities

We are not currently planning to raise any additional equity capital. Essentially, the General Meeting of Shareholders of H&R AG has however empowered the company to increase the share capital in exchange for cash or contributions in kind, so that equity capital measures would also be a possibility when testing strategic options.

The main pillars of our Group financing arrangements are borrower's note loans for a total of €119.0 million and a syndicated loan for up to a further €60.0 million. There is also a KfW environmental loan of €50.0 million. Various financial covenants have been agreed for the borrower's note loans and the syndicated loans. For more information on our main financing instruments, please refer to the section "Financial management principles and objectives" on page 70 f. of this report. The activities described there will make a major contribution to reducing our financing requirements.

Forecast liquidity trends

As a consequence of the financing adjustment implemented at the end of 2013 and finalised in February of 2014 we do not see a need for further structural changes for 2014.

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

Planned investment

This year we plan to invest around €28.0 million in maintaining and modernising our plants. Some 80% of this amount will be allocated to the Chemical-Pharmaceutical Raw Materials Domestic segment. For the International segment we have planned around 13%, while the investments in the Plastics segment and other projects will require approximately 7%. Together with other measures intended to increase the efficiency and cost-effectiveness of our production processes this means that our capital expenditure will remain higher than our ordinary depreciation and amortisation.

For further information see page 70 f.

Risk report

Risk policy

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

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

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

Risk management system

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

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

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

The Risk Control department sends the consolidated risk inventory for the Group to the Executive Board every quarter, including a detailed breakdown of the Value-at-Risk (VaR) as the basis for overall risk management. If new risks arise at short notice or an incident occurs, the Executive Board is notified directly, independently of normal communication channels.

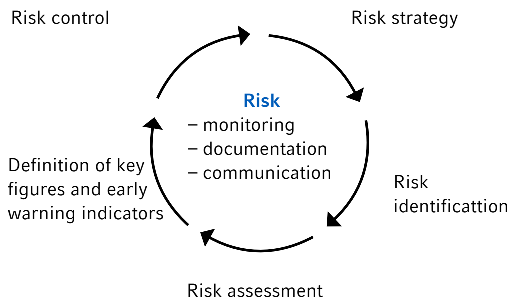
Furthermore, a monthly performance report is prepared for all the main individual companies and the Group. This report compares revenue and earnings figures with the relevant targets. The Risk Control department analyses any variances between plan and actual figures. These analyses enable the Executive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

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

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

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

G. 14 **RISK MANAGEMENT CONTROL SYSTEM**



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

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

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

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

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

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

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

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

The risk management system relating to derivative financial instruments

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

Opportunities management

The systematic management of opportunities and that of risks are closely linked at the H&R Group. We take opportunities to mean developments which could have a positive effect on our earnings, financial and asset position. Operating opportunities are identified and exploited in the various segments, as it is within the segments themselves that the greatest product and market knowledge is to be found. The management of strategic opportunities – such as acquisitions, joint ventures or major investments – is the responsibility of the Executive Board. We use a variety of processes to make the best use of both operating and strategic opportunities. As well as carefully analysing our sales and procurement markets, we also carry out scenario planning and try to identify future market trends by engaging in focussed discussions with customers.

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

Individual risks

All our relevant risks are uniformly classified throughout the Group. The classification as a low, medium or high risk results from the parameters "Probability of Occurrence" and "Potential Financial Impact". The resulting risk classification matrix is represented in the following table:

T.36 **POTENTIAL FINANCIAL IMPACT***

	Likelihood of occurrence**		
	Unlikely	Possible	Likely
Existential	High risk	High risk	High risk
Significant	Medium risk	High risk	High risk
Moderate	Low risk	Medium risk	Medium risk

*Moderate: Some negative effects on e.g. business activity, financial and earnings position as well as cash flows for as long as EBITDA is less than €30.0 million in 2014.
Significant: Substantial negative effects on e.g. business activity, financial and earnings position as well as cash flows for as long as EBITDA is less than €30.0 million in the next two years.
Existentially threatening: Considerable negative effects on e.g. business activity, financial and earnings position as well as cash flows owing to which the continued existence of the enterprise would be jeopardised, e.g. with an EBITDA permanently below €30.0 million.
** 1-33%: Unlikely; 34-66%: Possible; 67-99%: Likely

■ Low risk ■ Medium risk ■ High risk

Depending on the degree of a potential financial effect and the estimated likelihood of occurrence, risks are generally classified as being "High", "Medium" or "Low".

T.37 **CORPORATE RISKS**

	Likelihood of occurrence	Possible financial impact	Risk situation compared to previous year
Macroeconomic and industry risks			
Fluctuations in demand and margins	possible	significant	unchanged
Risks in regard to the supply of raw materials	unlikely	significant	unchanged
Risks from the development of substitute products and general competition	likely	moderate	unchanged
Changes in the tax and legal environment	possible	moderate	unchanged
Operating and corporate strategy risks			
production risks	unlikely	significant	unchanged
Investment risks	unlikely	significant	lower
Product liability risks	unlikely	moderate	unchanged
Information technology risks	unlikely	significant	unchanged
Personnel risks	unlikely	moderate	unchanged
Financial risks			
liquidity risks	unlikely	significant	unchanged
Risks from the breach of covenants	possible	significant	lower
Exchange rate risks	possible	moderate	unchanged
Interest rate risks	unlikely	moderate	lower
Risks from defaulting customers and banks	unlikely	moderate	unchanged
Other risks			
risks relating to the remediation costs for land in Haltern am See	possible	moderate	unchanged
Claims for damages in connection with the cartel fine	unlikely	moderate	lower

Macroeconomic and industry risks

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

We continue to generate the majority of our revenue in Europe. Economic developments in this region therefore have an important influence on our revenue and earnings.

In the Plastics Division there is a risk of an excessive dependency on the automotive subsupplier industry, as e.g. declining sales of automobile manufacturers indirectly also affect H&R AG's business. Accordingly, we make every effort to diversify to new customer areas. Expanding our activities beyond Europe also furthers our global presence and makes us less dependent on developments in the domestic economy.

Closely correlated with the risk of weak demand is the risk of low product margins. As the fixed costs of the complex plants in the chemical industry are relatively high, lower margins are often tolerated at times of weaker demand in order to keep up capacity utilisation rates. We are facing this risk with the targeted expansion of the proportion of less price sensitive crude oil based specialties.

Product margins are as a rule also reduced by fluctuating raw materials prices and low prices for base oils. Base oil is a by-product of our joint production process and is used to make engine oils, among other things. If raw materials prices are high and base oil prices are simultaneously low, this has logical consequences on our margins. Even with moderate raw materials price increase the effects can have a significant impact. The conversion of the Salzbergen refinery to contract production in 2013 has reduced the risk of these effects. At the same time, at the Hamburg site, which did not change its existing structure, the volatility of the base oil margins has had a remarkable negative effect.

The cumulative raw materials prices risk whose fluctuations cannot be passed on to the customer, as well as that arising out of low base oil prices, has overall become less threatening than last year by the conversion of Salzbergen site to contract manufacturing and the related assumption of part of the risk. Because of the likelihood of occurrence and the significant impact of this risk, we evaluate it as being "High".

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

RISKS RELATED TO RAW MATERIALS PROCUREMENT (RISK CLASS: MEDIUM). At our specialty refineries in Hamburg and Salzbergen the main raw material is a residue left over when fuels are produced from crude oil. To minimise the risk of supply shortages, we purchase this so-called long residue from different sources. To this end, we sign annual volume agreements with several well-known oil companies from different areas of the world. We purchase a further percentage on the spot market in order to diversify our sources even further.

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

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

In addition to substitution risk there is also the possibility over the lifecycle of a given product that competitors will develop and bring to market products which are identical to our speciality products. This would expose us to greater competition. Due to the numerous unknown factors the risk arising from developments on the market or from competitors can not be quantified.

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

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

Operating and corporate strategy risks

PRODUCTION RISKS (RISK CLASS: MEDIUM). The subsidiaries of H&R AG produce crude oil-based speciality products and high-precision plastic parts. Operating the necessary plants to do so gives rise to operating and accident risks. Technical disruptions, flooding, fires or explosions can cause harm to people or the environment and result in lost production.

We counter these risks with a comprehensive safety strategy: Comprehensive control and safety measures, coordinated by our IT based measuring stations, enable us to identify many production risks at an early stage and take suitable remedial action. We also invest regularly in environmental protection and safety measures at our refineries. The certification of our production sites in accordance with strict ISO norms contributes significantly to ensuring that production processes are safe. If an accident occurs despite these precautions, the financial losses are largely covered by insurance, provided that the risk is insurable and coverage is economically expedient.

INVESTMENT RISKS (RISK CLASS: MEDIUM). In the years ahead, we intend to keep investing in value maintenance measures for our existing production sites. Essentially, investment projects can run over budget and suffer from delays in construction. To mitigate these risks we set up project teams who know our plants in detail and therefore professionally coordinate and strictly monitor such value maintenance measures. In addition, these measures always take place in plants whose technology has already been tried and tested in practice and in which the financial costs can be estimated with above average certainty.

For the current financial year we are not planning on new business acquisitions, whether in the area of chemical-pharmaceutical raw materials nor in the production of high precision plastic parts. At present, there are therefore no risks associated with the integration of employees, technologies and processes, such as can arise following acquisitions.

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

INFORMATION TECHNOLOGY RISKS (RISK CLASS: MEDIUM). The increasingly networked nature of our complex information technology systems carries risks. Vital data can be falsified or deleted by operating errors, faulty programming or unauthorised access from outside.

We address this risk by making regular back-ups of our current data with an external provider. To protect ourselves against malicious hackers, we have virus scanners that update themselves continually and complex firewalls in place. An extensive access authorisation system is also in place for sensitive data. We have taken precautions against a complete breakdown of our data centre by establishing a fallback data centre, which can take over the main IT functions at short notice. We also counter information technology risks by means of ongoing investments in hardware and software and by continuously enhancing our system expertise. Our IT department is suitably equipped for the size of the H&R Group and will continue to make every effort to optimise all our resources.

HUMAN RESOURCES RISK (RISK CLASS: LOW). Qualified and committed employees play an important role in our success. In the chemical industry there is a great deal of competition for highly qualified staff to operate plants and refine production processes. We limit the concomitant fluctuation risks with a number of personnel policy measures: A pleasant working atmosphere, targeted development opportunities for junior staff and practical professional further training create an attractive working environment.

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

We also boost our employees' motivation with attractive profit-related pay schemes, a platform for making suggestions for improvement and activities throughout the Group to encourage healthy living.

Financial risks

LIQUIDITY RISKS (RISK CLASS: MEDIUM). Prices for the raw materials used in our Chemical-Pharmaceutical Segments are closely correlated with the price of crude oil. The prices for our raw materials are therefore subject to frequent fluctuations. The prices for our finished products are similarly volatile. As a result, until the Salzbergen site was converted to the contract manufacturing model, the balance sheet items "inventories" and "trade accounts receivable" used to grow when the price of crude oil went up.

In order to cover the higher net working capital requirement (total of inventories and trade accounts receivable less trade accounts payable) that arises from this scenario, a large part of our syndicated loan of up to €60,0 million has been earmarked as a risk cushion. In the period between early February of 2013 and the end of July of 2013 we drew down an average of €30.0 million of the syndicated loan in the form of guarantees and letters of credit. Our Group Treasury department monitors our liquidity status on a daily basis to avoid any cash flow difficulties.

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

FINANCING COVENANT BREACH RISK (RISK CLASS: HIGH). Compliance with the financial covenants continues to be a crucial part of the financing agreements in 2014. If these covenants were to be breached again, this would jeopardise the financing arrangements and therefore the continued economic existence of the Group. With the debt reduction catalogue of measures implemented in 2013 and for earnings improvement purposes, the Company has decisively contributed to de-risking and de-leveraging. In addition, and for purely precautionary purposes, although the financing conditions were met without exception in 2013, it was agreed to increase the level of the indebtedness ratio until 30 September 2015. Because of the possibility of occurrence and the potentially significant financial consequences this remains – objectively contemplated – a "High risk" issue. Overall, we are more relaxed in this regard than we were in the previous year, above all because of our continued compliance with the covenants.

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

CURRENCY EXCHANGE RISKS (RISK CLASS: MEDIUM). As an international Group, we are exposed to various exchange rate risks, which for cost-benefit reasons we do not generally hedge. The depreciation of a foreign subsidiary's local currency can diminish the cash flow generated there in terms of the Group currency, the euro. Furthermore, revenue from the sale of products from within the Eurozone to a country outside will fall if the foreign currency in question depreciates against the euro.

Some of the most important foreign currencies for us are the US dollar, the Australian dollar, the pound sterling, the Thai baht, the Malaysian ringgit and the South African rand. For a sensitivity analysis of exchange rate fluctuations between the US dollar and the euro, our Group currency, please refer to the Appendix to this report. Nonetheless, despite the strong growth in international activities, around 80% of our revenue is still invoiced in euros. Overall, we weigh the costs for hedges in all foreign currency risks against the financial effects of a potential event of loss. For as long as the probability of occurrence is no more

For further information see page 111

than 50%, we will waive the relevant hedge transactions.

The US dollar/euro exchange rate also affects our raw materials costs, as we purchase our main raw material - the crude oil derivative known as long residue - in US dollars. An increase in the value of the US dollar against the euro therefore increases our raw material expenses. In total, we value the overall sum of this risk to be around €3.8 million.

INTEREST RATE RISK (RISK CLASS: LOW). In order to secure long term favourable terms and greater diversity in our Group's long-term funding, in November 2011 we replaced the syndicated loan taken out in 2008 for up to €250.0 million with a borrower's note loan for a total of €150.0 million and a new syndicated loan for a further maximum of €150.0 million (reduced to €60.0 million since December 2013). The interest payable on one €80.0 million tranche of the borrower's note depends on general developments in money market rates. For this partial amount of the borrower's note loan we have entered into interest rate hedges in the amount of €80.0 million. The interest rate risk is therefore limited to drawdowns on the credit lines granted under our new syndicated loan in excess of this amount.

Other risks

RISKS RELATING TO THE REMEDIATION COSTS FOR THE LAND IN HALTERN AM SEE (RISK CLASS: MEDIUM). The site of our factory in Haltern am See was used by the German Empire and Third Reich respectively during the two World Wars for the production of armaments, contaminating the ground in a number of areas with compounds typical of explosives. The compounds have also been detected in the ground water of the surrounding area. For this reason, the Recklinghausen district council issued an order in early 2010 banning the extraction of ground water from domestic wells in the district of Haltern-Lembrake. Even though we are not the cause of the contamination, there is a financial risk from further investigations or remediation measures. However, the provision of €1.1 million for this contingency means that the balance sheet adequately reflects these risks from today's perspective.

CLAIMS FOR DAMAGES IN CONNECTION WITH THE CARTEL FINE (RISK CLASS: LOW). From 2005 onwards, the European competition authority carried out investigations into possible collusive anti-competitive conduct in the paraffin market between 1994 and 2005. In a ruling dated 1 October 2008, the Commission found various European wax manufacturers guilty of breaches of competition law. Companies in the Hansen & Rosenthal Group and H&R AG were fined a total of €36 million. H&R ChemPharm GmbH, which is part of the H&R Group, was jointly liable for €22 million of this amount. After a detailed examination of the grounds for the ruling, the companies lodged an appeal in December 2008, both against the Commission's ruling and the amount of the fine. Notwithstanding the appeal, the sum of €22 million was paid in early 2009 within the deadline. The ruling means that customers of H&R ChemPharm GmbH may press claims for damages.

On the basis of its supposed involvement in the cartel, H&R ChemPharm GmbH has been included in litigation by three of the defendants in the course of claims for damages brought by candle manufacturers against members of the wax cartel before courts in England and the Netherlands. In the July of 2013, the Executive Board succeeded in reaching a settlement with the legal representatives of the opposing party. In this context, a sum of approximately €972 thousand was paid in 2013. The provisions constituted in 2012 in the amount of €491 thousand were then applied in 2013.

General statement on the risk situation

Assessment of the risk situation by company management

Our overall risk situation is assessed with the help of our risk management system and the established planning and control systems. When a consolidated consideration of all essential individual risks is performed, potential opportunities are not taken into account. We therefore are of the opinion that according to current knowledge there are no risks that could jeopardise the continuing existence of the H&R Group.

Company rating

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

Opportunities

H&R AG acts in an environment that may constantly provide new opportunities, as our company, our customers and our markets are engaged in constant change and further development. Only if we recognise and realise such opportunities and simultaneously keep the related risks in mind do we properly utilise the essential factor for a sustainable improvement in our company's earnings. As part of our opportunity management, we perform highly accurate analyses of the market and our competitors. We develop scenarios for successful market entry, question the orientation of our product portfolio, evaluate the cost drivers as well as the pertinent success factors and from this information derive specific market opportunities that are then perfected by the Executive Board in close collaboration with the local operations management. According to the degree of the potential financial effect and the likelihood of occurrence, we classify our opportunities in analogy to our risk classes.

Opportunities arising out of the framework conditions (Opportunity class: Medium)

The Chemical-Pharmaceutical Divisions are profiting from the major oil companies' gradual withdrawal from the crude oil-based speciality product business, as any refinery closures reduce the worldwide production capacity for our products. If, simultaneously and as a consequence of a sustainable recovery in the world economy the demand for crude oil based specialty products should increase, our proceeds and earnings could exceed our current expectations.

Over the last few years, we have laid the foundation stone for profitable business in a number of emerging markets. If these economies should develop faster than seen in financial year 2013, this could have a positive effect on our business, our earnings position and our cash flows and lead to a better overall performance than assumed.

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

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

Corporate strategy opportunities (Opportunity class: High)

In the Chemical-Pharmaceutical segments we see considerable opportunities in extending the value chain even further and increasing production efficiency by means of innovative manufacturing processes.

In addition, our Research & Development department works on innovative products that, upon reaching market maturity, can create significant added value for our customers. If in our research and development we should be able to make faster progress, this could go hand in hand with the market introduction of new and improved products. This could have a positive effect on our revenues and results and lead to H&R AG exceeding the current perspectives.

In the international arena we see opportunities in growth regions such as Eastern Europe and Asia as a result of increasing political stability and reliance on the rule of law. We therefore aim further to develop our successful business model abroad as well as within Germany.

In the Chemical-Pharmaceutical Division we are already taking advantage of joint-production agreements with local partners who enable us to develop new markets in a stable and successful manner. Developing the collaboration beyond the production area helps us use the synergies we can share with our distribution partners. Stronger market penetration with our products could also have a positive effect on our business and lead to an improved earnings situation.

Essentially, we can remark that thanks to our high degree of diversification, both at product and customer level, overall demand for our products is relatively stable. Opportunities also arise from the fact that many of our speciality products are used in several of our numerous customer industries. Our high-quality paraffins are used in the candle, building materials and food industries for instance – sectors with very different economic cycles.

Economic performance opportunities (Opportunity class: Medium)

Refinery operation is a high energy business. By means of investments in the CO_2 savings and lower energy consumption, H&R AG has already met important climate goals in the past, with the concomitant energy cost savings. According to current legislation, there is also the possibility to supplement this economic performance by means of an exemption from the renewable energy surcharge. H&R AG has already undergone the complete application process in this sense. The exemption gives rise to an additional profit potential for 2014.

In the Chemical-Pharmaceutical segments, we have periods of increased profitability in which we earn what are known as windfall profits. These arise in market situations in which raw materials prices decline and product prices remain stable. This opportunity continues to exist, even if only to a lesser extent after the conversion of the Salzbergen refinery to the contract manufacturing model. We also benefit in the form of higher margins when the supply of our products becomes scarce, such as during shutdowns at our competitors' refineries. Total production capacities at Group 1 refineries in particular have fallen in recent years as a result of closures. The number of suppliers for many of our speciality products has dropped accordingly.

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

Overall statement on the expected development of the Group

Sales proceeds and net earnings once again were significantly lower than our expectations in financial year 2013. In that year, we were faced by challenges that needed to be addressed comprehensively and sustainably in all markets. With our catalogue of measures of the spring of 2013 we created the right momentum. At the same time, the year showed us that we must continue to focus on our essential corporate profit drivers: In 2014 we will continue to take advantage of the value creation and efficiency factors in order sustainably to improve our financial ratios. An optimised raw materials and energy management will help us build a stable basis for this upward movement.

At the same time, we expect positive effects for our business from the external factors, the macroeconomic framework and future market trends. The experience of the last two years, however, has taught us to be even more conservative than to date. For financial year 2014 we are projecting an operating result (EBITDA) of around €40.0 million, with sales proceeds on a par with the previous year.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet of H&R AG
as of 31 December 2013

ASSETS

€ THOUSAND	Notes	31/12/2013	31/12/2012*	1/1/2012
Current assets				
Cash and cash equivalents	(6)	109,624	89,588	53,097
Trade accounts receivables	(7)	109,725	69,952	118,634
Income tax claims	(33)	414	4,078	89
Inventories	(8)	116,205	180,596	198,257
Other financial assets	(9)	1,797	1,199	1,867
Other assets	(10)	3,681	5,690	3,416
Current assets		**341,446**	**351,103**	**375,360**
Non-current assets				
Property, plant and equipment	(11)	197,906	219,117	206,867
Goodwill	(12)	32,132	35,418	35,410
Other intangible assets	(12)	3,421	4,453	4,263
Shares in at–equity valued holdings	(13)	923	842	777
Other financial assets	(9)	4,100	4,581	4,857
Other assets	(10)	1,531	1,531	1,527
Deferred taxes	(33)	13,197	6,064	7,551
Non-current assets		**253,210**	**272,006**	**261,252**
Total assets		**594,656**	**623,109**	**636,612**

* Prior year's values adjusted in accordance with IAS 19R. See notes for details.

EQUITY AND LIABILITIES

€ THOUSAND	Notes	31/12/2013	31/12/2012*	1/1/2012
Current liabilities				
Liabilities to banks	(14)	13,312	69,598	12,510
Trade accounts payables	(15)	121,743	61,667	51,848
Income tax liabilities	(33)	3,313	2,738	1,937
Other provisions	(16)	7,850	8,789	13,121
Other financial liabilities	(17)	4,628	45,488	5,642
Other liabilities	(18)	11,901	8,242	13,424
Current liabilities		**162,747**	**196,522**	**98,482**
Non-current liabilities				
Liabilities to banks	(14)	168,229	133,653	191,096
Pension provisions	(19)	63,566	62,777	56,547
Other provisions	(16)	4,548	7,243	7,151
Other financial liabilities	(17)	5,533	9,040	37,581
Other liabilities	(18)	101	123	132
Deferred taxes	(33)	770	468	8,884
Non-current liabilities		**242,747**	**213,304**	**301,391**
Equity				
Subscribed capital	(20)	76,625	76,625	76,625
Capital reserve	(21)	18,599	18,599	18,599
Revaluation surplus	(22)	-3,616	-4,601	-3,751
Retained earnings	(23)	102,833	117,724	140,162
Foreign currency translation adjustments		-5,200	4,984	5,150
Equity of shareholder's of H&R AG		**189,241**	**213,331**	**236,785**
Non-controlling interests	(24)	-79	-48	-46
Total equity		**189,162**	**213,283**	**236,739**
Total equity and liabilities		**594,656**	**623,109**	**636,612**

* Prior year's values adjusted in accordance with IAS 19R. See notes for details.

Consolidated income statement of H&R AG

1 January 2013 to 31 December 2013

€ THOUSAND	Notes	1/1-31/12/2013	1/1-31/12/2012*
Sales	(26)	1,214,396	1,228,945
Changes in inventories of finished goods and work in progress	(8)	-56,514	-6,383
Other operating income	(27)	22,254	19,669
Cost of material	(28)	-981,283	-1,017,360
a) Expenditure on raw materials, supplies and merchandise		-939,563	-977,257
b) Purchased services		-41,720	-40,103
Personnel expenses	(29)	-71,386	-72,869
a) Wages and salaries		-60,738	-61,796
b) Social security payments and expenses for pensions and for support		-10,648	-11,073
Depreciation, impairments and amortisation		-36,734	-23,869
Other operating expenses	(30)	-95,213	-102,923
Income from operations		**-4,480**	**25,210**
Net interest result	(31)	-16,163	-22,287
a) Interest income		309	414
b) Interest expenses		-16,472	-22,701
Result of at-equity reported shareholdings	(13)	369	287
Other financial result	(32)	3,425	-1,598
Earnings before taxes (EBT)		**-16,849**	**1,612**
Income taxes	(33)	2,812	-1,233
Income after taxes		**-14,037**	**379**
of which attributable to non-controlling interests		-8	-78
of which attributable to H&R AG shareholders		**-14,029**	**457**
Earnings per share (undiluted), €	(34)	-0.47	0.02
Earnings per share (diluted), €	(34)	-0.47	0.02

* Prior year's values adjusted in accordance with IAS 19R. See notes for details.

Consolidated statement of comprehensive income of H&R AG

1 January 2013 to 31 December 2013

€ THOUSAND	Notes	2013	2012
Income after taxes		**-14,037**	**379**
Positions that will not be reclassified into profit or loss			
Remeasurement of defined benefit pension plans		-1,249	-6,711
Income taxes		387	1,900
Change in the amount included in equity (remeasurement of defined benefit pension plans)		**-862**	**-4,811**
Positions that will subsequently possibly be reclassified into profit or loss			
Changes in the fair value of derivatives held for hedging purposes		37	-1,929
Amount reclassified into profit and loss		966	470
Income taxes		-10	540
Changes recognized outside profit and loss (cash flow hedges)	(37)	**993**	**-919**
Changes in the fair value of financial assets available for sale		-10	96
Income taxes		2	-27
Changes recognized outside profit and loss (financial assets available for sale)	(37)	**-8**	**69**
Changes of the balancing item due to currency translation		**-10,181**	**-166**
Total other comprehensive income		**-10,058**	**-5,827**
Total comprehensive income		**-24,095**	**-5,448**
of which attributable to non-controlling interests		-5	-78
of which attributable to shareholders of H&R AG		-24,090	-5,370

* Prior year's values adjusted in accordance with IAS 19R. See notes for details.

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

as of 31 December 2013

€ THOUSAND	Subscribed capital	Capital reserves	Retained earnings
31/12/2011	**76,625**	**18,599**	**144,564**
Effects from the retrospective application of IAS 19R	–	–	-4,402
As of 31/12/2011 after adjustment	**76,625**	**18,599**	**140,162**
Capital increases in subsidiaries	–	–	-100
Dividends	–	–	-17,984
Income after taxes*	–	–	457
Other comprehensive income*	–	–	-4,811
Total comprehensive income*	–	–	-4,354
31/12/2012*	**76,625**	**18,599**	**117,724**
Dividends	–	–	–
Income after taxes	–	–	-14,029
Other comprehensive income	–	–	-862
Total comprehensive income	–	–	-14,891
31/12/2013	**76,625**	**18,599**	**102,833**

* Prior year's values adjusted in accordance with IAS 19R. See notes for details.

Comprehensive income					
Revaluation surplus					
Market valuation of financial assets	Cash flow hedges	Foreign currency translation differences	Equity share attributable to H&R AG shareholders	Non-controlling shares	Total
70	**-3,821**	**5,150**	**241,187**	**-46**	**241,141**
–	–	–	-4,402	–	-4,402
70	**-3,821**	**5,150**	**236,785**	**-46**	**236,739**
–	–	–	-100	100	–
–	–	–	-17,984	-24	-18,008
–	–	–	457	-78	379
69	-919	-166	-5,827	0	-5,827
69	-919	-166	-5,370	-78	-5,448
139	**-4,740**	**4,984**	**213,331**	**-48**	**213,283**
–	–	–	–	-26	-26
–	–	–	-14,029	-8	-14,037
-8	993	-10,184	-10,061	3	-10,058
-8	993	-10,184	-24,090	-5	-24,095
131	**-3,747**	**-5,200**	**189,241**	**-79**	**189,162**

Consolidated cash flow statement of H&R AG

1 January 2013 to 31 December 2013

€ THOUSAND			1/1-31/12/2013	1/1-31/12/2012*
1.		Income after taxes	-14,037	379
2.		Income taxes	-2,812	1,233
3.		Net interest result	16,163	22,287
4.	+/-	Depreciation, impairment and amortization	36,734	23,868
5.	+/-	Changes in non-current provisions	-5,309	-1,423
6.	+	Interests received	291	414
7.	-	Interests paid	-11,914	-12,564
8.	+/-	Income taxes paid/received	1,915	-9,285
9.	+/-	Other non-cash expenses and income	-1,817	-3,757
10.	+/-	Increase/decrease in current provisions	-1,202	-4,625
11.	-/+	Result from the disposal of fixed assets	63	281
12.	-/+	Changes in net working capital	82,206	76,698
13.	+/-	Changes in remaining net assets / other non-cash items	-11,339	-8,846
14.	**=**	**Cash flow from operating activities (sum of 1 to 13)**	**88,942**	**84,660**
15.	+	Proceeds from disposal of tangible fixed assets	108	90
16.	-	Payments for investments in tangible fixed assets	-16,131	-32,416
17.	-	Payments for investments in intangible assets	-146	-1,406
18.	+	Receipts from the disposal of financial assets	–	100
19.	-	Payments for investments in financial assets	–	-100
20.	**=**	**Cash flow from investing activities (sum of 15 to 19)**	**-16,169**	**-33,732**
21.		**Free cash flow (sum of lines 14 and 20)**	**72,773**	**50,928**
22.	-	Dividends paid by H&R AG	–	-17,984
23.	+	Dividends received from joint ventures	287	322
24.	-	Dividends paid to non-controlling interests	-26	-24
25.	-	Payments resulting from the settlement of financial debt	-49,643	-6,158
26.	+	Receipts from the taking up of financial debt	145	8,571
27.	**=**	**Cash flow from financing activities (Sum of 22 to 26)**	**-49,237**	**-15,273**
28.	+/-	Cash and cash equivalent changes in the financial resources fund (sum of lines 14, 20, 27)	23,536	35,655
29.	+	Cash and cash equivalents at the start of the period	89,588	53,097
30.	+/-	Change in cash and cash equivalents due to changes of exchange rates	-3,500	836
31.	**=**	**Cash and cash equivalents at the end of the period**	**109,624**	**89,588**

* Prior year's values adjusted in accordance with IAS 19R. See notes for details.

Notes to the Consolidated Financial Statements of H&R AG

as of 31 December 2013

(1) General information

H&R AG, a stock exchange quoted company having its registered head office at 48499 Salzbergen (Germany), Neuenkirchener Strasse 8, does business in various different specialised chemical and plastics markets via its subsidiaries. The Group's business comprises the production of chemical-pharmaceutical raw materials as well as the manufacture of precision plastic parts using die-casting processes.

As a stock exchange listed Group parent company, H&R AG, pursuant to § 315a HGB is under the obligation to prepare consolidated group financial statements according to international accounting standards and regulations. The consolidated financial statements of H&R AG were prepared based on the mandatorily applicable accounting regulations of the International Accounting Standards Board (IASB) as required by EU Regulation No. 1606/2002 as of the balance sheet date und according to the additionally applicable rules of § 315a Para. 1 HGB. The requirements of the Standards (IFRS/IAS) and interpretations (IFRIC/SIC) mandatorily applicable as of the balance sheet date were met without exception.

H&R Holding GmbH, Hamburg, prepares the consolidated financial statements for the largest scope of the companies in which H&R AG is directly involved via H&R Beteiligung GmbH, Hamburg.

The changes in the equity of H&R AG are shown in addition to the profit and loss statement, the consolidated income statement, the balance sheet and the cash flow statement. Individual summarised positions are more closely discussed in the notes. The profit and loss statement is prepared in accordance with the total cost method. The balance sheet is organised based on the pattern of asset and liability terms. In this approach, assets are shown under short-term assets when they are held for trading purposes, are intended for sale within the normal course of business of the business cycle or are expected to be realised within 12 months after the balance sheet date. Debts are classified, mutatis mutandis, as being short term. Pension provisions as well as deferred tax claims and/or liabilities are in principle treated as being long-term.

The consolidated financial statements 2013 were expressed in euro (€). Unless otherwise stated, all amounts are represented in thousands of euros (€thousand). Rounding can lead to 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 AG and its subsidiaries included in the consolidated financial statements is the same as the calendar year.

The consolidated financial statements are published in the Federal Gazette [Bundesanzeiger].

(2) Effects of the new accounting standards

STANDARDS AND INTERPRETATIONS TO BE APPLIED FOR THE FIRST TIME IN THE CURRENT FINANCIAL YEAR. The International Accounting Standards Board (IASB) published changes to the following Standards, which are mandatorily applicable for the first time in the current financial year, 2013:

Standard/ Interpretation	Title	Mandatory application pursuant to IASB/EU Regulation	Implementation by the EU	Essential effects on H&R
IAS 1	Amendments: Presentation of financial statements	1/7/2012	5/6/2012	See notes
IAS 12	Amendments: Income Taxes: Deferred Taxes - Recovery of Underlying Assets	1/1/2013	11/12/2012	None
IAS 19	Amendments: Employee Benefits	1/1/2013	5/6/2012	See notes
IFRS 1	Amendments: First adoption of the IFRS – Severe Hyperinflation and Removal of Fixed Dates for first-time Adopters	1/1/2013	11/12/2012	None
IFRS 1	Amendments: First-time adoption of IFRS: Governments Loans	1/1/2013	4/3/2013	None
IFRS 7	Amendments: Information – Offsetting Financial Assets and Financial Liabilities	1/1/2013	13/12/2012	None
IFRS 13	Fair Value Measurement	1/1/2013	11/12/2012	See notes
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1/1/2013	11/12/2012	None
	Annual improvement project to IFRS (2009–2011)	1/1/2013	27/3/2013	None

In June of 2011, the IASB published changes to IAS 1 to represent the positions included in equity (with no effect on the income statement) within the overall result ("Other comprehensive income"). These positions must in future be differentiated as to whether in future they will be reclassified into the profit and loss statement or not. The changes must mandatorily be applied for financial years starting on or after 1 July 2012, and lead to an adjustment in the representation of the Consolidated profit and loss statement of H&R AG.

Also in June of 2011, the IASB published amendments to IAS 19R (Employee Benefits), which must start to be applied for financial years beginning on or after 1 January 2013. The option of early application was permissible, but was not taken advantage of by H&R AG. The Standard is to be applied retroactively.

The changes of IASB to IAS 19R lead to the cancellation/abolishment of the corridor method used to date by H&R AG so that in future effects from revaluations of performance oriented pension plans must immediately be recorded with no effect on the income statement in other profit/(loss) without later recycling in the profit and loss statement. In addition, the net interest result from performance oriented pension plans can be determined based on a net liability. As this net liability corresponds to the balance of pension liabilities and the fair value of the plan assets, therefore the earnings to be recorded with effect on the profit and loss statement must also be calculated with the same interest rate as the pension liabilities. In the event of future plan changes, the subsequently applicable service time is immediately recorded with effect on the profit and loss statement. Further essential changes in IAS 19R involve the future treatment of increases in partial retirement programmes. They are no longer to be treated as benefits resulting from the termination of the employment relationship, but are also accumulated over the period of the provision of services. This change has no significant effects on H&R AG. Finally, the amendments to IAS 19R require changed as well as expanded reporting duties, which are explained in note (19), "Pension provisions".

The following tables represent the effects from the modified accounting principles on the opening balance as of 1 January 2012 as well as the prior years' periods:

CONSOLIDATED BALANCE SHEET

€ THOUSAND			1/1/2012			31/12/2012
	Prior to the adjustment	Adjustment	After Adjustment	Prior to the adjustment	Adjustment	After Adjustment
Other long-term financial assets	5,144	-287	4,857	5,840	-1,259	4,581
Deferred taxes	5,812	1,739	7,551	2,455	3,609	6,064
Total non-current assets	259,800	1,452	261,252	269,656	2,350	272,006
Total assets	**635,160**	**1,452**	**636,612**	**620,759**	**2,350**	**623,109**
Provisions for pensions	50,693	5,854	56,547	51,289	11,488	62,777
Total non-current liabilities	295,537	5,854	301,391	201,816	11,488	213,304
Retained earnings	144,564	-4,402	140,162	126,862	-9,138	117,724
Total equity	241,141	-4,402	236,739	222,421	-9,138	213,283
Total liabilities and equity	**635,160**	**1,452**	**636,612**	**620,759**	**2,350**	**623,109**

CONSOLIDATED INCOME STATEMENT

€ THOUSAND			1/1/-31/12/2012
	Prior to the adjustment	Adjustment	After adjustment
Personnel expenses	-72,974	105	-72,869
Operating profit/loss	25,105	105	25,210
Earnings before taxes (EBT)	**1,507**	**105**	**1,612**
Taxes on income and earnings	-1,203	-30	-1,233
Income after taxes	**304**	**75**	**379**
Income after taxes of the shareholders of H&R AG	**382**	**75**	**457**
Earnings per share (undiluted), €	0.01	0.01	0.02
Earnings per share (diluted), €	0.01	0.01	0.02

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ THOUSAND			1/1/-31/12/2012
	Prior to the adjustment	Adjustment	After adjustment
Income after taxes	304	75	379
Revaluation of performance oriented pension plans	–	-6,711	-6,711
Income taxes	–	1,900	1,900
Changes in the amount reported under equity	**–**	**-4,811**	**-4,811**
Total value changes recorded in equity	**-1,016**	**-4,811**	**-5,827**
Total consolidated comprehensive income	**-712**	**-4,736**	**-5,448**

If the company had not applied IAS 19R, the equity as of 31/12/2013 would have been valued at €10 thousand higher and the total result would, taking deferred taxes into account, increase by €862 thousand. Pension provisions would be reported in an amount that would be lower by €12,680 thousand if IAS 19R were not applied, and the deferred tax assets would be reported as being €3,996 thousand lower. In addition, the other financial assets would appear on the balance sheet as being €1,316 thousand higher.

In May of 2011, the IASB published the new Standard IFRS 13 (Fair Value Measurement), which contains a standard definition as well as calculation principles for the fair value. In it, fair value is defined as the price to be obtained in the sale of an asset or when transferring a debt. IFRS 13 is to be applied for the first time for financial years beginning on or after 1 January 2013. The first implementation is of a prospective nature. The application of IFRS 13 leads to a change in the determination of the fair values of the derivative of H&R AG, as now in particular the company's own credit risk must compellingly be taken into account in the determination of the fair value. This change has no significant effect on the net worth, financial and/or earnings of H&R AG.

The application of the remaining new accounting regulations had no significant influence on the representation of the company's net worth, financial and/or earnings situation or on the earnings per share.

Published Standards and interpretations that are not yet being applied

As of the balance sheet date, the following accounting standards had already been published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) but were not mandatorily applicable.

PUBLISHED STANDARDS AND INTERPRETATIONS THAT ARE NOT YET BEING APPLIED

Standard/ Interpretation	Title	Mandatory application pursuant to IASB/EU Regulation	Implementation by the EU	Essential effects on H&R
IAS 19	Amendment: Employee Benefits - Defined Benefit Plans: Employee Contributions	1/7/2014	expected in Q4 2014	none
IAS 27	Amendment: Separate Financial Statements	1/1/2014	11/12/2012	none
IAS 28	Amendments: Investments in Associates and Joint Ventures	1/1/2014	11/12/2012	none
IAS 32	Amendments: Presentation - Offsetting Financial Assets and Financial Liabilities	1/1/2014	13/12/2012	none
IAS 36	Amendments: Recoverable Amount Disclosures for Non-Financial Assets	1/1/2014	19/12/2013	none
IAS 39	Amendments: Novation of Derivatives and Continuation of Hedge Accounting	1/1/2014	19/12/2013	none
IFRS 9	Financial Instruments	earliest at 1/1/2017	postponed	not foreseeable
IFRS 10	Consolidated financial statements	1/1/2014	11/12/2012	see notes
IFRS 11	Joint Arrangements	1/1/2014	11/12/2012	see notes
IFRS 12	Disclosure of Interests in Other Entities	1/1/2014	11/12/2012	none
	Transition Guidance: Änderungen zu IFRS 10, IFRS 11 und IFRS 12	1/1/2014	4/3/2013	not foreseeable
IFRS 14	Regulatory Deferral Accounts	1/1/2016	expected in Q1 2015	none
	Amendments to IFRS 10, IFRS 12 and IAS 27 for Investments Entities	1/1/2014	20/11/2013	none
	Transition Guidance: Amendments to IFRS 10, IFRS 11 and IFRS 12	1/1/2014	4/4/2013	none
	Annual Improvements to IFRSs (2010-2012)	1/7/2014	expected in Q4 2014	none
	Annual Improvements to IFRSs (2011-2013)	1/7/2014	expected in Q4 2014	none
IFRIC 21	Levies	1/1/2014	expected in Q2 2014	none

In May of 2013, the IASB published changes to IAS 36 (Impairment of assets) concerning the reporting duties in connection with value impairments of non-financial assets. The endorsement by the EU took place on 19 December 2013. The change led to a correction of the reporting duties pursuant to IAS 36 in regard to the reporting of the achievable amount of cash generating units in the event of value impairments or write-ups. The change is to be applied for financial years beginning on or after 1 January 2014. Advance implementation was possible, and H&R AG took advantage of this option. This results in that in the notes only the recoverable amount of the CGU that is affected by an impairment is stated. Non-application would have required reporting all recoverable amounts of all CGUs of a significant business or company value. No other Standards received early application.

IFRS 10 (consolidated financial statements) introduces principles for the preparation and representation of consolidated financial statements for businesses that control one or more other businesses. The Standard provides a controlling concept to be applied in a uniform way, which constitutes the basis for the accruals and deferrals of the full scope of consolidation. IFRS 10 replaces the pertinent rules from IAS 27 (Consolidated and Separate Financial Statements) and SIC-12 (Consolidation – Special Purpose Entities). The implementation of IFRS 10 will not lead to any changes in the scope of consolidation of H&R AG.

IFRS 11 (Joint Arrangements) regulates the preparation of balance sheets of joint ventures through which the joint control can be carried out together with a third party. The joint ventures can be differentiated as Joint Operations and Joint Ventures. With joint operations, in future the pro-rated assets and debts as well as revenues and expenses are to be recorded in the balance sheet according to the rights and obligations of the individual parties. In future, the share in a joint venture is to be recorded in the balance sheet by one of the partners using the equity method. The first application of IFRS 11 has no effect on the representation of the net worth, financial and earnings position of H&R AG, as the joint ventures are already recorded in the balance sheet in accordance with the equity method and joint operations are not affected.

(3) General balance sheet preparation and evaluation methods

The consolidated financial statements were prepared on the basis of the historical acquisition and manufacturing costs, with the exception of those positions valued at their fair value, such as derivative financial instruments and financial assets held for trading purposes or available for disposal.

PRINCIPLES OF CONSOLIDATION. The accounts included in the consolidated financial statements are prepared in accordance with uniform balance sheet preparation and valuation methods. The closing date is the closing date of the parent company.

Subsidiaries are companies in which H&R AG has a direct or indirect voting rights majority. They are first included in the consolidated financial statements when H&R AG obtains the option of control. If this option ends, the pertinent companies exit the scope of consolidation.

All Group internal business events and interim results as well as claims and liabilities existing between consolidated companies are eliminated in the course of consolidation. Deferred income tax effects originating within the scope of consolidation are appropriately taken into account.

Company mergers are recorded in the balance sheet in accordance with IFRS 3 (Business Combinations) using the acquisition method. In this connection, the acquirer is the party having obtained control over the acquired company, so that it can derive benefits from the acquired business. In the case of a company purchase, the prorated equity of the acquired subsidiary at the time of acquisition, taking into account the fair values of the identifiable assets, debts and contingent liabilities, deferred taxes and the value for the goodwill are determined at the time of acquisition. In the event of the purchase of foreign companies, the acquisition costs are converted to euro at the pertinent exchange rate in effect at the time of purchase.

The purchase acquisition costs correspond to the fair value of the transferred assets, the equity instruments issued and the debts arising and/or being taken over at the time of the transaction. In addition, they contain the fair values of all designated assets or debts resulting from a conditional consideration arrangement. Purchase related ancillary costs are immediately recorded as effective expenses.

Acquisition costs are set against the prorated fair value of the net equity. Net equity is determined by assessing the identified assets, debts and contingent debts of the acquired company at the time of acquisition at their fair value. Any asset differentials remaining after set-off is deemed to be business value and goodwill. After revaluation of the acquired net assets, in accordance with IFRS 3 resulting negative differentials are immediately recognised in the profit and loss.

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

SHARES IN AT-EQUITY VALUED HOLDINGS. Shares in affiliates and in joint ventures are carried in the balance sheet in accordance with the equity method. Joint ventures are companies that H&R AG manages together with a third party. With affiliates, the share of H&R AG is between 20% and 50%. Within the scope of the equity method, the book value of at-equity valued holdings is increased or reduced by the share of the change in H&R AG's equity change based on its share in the capital of these companies. The Group's share in affiliate companies and in joint ventures comprises the business or goodwill value generated in the acquisition. The profit and loss effective changes of the prorated equity are recognised in the profit or loss resulting from at-equity valued holdings. Companies whose balance sheet is prepared in accordance with the equity method are written down with extraordinary depreciation when the recoverable amount is below the book value. As of 31 December 2013, three joint ventures were being accounted for with this methodology.

CURRENCY TRANSLATION. The annual financial statements of the foreign subsidiaries are converted to euro in accordance with the functional currency principle. As the companies manage their business essentially autonomously from a financial, economic and organisational point of view, the pertinent functional currency as a rule is that of the country in which that company has its registered head office.

In the individual year-end financial statements of the Group companies, foreign currency transactions are translated into the functional currency at the exchange rates at the time of the transaction. In the balance sheet, receivables and payables in foreign currencies are valued at the exchange rate of the balance sheet date, and the resulting exchange rate profits and losses are recognised in the profit and loss statement.

In the consolidated financial statements, the assets and liabilities are converted into euro at the exchange rate of the pertinent balance sheet date. Any changes taking place during the year as well as profit and loss positions are converted to euro at the annual mean exchange rate. With the exception of revenues and expenses directly recognised in equity, the owners' equity is carried at historical exchange rates. The resulting variances are recognised in equity but without income statement effects up until the disposal of the subsidiary .

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

EXCHANGE RATES FOR THE MAIN CURRENCIES

	Exchange rate on the balance sheet date 31/12/2013	Exchange rate on the balance sheet date 31/12/2012	Average rate 2013	Average rate 2012
US dollar	1.3791	1.3194	1.3282	1.2856
British pound	0.8337	0.8161	0.84925	0.8111
Australian dollar	1.5423	1.2712	1.3770	1.2413
South African rand	14.566	11.1727	12.8308	10.5546
Thai baht	45.178	40.347	40.8233	39.944
Chinese yuan	8.3491	8.2207	8.1655	8.1094
Czech crown	27.427	25.151	25.987	25.146
Malaysian ringgit	4.5221	4.0347	4.1855	3.9689

CASH AND CASH EQUIVALENTS. Cash and cash equivalents comprise cash in hand, cheques received and credit balances at banks and have a maximum term of three months at the time of acquisition or investment. Cash and cash equivalents are valued at acquisition cost.

FINANCIAL INSTRUMENTS. Financial instruments are contractually agreed upon receivables or payables that will lead to an incoming or outgoing flow of financial assets or to the issuance of equity capital rights. They also comprise derivative claims or obligations from underlying financial instruments. According to IAS 39, financial instruments are recognised in the profit and loss at the point in time of inclusion in the valuation categories at their fair value and assigned to the financial assets or liabilities to be valued (at fair value through profit and loss), loans and receivables, financial assets available for sale, financial assets held to maturity as well as other liabilities.

FINANCIAL ASSETS. Financial assets comprise cash and cash equivalents, loans issued and receivables, equity and debentures acquired and derivatives with positive fair values.

The approach to and the valuation of financial assets follow the criteria of IAS 39. According to these criteria, financial assets are recognised in the balance sheet when H&R AG has a contractual right to obtain cash or other financial assets. Financial assets are booked at the value of the trading day on which the Group has committed to the purchase of the asset. As a first step, financial assets are classified as loans and receivables or as financial assets available for sale. Loans and receivables as well as financial assets available for sale are first booked at their fair value plus the pertinent transaction costs.

The financial assets valued at fair value and recognised on the profit and loss concern securities classified as current assets as well as derivative financial instruments with a positive fair value not included in a hedge (Hedge Accounting).

Loans and receivables are not derivative financial assets with contractually agreed upon fixed or flexible payments that are not quoted on any market. They are represented in the balance sheet under receivables in connection with goods and services and other financial assets. Loans and receivables are valued within the scope of valuation subsequent to initial recognition at amortised acquisition costs using the effective interest method. In the event of objective and substantial signs of an impairment in value, a value impairment test is carried out. Signs of an impairment in value include among others the high likelihood of insolvency proceedings, significant financial difficulties of a debtor or the disappearance of an active market for financial assets.

Financial assets available for sale are non-derivative financial assets that were either individually and explicitly assigned to this category or that could not be assigned to any other category of financial assets. After their first booking, financial assets available for sale are valued at fair value.

Changes in the fair value are recognised in equity without effect on the profit and loss until they are disposed of. Permanent impairments in value are reflected in the profit and loss. Reversals of the impairment loss are set off against equity without effect on the profit and loss, unless they concern a debt instrument and the reversal of the impairment loss relates to a previously profit and loss effective impairment. If no fair value can be determined, the shares are valued at amortised acquisition values.

Assets are derecognised at the time of the extinction and/or the transfer of the rights to payments arising out of the asset and thus at the point in time at which essentially all risks and opportunities related to the ownership are transferred. Before derecognising receivables that are legally transferred within the scope of receivables sales, H&R AG tests the criteria for derecognition in accordance with the applicable rules. If the criteria are not met, the receivables remain on the balance sheet. There is no full disposal if neither essentially all risks and opportunities are retained or transferred, nor the power of control over the receivables remains with the transferor. In this case, only a partial disposal of the receivables should be booked taking into account the remaining continuing involvement. Continuing involvement is the extent to which the transferor is still exposed to the fluctuations in the value of the receivables.

Financial assets and financial liabilities are not offsetted apart from the reimbursement right against BP (see explanation (9) and (19)) since no such agreements do exist.

DERIVATIVE FINANCIAL INSTRUMENTS. Derivative financial instruments are used in order to reduce currency and interest rate risks, e.g. in the form of futures currency contracts and interest rate swaps.

Derivative financial instruments are carried on the balance sheet at fair value and, depending on the market value shown as financial assets or liabilities. The fair value of the derivatives is calculated by means of standard market valuation methods taking into account the market data available on the valuation day. With futures currency contracts, the valuation is carried out on a case-by-case scenario with the pertinent future exchange rate and/or price on the balance sheet date. The calculation of the fair value of derivative financial instrument for interest rate hedging takes place by means of discontinuation of future incoming and outgoing cash flows. For discontinuation, standard market interest rates adjusted by their own credit risk and that correspond to the pertinent residual term of the financial instruments are used. To the extent that this may be expedient, derivative financial instruments that meet the criteria of balance sheet hedging relationships (Hedge Accounting) pursuant to IAS 39 are designated either as hedging for the fair value of a financial asset or a debt (fair value hedge) or as a hedge for the risks of fluctuating payment streams from highly probably occurring future transactions (cash flow hedge). If derivative financial instruments are not part of a balance sheet hedge, they are, in accordance with IAS 39, classified as held for trading and recognised in the profit and loss.

The changes in the fair value of derivatives intended as fair value hedges are recognised in the profit and loss together with the changes allocatable to the hedged fair value risk of the hedged assets or liabilities. In the present annual financial statements there were no fair value hedges of assets or liabilities.

The effective part of changes in the fair value of derivatives used as cash flow hedges to hedge payment streams is recognised in other profit/(loss) without a profit and loss effect. The ineffective portion of such value changes, on the other hand, is directly recognised in the profit and loss. Amounts deferred or accrued in the other profit/(loss) are rebooked within the period into the profit and loss and recognised as income or expense, whereby the hedged underlying transaction becomes part of the profit or loss accounting. When a hedge comes to term, is disposed of or no longer meets the criteria for being carried on the balance sheet as a hedge, the cumulated profit or loss until then recognised in other profit or loss remains part of equity and is only reclassified into the profit and loss once the originally hedged future transaction takes place. If the future transaction is no longer expected to take place, the cumulated profits and/or losses that are non-profit and loss effectively recorded under equity must immediately be recognised in the profit and loss.

INVENTORIES. According to IAS 2, inventories include those assets held for sale in the ordinary course of business (finished products and trading goods) that are at the work in process stage with a view to being sold (unfinished goods) or that are consumed within the scope of the manufacture of products or the provision of services (raw, ancillary and operating supplies).

Inventories are valued at the lower value of the acquisition and manufacturing costs determined on the basis of the weighted average method and the realisable net disposal value, i.e. at the sales proceeds recoverable in the normal course of business less the estimated finishing and marketing costs. Manufacturing costs comprise the material and production costs directly allocatable to the manufacturing process, reasonable parts of the materials and processing general and administrative costs as well as production oriented general and administrative costs. Financing costs are not taken into account.

PROPERTY, PLANT AND EQUIPMENT. Tangible fixed assets are valued at acquisition or manufacturing costs less cumulative depreciation and impairment expense. The option for the revaluation of tangible fixed assets pursuant to IAS 16.31 was not used.

Acquisition costs consist of the price of the acquisition, the ancillary acquisition costs and subsequent acquisition costs less acquisition price reductions obtained. Expenses for the ongoing repair and maintenance of tangible fixed assets are incorporated in profit and loss. Expenses for renewal and maintenance are capitalised 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 asset.

Expenses related to scheduled shutdowns of large facilities are independently recognised and subjected to linear depreciation over the period until the next scheduled shutdown in the amount of the costs of the measure as part of the pertinent facility. To the extent that depreciable property consists of essential identifiable components with individually different useful lives, such components are carried separately and depreciated over their respective useful life. Investment subsidies are deferred and recognised as income over the average useful life of the subsidised assets.

Depreciable fixed assets are subject to linear depreciation scheduled over their respective useful life. These economic useful life terms are reviewed at each balance sheet day and adjusted if necessary. Upon sale or retirement, the acquisition or manufacturing costs and the pertinent cumulated depreciation of the facilities are derecognised from the balance sheet; the resulting profits or losses are recognised in the profit and loss. The useful life periods used can be summarised as follows:

ASSETS

	Economic useful life
Buildings	10 to 36 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

BORROWING COSTS. Essentially, borrowed capital costs are recognised in the profit and loss in the period in which the external capital expense is generated. Pursuant to IAS 23, borrowing costs that are directly allocated to the construction, the purchase or manufacture of a qualified asset are capitalised as part of the acquisition costs. No borrowing interest was capitalised in financial year 2013.

LEASING. A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for a specific period of time. Leasing transactions are classified as either financial leases or operating leases. If the H&R Group as the lessor within the scope of leasing transactions bears all essential risks and opportunities related to the asset, then the transaction is treated as a financial lease. In that case, the Group capitalises the leased property at the lower of the fair value and the cash value of the minimum leasing instalments and thereafter depreciates the leased property over the estimated useful life or the shorter lease term. At the same time, a matching financial liability is recognised in the amount of the fair value of the leased property or, if lower, in the amount of the cash value of the minimum leasing instalments, and will subsequently be amortised and written down using the effective interest method. All remaining leasing agreements in which the Group is the lessor are treated as being operating leases. In this case, the lease payments are booked as expenses according to the linear method.

GOODWILL. The first time it is reported, the value of the business (the goodwill) resulting from a merger is valued at the acquisition cost, which is measured as a surplus of the transferred consideration over the identifiable assets and assumed liabilities. After the initial reporting, goodwill is valued at acquisition costs less cumulative impairment expenses.

Goodwill is not subject to scheduled depreciation, but, rather, is reviewed on an annual basis in regard to potential impairments. If any events or changed circumstances that indicate a potential value impairment should be identified, the impairment test is also carried out more frequently. In the event of the need for a goodwill impairment, it is immediately recognised as depreciation. Pursuant to IAS 36, there are no later write-ups.

The goodwill impairment test takes place at the level of the cash generating units that are relevant for the test. The cash generating unit represents the lowest level on which goodwill is monitored for internal management purposes. H&R AG essentially considers both strategic business units under standard management with comparable product portfolios and, sporadically, also individual, legally autonomous companies to be cash generating units.

Goodwill impairment is determined by comparison between the book value of the Cash Generating Unit including the goodwill to be allocated to it and the recoverable amount for the Cash Generating Unit. The recoverable amount for this approach is the value in use determined based on the discounted cash flow method. If the book value exceeds the recoverable amount of the Division, there is an impairment to be recognised in the profit and loss in the amount of the difference. If the calculated need for impairment is equal or higher than the book value of the goodwill, it is at first entirely written off. The remaining impairment is, as a rule, prorated to the remaining long-term assets of the cash generating unit.

The expected cash flows of the cash generating units are derived from the current planning of the H&R Group. The budget is a five-year plan. For the subsequent consecutive periods, the cash flow was extrapolated with an expected growth rate of 1 % p.a. The plan is based, in particular, on assumptions concerning the development of sales revenues, the material usage ratio and investments already embarked upon as well as on experiential factors and market expectations. The price level for crude oil taken into account in the budget was assumed based on market estimates from financial institutions and set at US$110 per barrel (Brent). In addition, a stable pricing differential was assumed for a number of finished product prices for all five plan years.

Average capital costs were used for the discounted cash flow; these capital costs are calculated based on market values. The discounting interest rates after taxes applied were 6.9% in the Chemical-Pharmaceutical Raw Materials – Domestic Division (prior year: 6.4%) and in the Chemical-Pharmaceutical Raw Materials – International Division between 7.3% and 11.2% (prior year: between 6.1% and 10.3%). This corresponds to pre-tax interest rates of between 9.3% and 9.4% in the Chemical-Pharmaceutical Raw Materials - Domestic Division (prior year: 8.8% and 8.9%) or, respectively, 9.4% to 14.9% in the Chemical-Pharmaceutical Raw Materials – International Division (prior year: 7.8% to 14.2%). Differences in the capital costs of the individual cash generating units result in particular from various different assumptions and estimates concerning country risk, credit risk as well as price inflation in the country in which the cash generating unit has its registered head office.

OTHER INTANGIBLE ASSETS. Other intangible assets are capitalised at their acquisition or manufacturing costs. Insofar as they have a determinable useful life, they are subject to scheduled linear depreciation over their pertinent useful life. The following useful life spans were assumed for the determination of the scheduled depreciation patterns:

ASSETS

	Useful life
Software	3 to 5 years
Licences	3 to 5 years
Concessions and Patents	3 to 10 years

The H&R Group has received, free of charge, CO_2 emission rights in connection with the introduction of the emissions trading in the European Union, which are valued at a zero acquisition cost. Any expenses that arise in connection with the registration of products pursuant to the EU Chemicals Regulation (REACH) are capitalised under other intangible assets and depreciated over a foreseeable useful life of 10 years.

Permanent impairments in other tangible assets are accounted for by means of unscheduled depreciation. In the event of a disappearance of the reasons for an unscheduled depreciation, the appropriate write-ups are effected to the extent that the amortised acquisition costs are not exceeded. The review of the reasons for an unscheduled depreciation takes place on each balance sheet date.

Intangible assets with an indeterminate useful life are not subject to scheduled depreciation; instead, an annual impairment test is carried out on such assets.

RESEARCH AND DEVELOPMENT COSTS. Research expenses are recognised as expenses in the period in which they arise. Development expenses are only capitalised when the requirements of IAS 38 are met. According to this Standard, capitalisation is always required when the development activity leads to future cash inflows that also cover the pertinent development costs. As internal developments are subject to different imponderables, the conditions for capitalisation of costs arising for purposes of bringing a product to the market are, as a rule, not met.

FINANCIAL LIABILITIES. Financial liabilities comprise those entered into towards credit institutions, trade liabilities, negative fair values of derivatives as well as other financial liabilities.

Financial liabilities are essentially booked when they arise at their fair value and after deduction of transaction costs. In subsequent periods they are measured at amortized acquisition costs using the effective interest method.

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

OTHER RECEIVABLES AND LIABILITIES. Accruals and deferrals and other non-financial assets and liabilities are booked with amortised acquisition costs. Reversal takes place on a linear basis or matching the timing of the deliveries or services.

Government grants for assets are represented in the balance sheet as capitalised deferrals in the other liabilities and are reclassified to the profit and loss over average useful life of the subsidised assets. Private subsidies are recognised as Other liabilities in the area of both short and long term liabilities and reversed over their expected useful life.

PENSIONS AND SIMILAR LIABILITIES. Company pensions of the H&R Group are designed based on the legal, tax and economic circumstances in the pertinent countries and with an orientation towards contributions and benefits. With contribution oriented plans (Defined Contribution Plans) the Group pays 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 that of the contributions. Contributions are recognised in personnel expense when due.

The calculation of the care liabilities for benefit oriented pension plans (Defined Benefit Obligation, DBO) as well as the service seniority expense is performed according to the Projected

Unit Credit Method. The valuation function in this method is based on actuarial calculations for which specific assumptions concerning salary and pension payment trends, fluctuation and death rates as well as interest rates must be made. The actual future expenses and liabilities can substantially differ from the actuarial estimates as a result of changed circumstances.

Within the scope of the balance sheet recognition of benefit oriented pension plans, interest expense is recognised as part of interest profit or loss. Seniority expenses are recorded as personnel expenses. The effects of the revaluation of benefit oriented pension plans are directly recognised in equity while taking into account deferred taxes, but without profit and loss effects in the comprehensive income statement. The fair value of the planned net worth is deducted from the cash value of the pension liabilities recorded in the balance sheet. The planned assets consist of a reinsurance policy for the pension granted to a former director and is valued at fair value. If the planned assets exceed the corresponding pension liability, the excess amount is shown as an other receivable subject to the upper limit set in IAS 19R.

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, an economic benefit is likely for the cash outflow in regard to the fulfilment of this obligation and a reliable estimation of the amount of the liability is possible. The amount set up as a provision represents the best possible estimate of the amount required for the fulfilment of the current commitment as of the balance sheet date. In the event of a significant interest rate effect, the cash value of the expected expenses is used.

The anniversary provisions are valued according to the projected unit credit method in accordance with IAS 19R. Contractual obligations resulting from leases (e.g. demolition, renovation or eviction) are recognised in the balance sheet as reserves, insofar as the foreseeable utilisation of resources with a financial benefit is likely. Provisions for impending losses resulting from unfavourable contracts are set up when the expected economic benefit resulting from the contract is lower than the costs that are unavoidable in order to fulfil the contract.

Restructuring provisions are created in accordance with IAS 37.70 et seqq. as soon as a detailed, formal restructuring plan is available and a justified expectation has been created in the affected parties that the restructuring measures will take place in regard to the affected parties by starting to implement the plan or by announcing its essential components.

The annual return obligations of emission rights based on the actual CO_2 emissions of the refineries 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 additionally to be acquired emissions rights are created at the expected acquisition costs.

RECOGNITION OF REVENUE. The product sales and payments received as a result of the company's usual business activities are recognised as salesrevenue. Sales revenues and/or other operating revenues are recognised when the service is provided or with the transfer of risk to the customer or else with the origination of the claim.

Moreover, sales revenues are also realised from sales in which the legal ownership was transferred to the customer, but delivery has been deferred upon request from the customer. Ultimately, it must be possible reliably to determine the total amount of the sales and it must be possible to assume the collectability of the receivable. Sales revenue is recorded without value added tax, discounts, rebates or price reductions and after the elimination of intragroup sales. Intra-group transactions are normally arm's-length transactions.

INCOME TAX. Income taxes comprise both the taxes levied in the individual countries on taxable profits and changes in deferred taxes that have an effect on the profit and loss. The current tax expense is determined based on the taxable income according to the regulations of the pertinent country for the year under consideration of the pertinent tax rate in effect from time to time. Pursuant to IAS 12, deferred taxes are taken into account for timing differences between the balance sheet valuations of the assets and debts in the consolidated financial statements and their fiscal value assumptions made within the scope of the taxable profit determination. Current and deferred taxes are essentially recognised as profit and loss items except if they relate to circumstances recognised in equity as not affecting income. In those cases, the deferred taxes are also recognised as not affecting income.

Deferred tax assets pertaining to loss carry-forwards are assumed if it is likely that a sufficient taxable event is available against which the timing differences and still unused loss carry-forwards can be used. This takes place by means of individual company forecasts concerning the income situation of the pertinent Group company. In Germany, the unlimited carry-forward possibility for domestic losses is limited by the minimum taxation level. For foreign loss carry-forwards there are frequently country specific time limitations for the carry-forward option and limitations for the utilisation of profits from operating activities.

Deferred taxes that arise out of timing differences in connection with holdings in subsidiaries and affiliates are recognised unless the point in time of the reversal of the timing differences can be determined by the Group and it is probable that the timing differences will not be reversed within a foreseeable period of time by reason of this influence.

When determining the deferred taxes, the expected tax rates at the time of the expected realisation are assumed. For the calculation of the deferred taxes in the companies and the consolidated entries a tax rate of 28.56 % (prior year: 28.31 %) is assumed for purposes of the present consolidated financial statements.

Deferred tax receivables and liabilities are set off when the deferred tax receivables and liabilities refer to income taxes levied by the same tax authority for either the same taxpayer or for different taxpayers intending to effect the setoff on a net basis.

CONTINGENT LIABILITIES. Contingent liabilities are potential liabilities towards third parties or current commitments in which a cash outflow is unlikely and/or whose amount cannot reliably be determined. Contingent liabilities are in principle not recorded in the balance sheet. The liabilities volumes stated in the notes under Contingent debts match the scope of liability in effect on the balance sheet date.

(4) Discretionary decisions and estimates

In the preparation of the consolidated financial statements, to a certain extent assumptions and estimates must be made that at will affect the level of the assets and liabilities included in the balance sheet, the income and expenses as well as the contingent liabilities of the period under review. Estimates are based on experiential values and other assumptions that are deemed to be appropriate in other circumstances.

Assumptions and estimates are used in particular in the evaluation of the impairment of intangible assets, the determination of general and administrative cost surcharges in the valuation of inventories, the uniform Group determination of useful economic lives for assets, the estimation of the recoverability of receivables and in the balance sheet recognition and valuation of provisions.

The identification of indications pointing to an impairment as well as the determination of recoverable amounts and fair values are also combined with estimates. They comprise, in particular, the estimation of future payment cash flows, the applicable discount rates, the expected useful lives and residual values.

For sensitivity analyses, generally a possible fluctuation range of 10 % is assumed, as a change of up to this amount appears possible especially over the long term. Sensitivity analyses were carried out in particular for the goodwill impairment tests at Cash Generating Unit level and in connection with financial instruments. Pension provisions, on the other hand are assumed to be subject to a sensitivity of 50 basis points.

Other essential assumption factors are the discount rate and the underlying mortality tables in connection with the pension provisions and similar commitments, as well as the estimates of necessary expenditures for the circumstances taken into account for the Other provisions. This also concerns the possibility of a cash outflow due to dismantling obligations more closely described in note (39). Details as to sensitivity analyses in the area of Pension provisions can be found in note (19).

The assumptions and estimates are developed on premises based on the pertinent current knowledge on the relevant matter. In addition, the trends in the economic environment in the industries and regions in which the Group does business that are currently assumed to be realistic was also taken into account in regard to expected future business developments. Developments in these framework conditions that may deviate from the assumptions and that may lie outside the scope of control of the Management can cause the actually arising amounts to deviate from the original estimates. In such cases, the assumptions and, if required, the book value of the pertinent assets and liabilities will be adjusted as appropriate.

(5) Scope of consolidation and holdings

The consolidated financial statements of H&R AG include all domestic and foreign companies controlled by H&R AG. A control situation exists when H&R AG is able to govern the financial and business policies of an enterprise so as to obtain benefits from its activities. The H&R AG has direct or indirect control over the majority of the voting rights of its subsidiaries.

The scope of consolidation of H&R AG developed as follows over the financial year:

CHANGE IN THE NUMBER OF CONSOLIDATED ENTERPRISES

H&R AG and consolidated companies	Domestic	Other countries	Total
31/12/2012	**16**	**12**	**28**
Additions	–	1	1
Disposals	–	–	
Changes to scope of consolidation	–	–	–
31/12/2013	**16**	**13**	**29**

The newly founded H&R Singapore Ltd. was included in the consolidated financial statements for the first time.

H&R AG holds shares in some companies via trust companies. These indirect shares are also fully consolidated whenever there is a control situation. The holdings can be seen in the pertinent list. In spite of almost 100% holding, three companies were not included in the scope of consolidation, as they are of little importance for the financial position and financial performance of H&R AG.

The following information concerning the holdings meets the requirements of § 313 HGB:

FULLY CONSOLIDATED SUBSIDIARIES

Company name	Company headquarters	Division	Holding % H&R AG
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 InfoTech GmbH	Hamburg, Germany	d	100
H&R Benelux b.v.	Nuth, The Netherlands	b	100
H&R ChemPharm (UK) Ltd.	Tipton, Great Britain	b	100
H&R Czechia s.r.o.	Prague, Czech Republic	b	90
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) Ltd.	Bangkok, Thailand	b	100
H&R WAX Malaysia Sdn. Bhd.	Batu Caves, Malaysia	b	100
H&R South Africa (Pty) Limited	Durban, South Africa	b	100
H&R South Africa GmbH	Hamburg, Germany	b	100
H&R South Africa Sales (Pty) Limited	Durban, South Africa	b	100
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	93.51
GAUDLITZ Grundstücksverwaltungs-Beteiligungsgesellschaft mbH	Coburg, Germany	c	100
H&R Group Services GmbH	Hamburg, Germany	d	100
SYTHENGRUND WASAGCHEMIE Grundstücks-verwertungsges. Haltern mbH	Haltern, Germany	d	100
B.-H. Beteiligungs- und Handelsges. mbH	Salzbergen, Germany	d	100

OTHER INVESTMENTS

Company name	Company headquarters	Division	Holding % H&R AG
Joint Ventures			
Westfalen Chemie GmbH & Co. KG	Salzbergen, Germany	a	50
Westfalen Chemie Verwaltungsgesellschaft mbH	Salzbergen, Germany	a	50
HRI IT–Service GmbH	Berlin, Germany	d	50
Not Consolidated Subsidiaries			
H&R India Sales Private Limited	Mumbai, India	b	99
WAFA Kunststofftechnik GmbH & Co. KG, i. K.	Augsburg, Germany		100
WAFA Kunststofftechnik Verwaltungs GmbH, i. K.	Augsburg, Germany		100
Other Interests			
SRS EcoTherm GmbH	Salzbergen, Germany		10
Surgic Tools GmbH	Coburg, Germany		10
Betreibergesellschaft Silbersee II Haltern am See mit beschränkter Haftung	Essen, Germany		8

Divisions:
a) Chemical-Pharmaceutical Raw Materials Domestic
b) Chemical-Pharmaceutical Raw Materials International
c) Precision Plastics
d) Other activities

1) Including holdings held in trust: The holdings in the following companies are only indirectly held in trust: In H&R Global Special Products Co. Ltd., Bangkok, Thailand, H&R AG holds 49% of the shares via subsidiaries, 51% are managed for the Group by trust companies. H&R Global Special Products Co. Ltd. in turn holds 60.98% in H&R GSP Co. Ltd., Bangkok, Thailand. A further 38,98% are held by a subsidiary whose shares are wholly-owned by H&R AG. The remaining 0.04% are managed on behalf of the Group by trustees. The Group directly holds 30% of the shares in H&R Global Special Products Sdn. Bhd., Port Klang, Malaysia. The remaining 70% are managed on behalf of the Group by trustees.

Notes to the consolidated balance sheet

(6) Cash and cash equivalents

€ Thousand	31/12/2013	31/12/2012
Cash on hand	12	171
Cash in banks	109,612	89,417
Total	**109,624**	**89,588**

(7) Trade accounts receivables

€ Thousand	31/12/2013	31/12/2012
Trade accounts receivables (gross)	110,480	70,643
Impairment losses	-755	-691
Total	**109,725**	**69,952**

No trade accounts receivables (prior year: €0 thousand) were pledged as credit guarantees.

Receivables from related persons or companies are listed under note (42).

Within the scope of what is referred to as "true factoring agreements", the H&R Group sells short-term Trade accounts receivables to credit institutes without recourse. H&R AG can freely decide whether and in what volume receivables will be sold. To the extent that any risks and opportunities related to these receivables remain at H&R AG, they continue to be recognised in the balance sheet. Late payment risk is the only risk remaining at H&R AG and is, moreover, of minor importance. As of 31 December 2013, receivables in the amount of €7.4 million (prior year: €27.2 million) were transferred, leading to a derecognition from the balance sheet. As of the balance sheet date of 31 December 2013 the book value of the continuing commitment was €14 thousand. The book value of the corresponding liability was €8 thousand.

TRADE ACCOUNT RECEIVABLES

			Including: not impaired at the year-end date and overdue in the following aging periods					
€ THOUSAND	Carrying amount	Including: neither impaired nor overdue at the year-end date	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
31/12/2013	109,725	101,229	5,639	1,445	459	353	570	30
31/12/2012	69,952	58,120	6,586	977	346	703	830	185

With regard to the trade accounts receivables that are neither impaired nor overdue, there were no indications that the debtors would not honour their payment obligations.

In the Group, risk provisions in regard to trade accounts receivables based on individual write-downs can be summarised as follows:

IMPAIRMENTS OF TRADE ACCOUNTS RECEIVABLE

€ THOUSAND	2013	2012
Status as of 1/1	**691**	**751**
Additions	238	257
Utilization	-98	-268
Redemptions	-41	-61
Currency translation differences	-35	12
Status as of 31/12	**755**	**691**

Impaired trade account receivables are overdue with the following aging:

TRADE ACCOUNTS RECEIVABLE

€ THOUSAND	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
31/12/2013	116	26	199	40	4	370
31/12/2012	2,591	27	–	12	16	250

(8) Inventories

€ THOUSAND	31/12/2013	31/12/2012
Raw, auxiliary, and production materials	47,997	51,410
Unfinished products	22,560	49,860
Finished products and products for sale	44,854	77,214
Advance payments on account on inventories	794	2,112
Total	**116,205**	**180,596**

Individual write-downs were performed with all inventories insofar as the proceeds that could foreseeably be realised from their sale were lower than their book value (Lower of Cost or Market principle). The net proceeds from disposal were recognised as the foreseeable sales proceeds less any costs still arising up to the time of sale.

The changes in finished products and trading goods as well as the unfinished products essentially result from a reduction of the stocks within the scope of the conversion of the Salzbergen site to contract manufacturing. This results in the inventories reduction in the profit and loss in the amount of €56,514 thousand (prior year: inventories reduction €6,383 thousand).

The fair value less sales expenses at which inventories are carried amounts €6,595 thousand (prior year: €12,138 thousand).

Pursuant to IAS 2.34, writedowns of the net disposal values were recognised as expenses in the reporting period in the amount of €2,059 thousand (prior year: €1,590 thousand). They concern the Chemical-Pharmaceutical Raw Materials Domestic and Precision Plastics Divisions.

No inventories (prior year: €0.00) were pledged as surety for liabilities.

(9) Other financial assets

€ THOUSAND	31/12/2013 Total	31/12/2013 Of which long-term	31/12/2012* Total	31/12/2012* Of which long-term
Loans and receivables	1,721	1,055	2,081	1,357
Receivable due from BP	942	942	1,163	1,163
Other securities	1,290	993	1,254	1,003
Other investments	1,055	1,055	1,055	1,055
Other financial assets	889	55	227	3
Total	**5,897**	**4,100**	**5,780**	**4,581**

* Prior year's figures adjusted in accordance with IAS 19R.

The loans and receivables essentially comprise receivables from SRS Ecotherm as well as a loan to a joint venture enterprise.

Further to 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 claims and commitments were recognised based on the same legal background owing to the economic and legal substance of the business event and shown as a balance of €942 thousand pursuant to IAS 1.32.

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

€ THOUSAND	2013	2012
Status as of 1/1	10,050	9,758
Interest income	380	461
Revaluation of the compensation claims	144	348
Claims paid	-706	-517
Status as of 31/12	**9,868**	**10,050**

The holdings essentially comprise the shares in SRS EcoTherm GmbH, Salzbergen, with a value of €1,050 thousand. The holdings are carried at acquisition cost, as these financial investments are not listed on any active market and therefore have no market price, and other valuation methods would not have led to reliable fair values. H&R AG is not intending to dispose of these holdings.

The remaining securities include in particular fund units of the Correnta Funds I and II. These securities are carried at their market value on the balance sheet date. Variances are shown in the other comprehensive income. This position also comprises the securities forming part of the current assets, which amounted to €297 thousand (prior year: €252 thousand) as of the balance sheet date.

Of the remaining financial assets, as of 31 December 2013 €7 thousand (prior year: €7 thousand) had specific valuation allowances.

(10) Other assets

	31/12/2013		31/12/2012	
€ THOUSAND	Total	of which long-term	Total	of which long-term
Reinsurance contracts	1,374	1,374	1,411	1,411
Other tax receivables	1,978	–	3,654	–
Prepaid expenses	745	71	785	–
Other assets	1,115	86	1,371	120
Total	**5,212**	**1,531**	**7,221**	**1,531**

The short-term accrual comprises prepaid amounts for which the pertinent expense is to be allocated to the following year. In the financial year under review, the position as shown essentially represents insurance contributions, prepaid rents and accrued EDP maintenance remunerations.

(11) Tangible fixed assets

2013 TRENDS

€ THOUSAND	Land and Buildings	Technical equip-ment/machinery	Other facilities/ office equipment	Advance payments and plants under construction	Total
Acquisition/manufacturing costs					
Status as of 1/1/2013	**48,693**	**340,114**	**19,893**	**12,895**	**421,595**
Additions	359	8,573	228	3,800	12,960
Disposals	-32	-2,353	-998	-13	-3,396
Currency conversion	-791	-2,089	-185	-41	-3,106
Reclassifications	281	8,526	116	-8,923	–
Status as of 31/12/2013	**48,510**	**352,771**	**19,054**	**7,718**	**428,053**
Cumulative depreciation					
Status as of 1/1/2012	**23,759**	**162,375**	**15,402**	**942**	**202,478**
Planned depreciation	1,730	20,233	1,543	2	23,508
Extraordinary depreciation	–	9,000	–	–	9,000
Disposals	-26	-2,249	-954	–	-3,229
Currency conversion	-214	-1,256	-140	–	-1,610
Status as of 31/12/2013	**25,249**	**188,103**	**15,851**	**944**	**230,147**
Book value					
Status as of 31/12/2013	**23,261**	**164,668**	**3,203**	**6,774**	**197,906**
Status as of 31/12/2012	**24,934**	**177,739**	**4,491**	**11,953**	**219,117**

2012 TRENDS

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

Land and buildings are essentially production sites of the Group companies and the technical plant and machinery are production facilities. A plot of land belonging to the Group subsidiary SYTHENGRUND has an underground quartz sand mine, which according to geological appraisals would comprise some 13.5 million tons. The additions to assets represented by facilities in 2013 refer primarily to the refinery sites in Salzbergen and Hamburg. In Salzbergen, investments were made in the capacity expansion of the hydration refining processes. At the Hamburg site, the additions in essential investments led to an increase in energy efficiency. Moreover, expenditures made at both sites in connection with planned shutdowns were capitalised.

The depreciation on fixed assets comprises extraordinary depreciation in the amount of €9.0 million, determined based on the negative results trend at CGU H&R Ölwerke Schindler within the scope of an impairment test as of 30 September 2013. The CGU is the refinery at the Hamburg site, which is part of the Chemical-Pharmaceutical Raw Materials – Domestic. The impairments are included in the position Depreciation and Impairments of Tangible and Intangible Assets in the profit and loss.

The H&R Group has entered into a number of financing and operating lease agreements for technical equipment, operating and office equipment: as well as intangible assets. The financial leases comprise essentially an agreement that meets the requirements of IFRIC 4 and relates to the supply of energy as well as of cooling and boiler feed water. The term of the Agreement is of approximately 20 years and will end on 30 June 2023. The sum total of leased assets to be allocated to the H&R Group pursuant to IAS 17 from an economic point of view and which are thus shown in the fixed assets and under intangible assets is composed as follows:

	2013				2012			
€ THOUSAND	Technical plant and equipment	Office and operating equipment	Intangible assets	Total	Technical plant and equipment	Operating and business/ premises outfitting	Intangible assets	Total
Costs of acquisition								
Status as of 1.1.	**14,991**	**–**	**3,696**	**18,687**	**14,446**	**26**	**3,696**	**18,168**
Additions	106	–	–	106	572	–	–	572
Disposals	-7	–	–	-7	-27	-26	–	-53
Status as of 31/12	**15,090**	**–**	**3,696**	**18,786**	**14,991**	**–**	**3,696**	**18,687**
Cumulative depreciation								
Status as of 1/1	**6,234**	**–**	**3,696**	**9,930**	**5,424**	**3**	**3,512**	**8,939**
Additions	843	–	–	843	816	–	184	1,000
Disposals	-7	–	–	-7	-6	-3	–	-9
Status as of 31/12	**7,070**	**–**	**3,696**	**10,766**	**6,234**	**–**	**3,696**	**9,930**
Book values								
Status as of 31/12	**8,020**	**–**	**–**	**8,021**	**8,757**	**–**	**–**	**8,757**
Status as of 1/1	**8,757**	**–**	**–**	**8,757**	**9,022**	**23**	**184**	**9,229**

The finance leasing agreements involve the lease payments listed below that will become due in the following periods. The variable leasing instalments were carried forward based on the last effective interest rate:

€ THOUSAND	Up to 1 year		1 to 5 years		Longer than 5 years	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Minimum leasing instalments	659	685	882	1.400	–	–
Future financing costs from financial leases	64	90	35	83	–	–
Cash value of the financial lease liabilities	595	595	847	1.317	–	–

Most of these payments relate to an agreement that meets the requirements for financial leases and concerns the supply of energy as well as of cooling and boiler feed water.

None of the assets underlying the financial leases may be disposed of during the term of their respective leases.

In addition to the finance leases, other leasing and/or rental agreements were also entered into which must be classified as operating leases based on their contents, as the property constituting the subject matter of the lease or rental agreement is to be allocated to the lessor or landlord. This involves in particular land and buildings, hardware, vehicles, forklift trucks, office machines and tank railcars. As a rule, the terms of these leases range between two and five years. The agreements generally terminate automatically at the expiry of their term, although in some cases there are extension options.

Future minimum leasing payments based on non-cancellable operating leases will become due in future periods as follows:

€ THOUSAND	Up to 1 year		1 to 5 years		Longer than 5 years		Total	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Land/Buildings	1,390	1,180	4,505	4,493	22,695	23,779	28,590	29,452
Technical plant and equipment	1,499	993	2,173	1,804	–	–	3,672	2,797
Office and operating equipment	1,807	2,388	3,077	6,080	–	–	4,844	8,468
Total	**4,696**	**4,561**	**9,755**	**12,377**	**22,695**	**23,779**	**37,146**	**40,717**

(12) Goodwill and other intangible assets

The intangible assets developed as follows during financial year 2013:

2013 DEVELOPMENTS

€ THOUSAND	Goodwill	Other intangible assets: Conces-sions, patents etc.	Software	Licences/ franchi-ses	Patents/ copy-rights	Advances to sup-pliers/ Items under develop-ment	Total	Total
Acquisition/manufacturing costs								
Status as of 1/1/2013	**47,700**	**1,319**	**9,825**	**3,629**	**267**	**177**	**15,217**	**62,917**
Currency conversion	-209	–	-5	-58	-29	–	-92	301
Additions	–	54	56	31	–	46	187	187
Disposals	–	-25	–	–	–	–	-25	-25
Status as of 31/12/2013	**47,491**	**1,348**	**9,876**	**3,602**	**238**	**223**	**15,287**	**62,778**
Cumulative depreciation								
Status as of 1/1/2013	**12,282**	**1,085**	**7,397**	**1,985**	**267**	**30**	**10,764**	**23,046**
Currency conversion	–	–	-4	-1	-29	–	-34	-34
Scheduled depreciations 2013	–	120	850	171	–	8	1,149	1,149
Extraordinary depreciations 2013	3,077	–	–	–	–	–	–	3,077
Disposals	–	-13	–	–	–	–	-13	-13
Status as of 31/12/2013	**15,359**	**1,192**	**8,243**	**2,155**	**238**	**38**	**11,866**	**27,225**
Book value								
Status as of 31/12/2013	**32,132**	**156**	**1,633**	**1,447**	**–**	**185**	**3,421**	**35,553**
Status as of 31/12/2012	**35,418**	**234**	**2,428**	**1,644**	**–**	**147**	**4,453**	**39,871**

The intangible assets developed as follows during financial year 2012:

2012 DEVELOPMENTS

€ THOUSAND	Goodwill	Other intangible assets: Conces-sions, patents etc.	Software	Licences/ franchi-ses	Patents/ copy-rights	Advances to sup-pliers/ Items under develop-ment	Total	Total
Acquisition/manufacturing costs								
Status as of 1/1/2012	**47,692**	**1,143**	**8,488**	**3,605**	**262**	**371**	**13,869**	**61,561**
Currency conversion	8	–	–	9	5	–	12	22
Additions	–	176	1,218	15	–	–	1,411	1,409
Disposals	–	–	-130	–	–	–	-130	-130
Transfers	–	–	249	–	–	-194	55	55
Status as of 31/12/2012	**47,700**	**1,319**	**9,825**	**3,629**	**267**	**177**	**15,217**	**62,917**
Cumulative depreciation								
Status as of 1/1/2012	12,282	1,007	6,502	1,813	262	22	9,606	21,888
Currency conversion	–	–	–	–	5	–	5	5
Additions	–	78	1,025	172	–	8	1,283	1,283
Disposals	–	–	-130	–	–	–	-130	-130
Status as of 31/12/2012	**12,282**	**1,085**	**7,397**	**1,985**	**267**	**30**	**10,764**	**23,046**
Book value								
Status as of 31/12/2012	**35,418**	**234**	**2,428**	**1,644**	**–**	**147**	**4,453**	**39,871**
Status as of 31/12/2011	**35,410**	**136**	**1,986**	**1,792**	**–**	**349**	**4,263**	**39,673**

The carrying value of goodwill is composed as follows:

€ THOUSAND

Reporting segment	Cash Generating Unit	31/12/2013	31/12/2012
Chemical-Pharmaceutical Raw Materials Domestic	CGU Salzbergen	16,738	16,738
Chemical-Pharmaceutical Raw Materials Domestic	CGU H&R Ölwerke Schindler GmbH	–	3,077
Chemical-Pharmaceutical Raw Materials International	CGU H&R ChemPharm (UK)	282	282
Chemical-Pharmaceutical Raw Materials International	CGU Asia	388	435
Chemical-Pharmaceutical Raw Materials International	CGU Australia	760	922
Chemical-Pharmaceutical Raw Materials International	CGU South Africa	13,964	13,964
Total		**32,132**	**35,418**

Owing to the negative results trend at CGU H&R Ölwerke Schindler, as of 30 September 2013 a need for extraordinary depreciation in the amount of €12,077 thousand was determined within the scope of an impairment test. Of this amount, extraordinary depreciation of €3,077 thousand correspond to goodwill. The impairments are included in the depreciation and impairments of tangible and intangible assets position in the profit and loss. The recoverable amount of CGU H&R Ölwerke Schindler GmbH was €175.1 million as of the date on which the impairment was recognised.

In performing the impairment test of the CGU, Management must make certain valuation assumptions. Fundamentally, these valuation assumptions made in an uncertain environment may differ from the actual values determined at a later date. This may lead to the fact that the recoverable amount may fall below the pertinent book value of the CGU, thus signalling an impairment. Against this background, all goodwill carrying CGUs were sensitised in regard to the discounting interest rate as well as to the growth rate. In all CGUs an adjustment of the discount rate and the growth rate by 1 percentage point did not lead to the recoverable amount to fall below the book value.

The other intangible assets are essentially production and application software as well as production, control and process flow licences. Moreover, expenses arising in connection with the registration of products pursuant to the EU Chemicals Regulation (REACH) were also capitalised under Other intangible assets. The additions in financial year 2013 essentially concern the acquisition of new software licences.

(13) Shares in at-equity valued holdings

The reported shares in at-equity valued holdings concern, partly, the 50% share in the joint venture Westfalen Chemie GmbH & Co. KG as well as the related general partner Westfalen Chemie Verwaltungsgesellschaft mbH. Westfalen operates a hydrogen production and bottling facility at the Salzbergen site, from which the Salzbergen Refinery obtains hydrogen for its own production. Furthermore, financial year 2012 saw the creation of the joint venture HRI IT Service GmbH, Berlin, in which H&R AG holds 50% of the shares via its subsidiary H&R InfoTech GmbH.

The following amounts represent the Group's 50% in the joint ventures:

€ THOUSAND	31/12/2013	31/12/2012
Assets		
Long-term assets	684	48
Current assets	865	227
Debts		
Non-current liabilities	182	–
Current liabilities	1,340	449
Net assets	**27**	**-174**
Revenue	5,598	1,185
Costs	-5,229	-898
Earnings after income taxes	**369**	**287**

The book values of the Group's holdings accounted for using the equity method changed as follows:

€ THOUSAND	2013	2012
Book values 1/1	**842**	**777**
Addition of HRI IT Service GmbH	–	100
Partial result	369	287
Distribution	-288	-322
Book values 31/12	**923**	**842**

(14) Liabilities to banks

Liabilities to credit institutions include the following items:

€ THOUSAND	Book value 31/12/2013	Residual term up to one year	Residual term 2015 to 2018	From 2019 onwards
Bonded loans	118,528	–	118,528	–
Other loans	63,013	13,312	35,951	13,750
Total	**181,541**	**13,312**	**154,479**	**13,750**
Of which secured	13,750			

€ THOUSAND	Book value 31/12/2012	Residual term up to one year	Residual term 2014 to 2017	From 2018 onwards
Bonded loans	118,198	–	65,198	53,000
Other loans	85,053	69,598	11,705	3,750
Total	**203,251**	**69,598**	**76,903**	**56,750**
Of which secured	15,000			

BONDED LOANS. The company took up bonded loans, each of which comprises two tranches with a term of five, respectively seven years as well as one ten-year tranche. A tranche of €45.0 million with a five-year term and another of €35.0 million with a seven-year term are subject to variable interest rates with the six-month EURIBOR plus credit margin, while the remaining tranches were arranged at fixed interest rates of 3.64% to 5%. The variable interest tranches of a total of €80.0 million were hedged by means of an interest rate swap to account for interest rate fluctuation risks. The conditions and termination rights are dependent on compliance with certain stipulations and financial ratios such as the indebtedness and equity ratios (covenants). In the event of a change of control, the bonded loan lender is entitled to terminate the agreements.

The 10-year tranche of €31.0 million shown under the Other financial liabilities underwent early redemption in the course of the current year. The resulting early repayment penalty in the total amount of €2,336 thousand was recognised as interest expense; of this total €1,986 thousand were allocated to the prior year's result.

SYNDICATED LOAN. In 2011, H&R AG arranged a syndicated loan with a group of banks in the amount of €150.0 million with a five-year term. The loan can be used as a revolving credit facility by means of drawdowns subject to a number of different conditions. Within the scope of the contract manufacturing at the Salzbergen site, a reduction in volume to €90.0 million was agreed with the banks. The company has an increase option covering €30.0 million for the total facility. In the event of a change of control, the lenders are entitled to terminate the agreements.

The availability and conditions are linked to certain ratios (financial covenants). In the event of a breach of a 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. The syndicated loan was only utilised to a minor extent in financial year 2013.

OTHER LOANS. The other loans were obtained subject to fixed or variable interest rates based on EURIBOR and LIBOR. The fixed interest rate is 3.50 %.

FINANCIAL COVENANTS. Financial covenants such as the debt and equity ratios are included in the agreements for the bonded loans and the syndicated loans as well as for bilateral loans. Because of our declining results in the course of the year, we agreed with those banks whose agreements require a quarterly indebtedness ratio to adjust the "Indebtedness Ratio" financial covenant as of 31 December 2013 to 3.5 and for each quarterly reporting until 31 March 2015 to 3.75 in the syndicated and bilateral loans. The financial covenants were fully met both at the balance sheet date and also at the relevant dates in the course of the year.

CURRENCY. The preponderant part of these loans is denominated in euro.

COLLATERALISATION. Assets with a value of €15 million were pledged in respect to loans from the KfW [Kreditanstalt für Wiederaufbau, Reconstruction Credit Corporation] environmental programme originally amounting to €20 million.

No collateral was pledged for either the syndicated loan or for the bonded loans.

(15) Trade payables

Trade payables have a term of up to one year and are usually collateralised by means of retention of title.

(16) Other provisions

€ THOUSAND	HR provisions	Environmental protection	Miscellaneous provisions	Total
Status as of 1/1/2013	**9,409**	**2,973**	**3,650**	**16,032**
of which long-term	4,269	1,922	1,052	7,243
Interest compounding	52	–	–	52
Currency translation differences	-203	–	-3	-206
Utilization	-4,517	-866	-1,684	-7,067
Reversal	-737	-1,056	-292	-2,085
Additions	4,082	–	1, 590	5,672
Status as of 31/12/2013	**8,086**	**1,051**	**3,261**	**12,398**
of which long-term	3,497	1,051	–	4,548

Cash outflows totalling €7,850 thousand are expected in relation to the short-term portion of the provisions capitalised as of 31 December 2013 in the following year. The remaining amount of 4,548 thousand will only cause cash outflows starting in 2015.

(16.1) Human Resources provisions

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

The long-term HR provisions consist of early retirement pensions and service anniversaries.

(16.2) Environmental protection

Subsoil contamination with hazardous materials resulting from the production of ammunition (grenades) under the supervision of the armed forces during the two World Wars and from the decommissioning of military explosives had already been discovered some time ago on a piece of land belonging to a Group company that had been used by third parties to produce such explosive materials. The affected soil had already been disposed of some years ago. The trend in the hazardous materials concentration in the ground and surface water is regularly measured and monitored in conjunction with the relevant authorities. The explosives business was sold in 2007; however, the land was not also transferred to the buyer, but, rather, was leased to the explosives company, which continued its activities on the site.

SYTHENGRUND GmbH had various assessments carried out about the hazardous materials situation. These assessments revealed that the pollutants plume extending beyond the site borders could not be removed using current technology. The company is therefore focusing its ongoing measures on monitoring and securing the pollutants and supporting research projects into developing more advanced chemical/physical treatment methods. The planned sand removal project has no influence on the grandfathered environmental liabilities situation, as it would not change the spreading direction of the pollutants in the groundwater. The expenses that may be expected for the performance of the necessary work have been estimated by external appraisers at €1.1 million and have therefore been recognised accordingly in the Annual Financial Statements.

(16.3) Miscellaneous provisions

The remaining provisions primarily comprise provisions for complaints and warranties, rebates and price reductions as well as for disposal.

(17) Other financial liabilities

€ THOUSAND	31/12/2013 Total	31/12/2013 Of which long-term	31/12/2012 Total	31/12/2012 Of which long-term
Bonded loans	–	–	32,986	–
Lease liabilities	1,442	847	1,912	1,317
Payments on account received	1,185	–	9,079	–
Liabilities arising from derivatives	6,815	4,676	10,103	7,640
Other financial liabilities	719	10	448	83
Total	**10,161**	**5,533**	**54,528**	**9,040**

The 10-year tranche of €31.0 million shown under the Other financial liabilities underwent early redemption in the course of the current year. The resulting early repayment penalty in the total amount of €2,336 thousand was recognised as interest expense; of this total €1,986 thousand were already allocated to the prior year's result.

The leasing liabilities result from financial leases. Further information concerning finance leases can be found in note (11).

The liabilities originating from derivatives result from transactions intended to hedge interest rate risks. Further details about derivatives can be found in note (37).

(18) Other liabilities

€ THOUSAND	31/12/2013 Total	31/12/2013 Of which long-term	31/12/2012 Total	31/12/2012 Of which long-term
Tax liabilities	11,577	–	7,358	–
Prepaid expenses	123	101	210	123
Other liabilities	302	–	797	–
Total	**12,002**	**101**	**8,365**	**123**

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

The accruals and deferrals include an investment subsidy received by H&R Lube Blending GmbH from the German Federal Land of Lower Saxony. The subsidy, which had been applied for in 1996, was approved in 1998 and constitutes 15% of the investment sum. Recognition takes place on a pro rata temporis basis in accordance with the respective useful life of the subsidised assets.

(19) Pension provisions

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

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

All other retirement provisions are performance-based and result from various take-overs of business areas and activities. These benefits apply exclusively to Germany based companies. All pension plans of the H&R Group are closed or frozen, so that H&R AG is only exposed to risks arising out of pension and salary trends as well as from demographic changes based on existing commitments. With the exception of reinsurance for the pension of a former Director, there are no plan assets, so that there is currently no strategy for the equalisation of risks arising out of either assets or liabilities.

The present H&R AG was formed from the merger of Schmierstoffraffinerie Salzbergen GmbH (SRS GmbH) and H&R AG in 2001. Because of the works agreement on 7 October 1986, all employees taken on by SRS GmbH from Wintershall have a right to company pension benefits in accordance with the Wintershall pension agreement dated 1 January 1987. The works agreement of 9 March 1994 terminated the works agreement of 7 October 1986 effective 30 June 1994, and thereby enacted the pension agreement for the new arrivals. The level of benefits agreed depends essentially on the length of service and the last salary drawn. After the termination of the works agreement of 7 October 1986, the entitlements earned were frozen. The pension entitlements of some pensioners are based on the older Wintershall pension charter.

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

In accordance with the pension agreement at GAUDLITZ GmbH in the version of 18 December

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

At SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH, there is a pension provision dating from 1 January 1986 in the version of the works agreement of 4 June 1998 of Chemie Sythen GmbH. The level of the pensions depends on the number of pension qualifying years of service and on the pension qualifying earnings. The pension scheme was closed in 1992 for people joining the company after 31 July 1991.

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

- Pension regulations for employees of Aral AG on non-union rates dated 24 June 1991
- Pension scheme for employees of Aral AG on union rates dated 15 October 1985
- Aral AG pension regulations 1999
- Pension rules dated 1 January 1980 pursuant to the Central Works Agreement dated 30 November 1979
- Additional pension for shift work in accordance with Letter f of the Pension Regulations of 1 January 1980 pursuant to the Central Works Agreement dated 30 November 1979
- 1988 Pension Regulations based on the Central Works Agreement dated 2 December 1987
- Pension Regulations dated 1 January 1988, Section 13 (Articles 40-46) on the basis of the Central Works Agreement dated 2 December 1987
- Pension plan of Burmah Oil (Germany) GmbH dated 1 January 1992
- Salary conversion in accordance with the ARAL pension regulation model 1999
- Transitional payment regulations Raab Karcher dated 1 March 1989
- Central Works Agreement dated 1 February 1993 (1975 Pension Plan)
- Central Works Agreement dated 1 January 1993 (1986 Pension Plan)
- Central Works Agreement dated 1 February 1993 (1990 Pension Plan)

The pension amount in the above-mentioned plans is determined based on the pension qualifying years of service and on the pensionable monthly remuneration taking into account the minimum qualifying minimum number of years of service.

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

The scope of obligations of H&R Ölwerke Schindler GmbH was taken into consideration as of 31 December 2013 for the individual groups as follows:

€ THOUSAND	31/12/2013	31/12/2012
Group 1	31,908	30,167
Group 3	9,868	10,050

A further category (so-called Group 2) comprises employees of BP who were not taken on by H&R Ölwerke Schindler. For this group of people, H&R Ölwerke Schindler has agreed to reimburse bp for the relevant pension obligations which remain with bp, for an amount of €8,926 thousand. These obligations were netted off in accordance with IAS 1.33 against a receivable from bp from a reimbursement claim for pension obligations assumed amounting to €9,868 thousand, which also arose as part of the takeover of the specialty products business [see note (9)]. The balancing receivable of €942 thousand is shown under receivables from BP in other long-term assets.

The development of the liability due to defined benefit plan can be described as follows:

€ THOUSAND	2013	2012
Status as of 1/1	**63,332**	**56,862**
Current service cost	**719**	**654**
Interest expenses	2,408	2,766
Revaluations	1,176	6,117
Including due to changes in financial assumptions	1,772	6,570
Including due to experiential adjustments	-596	-453
Including due to changes in demographic assumptions	–	–
Payments made	-3,259	-3,067
Status as of 31/12	**64,376**	**63,332**

The plan assets of H&R AG are related to a reinsurance policy for a guaranteed pension of a member of the Board; this policy is recognised at fair value. Planned assets are not listed on any active market. No risks result for H&R AG from these plan assets. Future expected annual contributions of H&R AG to this reinsurance policy amount to €249 thousand and will be due in 2016 for the last time.

The fair value of plan assets developed as follows:

€ THOUSAND	2013	2012
Status as of 1/1	**555**	**315**
Interest income	22	17
Revaluations	-16	-25
Contributions to plan	249	248
Status as of 31/12	**810**	**555**

The development in the carrying amount of the net debt related to benefit oriented pension plans can be described as follows:

€ THOUSAND	2013	2012
Status as of 1/1	**62,777**	**56,547**
Current service cost	719	654
Interest expenses	2,386	2,749
Payments made	-3,259	-3,067
Employee contributions to the plan	-249	-248
Revaluations	1,192	6,142
Including return on plan assets	16	25
Including due to changes in financial assumptions	1,772	6,570
Including due to experiential adjustments	-596	-453
Including due to changes in demographic assumptions	-	-
Status as of 31/12	**63,566**	**62,777**

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

	31/12/2013	31/12/2012
Interest rate	3.7%	3.9%
Salary trends	0.0%/ 0.6%/ 4.0%	0.0%/ 0.6%/ 4.0%
Pension trends	0.0%/ 0.75%/ 1.0%/ 2.0%	0.0%/ 0.75%/ 2.0%
Pensionable age	60/61/63/65	60/61/63/65

The likelihood of leaving is based on the 2005g Heubeck guideline tables. An age-dependent staff turnover probability has been built into the pension provision for employees of H&R Ölwerke Schindler for which tables drawn up by internal experts have been used. By not taking the likelihood of fluctuations into account, the assumption is made by way of simplification that no employee will leave the company before the non-forfeitability deadlines are met and that thereafter the non-forfeitable right to a pension will be exactly financed by the existing provision in each case.

There were no plan changes, curtailments or settlements in financial year 2013.

Payments totalling €3,814 thousand (previous year: €2,701 thousand) are anticipated for this financial year. The duration of the benefit obligations is, on average, 14.1 years.

To the extent that the parameters in the following table should change as stated, this would result in pension obligation changes as shown below.

CHANGE IN BENEFIT OBLIGATIONS

	Change in %	Increase € thousand	Decrease € thousand
Discount rate as of 31/12	0.50	-4,519	5,044
Future salary increases	0.50	483	–
Future pension adjustments	0.25	1,439	–

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 that the actual trend in the commitment will most certainly deviate from these forecasts. In addition, it is unlikely that only one parameter will change, but, rather, in actual fact an interaction of parameter changes can be expected. The sensitivities were calculated with the same method as the recognition of the benefit obligations in the balance sheet. The methods were not changed as compared to the prior year.

All pension plans within the H&R Group are closed, so that no new employees can gain access to them. Only H&R Ölwerke Schindler GmbH still has active employees with a pension claim. For this reason, neither effects from a sinking pension level nor from a downward salary trend are to be expected, so that no sensitivity analysis was undertaken in this regard.

(20) Subscribed capital

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

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

APPROVED CAPITAL. By a decision of the Annual Shareholders' Meeting of 31 May 2011, the Executive Board is entitled, subject to approval by the Supervisory Board, to increase issued capital through one or more issues of ordinary bearer shares without face value in return for cash. Said issuance(s) may occur any time before 30 May 2016, may total up to €1 million in volume (approved capital 2011), and must be for purposes of distributing employee shares to the personnel of the Group and/or its affiliated companies. In this case, shareholders are excluded from the subscription rights.

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the company's share capital by 30 May 2017 by a maximum of €37 million. The issue may take place in one or more tranches in return for cash and/or contributions in kind. Furthermore, with the Supervisory Board's approval, the Executive Board may decide on the conditions of the share issue (approved capital 2012). In principle, the shareholders are to be granted subscription rights. The latest amendment (restriction on the issue of ordinary shares) was entered in the Commercial Register on 10 August 2012.

AUTHORISATION TO PURCHASE OWN SHARES. The company's Annual Shareholders' Meeting on 27 May 2010 authorised the purchase of the company's own shares up to a total of 10 % of the current share capital in the period up to 26 May 2015. Purchasing own shares with the intention of trading them is not permitted. The consideration for the purchase of these shares must not be 10 % higher or lower than the average closing price of H&R AG shares on the Frankfurt Stock Exchanges) on the last five days of trading before the shares are purchased. The company did not purchase any of its own shares either in 2013 or in the previous year.

(21) Capital reserves

Capital reserves include proceeds from the issuance of preferred and ordinary shares in excess of their face value. As the previous year, no corporate actions concerning the capital were carried out in 2013, so that the amount of capital reserves was unchanged at €18,599 thousand.

(22) Revaluation reserves

Revaluation reserves contain reserves for the marking to market of securities in the amount of €131 thousand (previous year: €139 thousand) and for cash flow hedges totalling €-3,747 thousand (previous year: €-4,740 thousand). Expenses after tax recognized outside profit and loss are related to reserves from cash flow hedges of €993 thousand (previous year: €919 thousand) and to the expenses of €8 thousand (previous year: income of €69 thousand) in respect to reserves for the marking-to-market of securities.

(23) Retained earnings

Retained earnings incl. annual Group deficit/surplus amounted to €102,833 thousand as of the reporting date (previous year: €117,724 thousand). The most significant part thereof refers to cumulated retained earnings of €110,450 thousand (previous year: €124,479 thousand).

At the General Meeting of 23 July 2013 it was decided not to distribute dividends from the 2012 Group profits related to commercial law. The Executive Board and the Supervisory Board will submit a proposal to the General Meeting of 13 May 2014, not to distribute dividends for financial year 2013 as no profit worthy of distribution results from the annual financial statements according to commercial law. This proposal depends on the approval of the shareholders at the General Meeting.

(24) Non-controlling interests

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

€ THOUSAND	2013	2012
Status as of 1/1	**-48**	**-46**
Share in capital increase	–	100
Currency translation differences	3	0
Dividends	-26	-24
Share in results	-8	-78
Status as of 31/12	**-79**	**-48**

Notes to the consolidated income statement

(25) Research and development costs

In financial year 2013, research and development activities in the Chemical-Pharmaceuticals Division focused on optimising product qualities 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 concerning new materials in the plastics area as well as research relating to the possibility of increased implementation of plastic components in various sectors.

Expenses incurred in 2013 for research and development amounted to €1,906 thousand (previous year: €2,072 thousand). For further information regarding research and development costs we refer the reader to the pertinent section in the Management Report.

(26) Revenue

Sales revenue – less revenue reductions – is recognised at the time when the service is provided or upon the transfer of risk to the customer. The Segment Report gives an overview of the growth of sales by division and by geographical segment [see note (35)].

(27) Other operating income

€ THOUSAND	2013	2012
Exchange rate gains from foreign currency items	8,659	7,621
Income from services	5,235	2,749
Income from passing on costs	2,877	3,084
Income from release of provisions	2,457	1,307
Income from rents and leases	818	488
Internally produced and capitalised assets	380	552
Income from commissions	356	543
Others	1,472	3,325
Total	**22,254**	**19,669**

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

(28) Cost of materials

€ THOUSAND	2013	2012
Raw materials	810,247	874,041
Supplies	14,472	16,779
Trade goods	114,844	86,437
Expenditure for raw, auxiliary and operating materials and for purchased goods	**939,563**	**977,257**
Energy costs	38,544	38,239
Other external services	3,176	1,864
Total expenditure on purchased services	**41,720**	**40,103**
Total	**981,283**	**1,017,360**

(29) Personnel expenses

€ THOUSAND	2013	2012*
Wages and salaries	60,738	61,796
Social security payments	9,383	9,758
Benefit oriented pension plan expenses	783	799
Contribution oriented pension plan expenses	453	484
Other social security expenses	29	32
Total	**71,386**	**72,869**

* Prior year's values adjusted in accordance with IAS 19R.

Amounts arising from the interest compounding of personnel provisions, particularly pension provisions, are not reported as personnel expenses. They are reported with the interest income/expense as part of the financial result.

AVERAGE NUMBER OF EMPLOYEES

	2013	2012
ChemPharm Domestic	626	642
ChemPharm International	193	196
Plastics	569	560
Others	28	43
Total	**1,416**	**1,441**

(30) Other operating expenses

€ THOUSAND	2013	2012
Freight costs, dispatch systems and other distribution costs	20,371	21,324
Third-party goods and services	11,896	16,952
Third-party repairs and maintenance	11,056	11,857
Loss from foreign currency translation	8,734	8,946
Rents and leases	8,015	8,281
IT costs	6,553	3,069
Legal and consultancy costs, costs for year-end accounts and shareholders' meeting	6,098	7,363
Other personnel costs	3,457	4,054
Commissions	3,076	3,547
Insurance premiums, fees and contributions	2,944	3,428
Costs passed on	2,847	2,982
Leasing costs	2,276	2,291
Travel expenses	895	1,424
Waste disposal	599	805
Waste and shortages	388	745
Others	6,008	5,855
Total	**95,213**	**102,923**

(31) Net interest result

€ THOUSAND	2013	2012
Interest income from short-term bank deposits	267	369
Income from loans	13	28
Other interest and similar income	29	17
Interest income	**309**	**414**
Interest expense relating to loan interest	-6,301	-10,450
Interest expenses from derivatives	-2,714	-2,992
Interest expense from the compounding of pension provisions	-2,385	-2,766
Early repayment fee	-350	-1,986
Credit commission	-795	-970
Other interest and similar income	-3,927	-3,537
Total interest expense	**-16,472**	**-22,701**
Net interest expense	**-16,163**	**-22,287**

These include financial instruments broken down by the valuation categories of IAS 39:

€ THOUSAND	2013	2012
Loans and Receivables (LaR)	297	409
Financial Instruments Held for Trading (FAHfT und FLHfT)	-4,039	-2,988
Financial Liabilities Measured at Amortised Costs (FLAC)	-9,659	-16,490

(32) Other financial result

€ THOUSAND	2013	2012
Derivatives	3,563	-1,562
Other financial expenses	-163	-55
Other financial income	25	19
Total	**3,425**	**-1,598**

(33) Taxes on earnings and income

Since 1 January 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 12.74% (prior year: 12.49%), this amounts to a combined income tax rate for the Group in Germany of 28.56% (prior year: 28.31%). Income tax rates for companies abroad are between 17% and 30%. The interest due on follow-up tax payments has been included in interest expense. Deferred income tax expense includes changes in deferred tax assets and liabilities.

Taxes on income paid or owed in individual countries as well as tax accruals and deferrals are shown as income taxes. They are made up as follows:

€ THOUSAND	2013	2012
Current income tax expenses	-4,274	-6,239
Current income tax refunds	236	313
Total current taxes	**-4,038**	**-5,926**
Deferred taxes from timing differences	753	-493
Deferred taxes from loss carry-forwards	6,097	5,186
Total deferred taxes	**6,850**	**4,693**
Total	**2,812**	**-1,233**

*Prior year's values adjusted in accordance with IAS 19R.

In accordance with IAS 12.34, the tax effect of a loss carried forward as of the reporting date is capitalised if it is sufficiently probable that there will in future be enough taxable profits to offset against the loss. In financial year 2013, the H&R AG tax entity incurred a loss, so that in relation to the resulting loss carry-forwards of the entity, deferred taxes of €11,193 thousand (prior year: €5,074 thousand) were recognised. Moreover, in Group companies that had returned a loss in the prior or the current year, deferred tax assets in the amount of €284 thousand were capitalised. The utilisation of the deferred tax assets is secured since there will be sufficient profits in future exceeding the effects on the result from the reversal of temporary differences.

As a result of revaluations of benefit oriented pension liabilities, deferred tax assets in the amount of €387 thousand (prior year: €1,900 thousand) were recognised in the other profit/loss position without profit and loss effect. The change in deferred taxes based on the valuation of derivatives held for hedging purposes (cash flow hedges) led to a reduction in the other profit/loss position of €10 thousand (prior year: increase of €540 thousand). Due to the end of hedge accounting of derivatives, deferred taxes were reclassified into profit and loss leading to a decrease of total income of €364 thousand (prior year: €185 thousand). The change in financial assets available for sale to be valued at fair value led to a change in the deferred taxes recognised as non-profit and lossprofit and loss effective as other profit/loss in the amount of €2 thousand (prior year: €-27 thousand).

Besides the capitalised deferred tax losses carried forward, there are also corporation tax losses carried forward in the amount of €5,067 thousand (previous year: €5,920 thousand) and trade tax losses carried forward of €231 thousand (previous year: €93 thousand), whose realisation is not sufficiently guaranteed and for which no deferred tax claims have therefore been recognised. The losses carried forward are non-forfeitable according to the current legal situation.

Deferred tax liabilities were not recognised in connection with timing differences on retained earnings of subsidiaries of €88,118 thousand (previous year: €123,367 thousand) because the H&R Group is able to control the timing of the difference reversal and the temporary differences will not reverse in the foreseeable future. Deferred tax liabilities were not recognised for planned dividends because the amounts are not material.

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

€ THOUSAND	2013	2012*
Earnings before taxes	**-16,849**	**1,612**
Theoretical income tax expense 28.56% (prior year: 28.31%)	**-4,812**	**456**
Effects from tax rate differences	-1,005	-502
Effects from previous years' taxes	2,109	1,136
Tax effects from the reversing of deferred taxes	63	-432
Non-deductible operating expenses	697	851
Goodwill Impairment	-217	-
Tax-free income	-7	-894
Foreign withholding tax	275	123
Other tax effects	85	495
Income tax expense per Group income statement	**-2,812**	**1,233**

* Prior year's values adjusted in accordance with IAS 19R.

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

	31/12/2013		31/12/2012*	
€ THOUSAND	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	866	4,235	1,318	3,995
Fixed assets	288	4,769	259	7,374
Financial assets	461	497	812	281
Inventories	154	60	708	304
Receivables and other assets	262	143	280	626
Provisions for pensions	5,824	–	5,531	3
Other provisions	830	72	649	66
Liabilities	2,374	302	2,876	290
Tax losses carried forward	11,446	–	6,102	–
Subtotal	**22,505**	**10,078**	**18,535**	**12,939**
of which long-term	9,820	9,698	11,344	12,363
Netting	-9,308	-9,308	-12,471	-12,471
Total	**13,197**	**770**	**6,064**	**468**

* Prior year's values adjusted in accordance with IAS 19R.

(34) Earnings per share

€ THOUSAND	2013	2012*
Net profit/loss to shareholders in thousand €	-14,029	457
Ordinary shares	29,973,112	29,973,112
Earnings per share undiluted in €	-0.47	0.02
Earnings per share diluted in €	-0.47	0.02

* Prior year's values adjusted in accordance with IAS 19R.

Potential diluting effects could arise from the approved capital reported under note (20) "Subscribed capital".

Additional notes

(35) Segment reporting

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

The summary listing of the operating segments subject to separate, internal reporting is performed in accordance with IFRS 8.12, which stipulates that all of the following must be comparable within each segment: 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 Chemical-Pharmaceutical Raw Materials Domestic segment includes both chemical production locations in Germany, where lubricant refining takes place and where the production processes as well as the organisational and distribution structures are closely interlinked. This segment's main products are paraffins, white oils, plasticisers, base oils, lubricants and other crude oil-based specialty products.

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

The Plastics Division comprises the development, manufacture and sales of highly precise plastic parts produced using the injection moulding method.

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

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

The operating development of the segments and further information on their products and activities are described in the combined Management Report.

REMARKS CONCERNING SEGMENTAL DATA. Intercompany sales report the level of sales between the segments. Sales and proceeds between the segments are essentially accounted for on an arm's length basis. The sum of external and internal sales provides the segmental sales figure.

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

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

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

	Chemical and Pharmaceutical Raw Materials			
	Chemical and Pharmaceutical Raw Materials Domestic		Chemical and Pharmaceutical Raw Materials International	
€ THOUSAND	2013	2012	2013	2012
External sales	920,040	919,184	231,678	254,137
Intercompany sales	20,984	33,041	–	–
Sales by segment	941,024	952,225	231,678	254,137
Depreciation, amortization and impairments	-32,177	-19,012	-1,538	-1,783
of which impairment losses	-12,077	–	–	–
Interest income	33	32	263	306
Interest expenses	-13,302	-14,425	-1,201	-1,358
Earnings before income taxes*	-24,830	-280	14,004	16,421
EBIT	-11,562	14,112	14,942	17,473
EBITDA*	20,615	33,124	16,480	19,256
Assets*	353,500	395,124	84,758	87,225
Debts*	127,467	75,794	25,691	19,622
Capital expenditures	11,983	30,813	533	1,774
Result of shareholdings reported at-equity	284	287	–	–
Holdings in affiliates valued with the at-equity method	738	742	–	–

* Prior year's values adjusted in accordance with IAS 19R.

H&R AG generated sales of €639.4 million with one customer in the Chemical-Pharmaceutical Raw Materials Domestic Segment (previous year: €420.0 million).

GEOGRAPHICAL INFORMATION

	Assets long-term		External sales	
€ THOUSAND	31/12/2013	31/12/2012	2013	2012
Germany	204,221	223,221	836,768	819,968
Rest of Europe	4,838	8,462	166,589	177,517
Rest of world	24,400	27,305	211,039	231,460
Group	**233,459**	**258,988**	**1,214,396**	**1,228,945**

RECONCILIATION OF THE OPERATING RESULT TO THE CONSOLIDATED INCOME AFTER TAXES

€ THOUSAND	2013	2012*
Operating result of segments (EBITDA)	37,758	51,532
Reconciliation/Consolidation	-5,135	-2,166
Operating result of H&R AG (EBITDA)	**32,623**	**49,366**
Depreciation	-36,734	-23,869
Financial result	-12,738	-23,885
Income Taxes	2,812	-1,233
Income after taxes	**-14,037**	**379**

* Prior year's values adjusted in accordance with IAS 19R.

Plastics		Reconciliation					
Plastics		Others		Consolidation/Reconciliation		Total	
2013	2012	2013	2012	2013	2012	2013	2012
62,678	55,624	–	–	–	–	1,214,396	1,228,945
–	–	–	–	-20,984	-33,041	–	–
62,678	55,624	–	–	-20,984	-33,041	1,214,396	1,228,945
-2,215	-2,129	-804	-945	–	–	-36,734	-23,869
–	–	–	–	–	–	-12,077	–
6	14	12,809	13,990	-12,802	-13,928	309	414
-1,576	-1,387	-13,195	-19,459	12,802	13,928	-16,472	-22,701
-3,259	-4,366	-3,046	-11,192	282	1,029	-16,849	1,612
-1,552	-2,977	-6,221	-4,140	282	1,029	-4,111	25,497
663	-848	-5,417	-3,195	282	1,029	32,623	49,366
37,964	38,543	27,510	15,433	90,924	86,784	594,656	623,109
8,561	8,708	14,816	39,855	228,959	265,847	405,494	409,826
610	3,263	21	842	–	–	13,147	36,692
–	–	85	–	–	–	369	287
–	–	185	100	–	–	923	842

(36) Explanations on the consolidated statement of cash flows

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

The statement of cash flows divides the payment streams into the three areas of operating business, investment activity and financing activity.

The reported financial resources consist of bank deposits, cash positions and cheques.

Net operating expenses, earnings and income from the sale of assets are eliminated from the cash flow from operating activities. Interest paid and interest received as well as income tax paid are allocated to this area. Cash flow from operating activities is calculated using the indirect method.

Cash flow from investment activities includes net investments in intangible, fixed and financial assets, including holdings consolidated for the first time in the financial year.

Cash flow from financing activity includes new and redeemed financial liabilities and liabilities from financial leasing and dividend payments.

The general form of presentation of the statement of cash flows and the utilisation of reporting options are unchanged from the previous period.

The cash flow statement is supplemented by a cash reconciliation.

(37) Financial instruments

(37.1) General Information

The original financial instruments primarily comprise other financial investments, receivables, short-term securities and cash and cash equivalents on the assets side. Financial assets available for disposal are reported at fair value. Other financial assets are reported at historical costs. The fair values of financial assets available for disposal are derived from the stock market prices or are calculated on the basis of recognised valuation methods. In the case of other financial assets, we work on the assumption that fair value corresponds to the book value.

On the liabilities side, financial instruments mainly contain liabilities valued at historical cost. The stock of financial instruments is reported in the balance sheet. The level of the financial assets corresponds to the maximum default risk. If default risks are identifiable with respect to financial assets, these risks are reported using value adjustments.

On the liabilities side, financial instruments mainly contain liabilities valued at historical cost. The stock of financial instruments is reported in the balance sheet. The level of the financial assets corresponds to the maximum default risk. If default risks are identifiable with respect to financial assets, these risks are reported using value adjustments.

As an international company, in the course of its ordinary business activities the H&R Group is exposed to risks from raw material prices, currency fluctuations and interest rate changes. Details concerning the risk management system used to deal with these risks can be found in note (46), Risk Management Policy, Capital Management and Hedging Measures.

(37.2) Information concerning derivatives

Derivative financial instruments are employed to hedge foreign exchange risks from the operating business and risks from changes in interest rates related to financing transactions. The types of instruments employed are primarily foreign currency forward transactions as well as interest rate hedging transactions such as caps and interest-rate swaps.

If the derivative is a component of a hedging contract (cash flow hedge) pursuant to IAS 39, a fair value modification of these derivatives is reported in other profit/(loss) without any impact on earnings until the underlying transaction is realised. The ineffective portion of these hedging transactions is reported in each case through the income statement in interest earnings. The result from the hedging transaction is booked out of equity and through the income statement at the time when the underlying transaction is realised.

There were no balance sheet based hedging operations as at 31 December 2013. In the prior year, hedging relationships for the interest rate swaps previously recognised as cash flow hedges ceased to exist because the criteria for their effectiveness were no longer met.

The following tables show the reported fair values of the various derivative financial instruments as of 31 December 2013 and 31 December 2012.

DERIVATIVES WITHOUT HEDGE ACCOUNTING 2013

	Nominal value		Currency	Maturity	Carrying amounts 31/12/2013 € thousand
Interest rate swap	€ thousand	40,000	€	to 2016	-2,338
Interest rate swap	€ thousand	40,000	€	to 2018	-3,942
Interest rate swap	€ thousand	10,000	€	to 2014	-187
Interest rate swap	€ thousand	5,000	€	to 2014	-95
Interest rate swap	€ thousand	5,000	€	to 2014	-95
Currency forward	US$ thousand	12,078	$	to 2014	-158

DERIVATIVES WITHOUT HEDGE ACCOUNTING 2012

	Nominal value		Currency	Maturity	Carrying amounts 31/12/2012 € thousand
Interest rate swap	€ thousand	40,000	€	to 2016	-4,008
Interest rate swap	€ thousand	40,000	€	to 2018	-5,213
Currency forward	MYR thousand	2,500	MYR	to 2013	-36
Interest rate swap	€ thousand	10,000	€	to 2014	-419
Interest rate swap	€ thousand	5,000	€	to 2014	-214
Interest rate swap	€ thousand	5,000	€	to 2014	-213

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

All subsequent changes in the fair value of the derivatives will be recognised immediately in profit or loss. As of 31 December 2013 the amount recognised in comprehensive income up to the end of the hedging relationship was €5,245 thousand. It will be reversed through profit or loss over the remaining life of the derivatives. In financial year 2013, expenses arising from the reclassification to earnings for the period came to €1,330 thousand (previous year: €656 thousand). Correspondingly, pro rata deferred taxes amounting to €363 thousand (previous year: €186 thousand) were recognised as tax income.

In the 2013 financial year, the net profit on financial instruments measured at fair value through profit or loss totalled €3,410 thousand (previous year: net loss of €1,432 thousand). No reclassifications were made from equity to a non-financial asset or non-financial liability.

The hedging instruments were entered into based on a 3-month EURIBOR rate, which as of the balance sheet date of 31 December 2013 was quoted at 0.287%. An increase in the 3-month EURIBOR of an average of 100 basis points would have a positive earnings effect of €1,624 thousand (previous year: €2,029 thousand) on the hedged loans while a decline in the EURIBOR of 50 basis points would have a negative earnings effect of €1,624 thousand (previous year: €2,029 thousand).

(37.3) Maturity analysis

The H&R Group's liquidity risk consists of contractually agreed obligations to make future interest rate and amortisation payments for financial liabilities and derivative financial instruments.

The maturities of these undiscounted payment streams are shown in the table below:

2013

		Cash flows 2014		Cash flows 2015	
€ THOUSAND	Book value	Interests	Redemption	Interests	Redemption
Trade accounts payable	121,743	-	121,743	–	–
Liabilities to banks	181,541	5,211	13,312	4,867	9,455
Finance lease liabilities	1,442	64	595	19	470
Liabilities arising out of derivatives without balance sheet based hedging relationships	6,815	2,644	2,138	2,275	1,604
Other financial liabilities	1,904	2	1,895	1	4

2013

	Cash flows 2016-2018		Cash flows 2019-2023		Cash flows 2024 ff.	
€ THOUSAND	Interest	Amortisation	Interest	Amortisation	Interest	Amortisation
Trade payables	–	–	–	–	–	–
Liabilities to banks	9,076	145,024	518	13,750	–	–
Finance lease liabilities	16	377	–	–	–	–
Liabilities arising out of derivatives without balance sheet based hedging relationships	4,532	3,073	–	–	–	–
Other financial liabilities	–	3	–	2	–	–

2012

€ THOUSAND	Book value	Cash flows 2013 Interests	Cash flows 2013 Redemption	Cash flows 2014 Interests	Cash flows 2014 Redemption
Trade accounts payable	61,667	–	61,667	–	–
Liabilities to banks	203,251	11,521	69,598	3,778	2,924
Finance lease liabilities	1,912	68	595	48	470
Liabilities arising out of derivatives without balance sheet based hedging relationships	10,103	–	2,463	–	2,668
Other financial liabilities	42,513	1,557	42,430	5	30

2012

€ THOUSAND	Cash flows 2015-2017 Interests	Cash flows 2015-2017 Redemption	Cash flows 2018-2022 Interests	Cash flows 2018-2022 Redemption	Cash flows 2023 ff. Interests	Cash flows 2023 ff. Redemption
Trade payables	–	–	–	–	–	–
Liabilities to banks	8,829	74,088	1,576	56,641	–	–
Finance lease liabilities	35	847	–	–	–	–
Liabilities arising out of derivatives without balance sheet based hedging relationships	–	4,462	–	510	–	–
Other financial liabilities	3	51	–	2	–	–

(37.4) 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 reported at actual cash value and others valued at historical cost.

The following table shows the book values of the individual financial instruments and liabilities for each individual financial instrument category. Together with the details of the financial instruments reported at fair value, the reconciliation against the balance sheet items serves to give the reader an insight into the type and nature of the financial instruments held by H&R AG.

31/12/2013

€ THOUSAND	Valuation category according to IAS 39	Book value	Balance sheet valuation acc. to IAS 39: Acquisition costs carried forward	Balance sheet valuation acc. to IAS 39: Fair Value without impact on net income	Balance sheet valuation acc. to IAS 39: Fair Value with impact on net income	balance sheet assumptions according to IAS 17	Fair value (for information)
Assets							
Cash and cash equivalents	LaR	109,624	109,624	–	–	–	109,624
Trade accounts receivables	LaR	109,725	109,725	–	–	–	109,725
Other financial assets							
Loans and receivables	LaR	1,721	1,721	–	–	–	1,721
Other securities short-term	FAHfT	297	–	–	297	–	
Financial assets available for sale	AfS	2,048	1,055	993	–	–	2,048
Other financial assets	LaR	889	889	–	–	–	889
Liabilities							
Trade accounts payables	FLAC	121,743	121,743	–	–	–	121,743
Liabilities to banks	FLAC	181,541	181,541	–	–	–	189,656
Other financial liabilities							
Finance lease liabilities		1,442	–	–	–	1,442	
Derivatives without hedging relationship	FLHfT	6,815	–	–	6,815	–	
Other financial liabilities	FLAC	719	719	–	–	–	719
Loans and receivables	LaR	221,959	221,959	–	–	–	
Financial assets available for sale	AfS	2,048	1,055	993	–	–	
Financial assets held for trading	FAHfT	297	–	–	297	–	
Financial liabilities measured at amortised costs	FLAC	304,003	304,003	–	–	–	
Financial liabilities held for trading	FLHfT	6,815	–	–	6,815	–	

31.12.2012

€ THOUSAND	Valuation category according to IAS 39	Book value	Balance sheet valuation acc. to IAS 39: Acquisition costs carried forward	Fair Value without impact on net income	Fair Value with impact on net income	balance sheet assumptions according to IAS 17	Fair Value (for information)
Assets							
Cash and cash equivalents	LaR	89,588	89,588	–	–	–	89,588
Trade accounts receivables	LaR	69,952	69,952	–	–	–	69,652
Other financial assets							
Loans and receivables	LaR	2,081	2,081	–	–	–	2,081
Other securities short-term	FAHfT	252	–	–	252	–	
Financial Assets Available for Sale	AfS	2,058	1,055	1,003	–	–	2,058
Other financial assets	LaR	227	227	–	–	–	227
Passiva							
Trade accounts payables	FLAC	61,667	61,667	–	–	–	61,667
Liabilities to banks	FLAC	203,251	203,251	–	–	–	210,990
Other financial liabilities							
Bonded loans	FLAC	32,986	32,986	–	–	–	33,900
Finance lease liabilities		1,912	–	–	–	1,912	
Derivatives without hedging relationship	FLHfT	10,103	–	–	10,103	–	
Other financial liabilities	FLAC	448	448	–	–	–	448
Loans and Receivables	LaR	161,848	161,848	–	–	–	
Financial Assets Available for Sale	AfS	2,058	1,055	1,003	–	–	
Financial Assets Held for Trading	FAHfT	252	–	–	252	–	
Financial Liabilities Measured at Amortised Costs	FLAC	298,352	298,352	–	–	–	
Financial Liabilities Held for Trading	FLHfT	10,103	–	–	10,103	–	

Since trade account receivables and trade account payables, other financial assets and other financial liabilities as well as cash and cash equivalents generally have short-term maturities, their fair value will not deviate significantly from their carrying amount as of the reporting date. The actual cash value of other long-term receivables and liabilities with remaining maturities of more than one year will correspond to the cash value of their associated payments, subject to the relevant interest-rate parameter.

NET RESULTS BY VALUATION CATEGORY. The expenses, income, profits and losses arising from financial instruments can be broken down as follows:

€ THOUSAND	2013	2012
Loans and Receivables (LaR)	-17	-346
Financial Instruments Held for Trading (FAHfT und FLHfT)	3,280	-3,618
Financial Liabilities Measured at Amortised Costs (FLAC)	136	-22
Total	**3,399**	**-3,986**

The total net profit amounting to €3,399 thousand does not include any interest or dividends.

(37.5) Additional information concerning financial instruments

GAUDLITZ GmbH holds financial assets for sale in the form of securities reported at fair value as of the reporting date. The reported market value was €991 thousand (previous year: €1.001 million).

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

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

€ THOUSAND	31/12/2013 Level 1	31/12/2013 Level 2	31/12/2013 Level 3	31/12/2012 Level 1	31/12/2012 Level 2	31/12/2012 Level 3
Assets						
Financial Assets Available for Sale	991	–	–	1,002	–	–
Financial Assets Held for Trading	297	–	–	252	–	–
Total	**1,288**	**–**	**–**	**1,254**	**–**	**–**
Liabilities and equity						
Derivatives without hedging relationship	–	6,815	–	–	10,103	–
Total	**–**	**6,815**	**–**	**–**	**10,103**	**–**

The Level 2 financial liabilities are interest rate swaps carried on the balance sheet at their fair value. The fair values are determined by means of interest rate curves observable on the market. There were no reclassifications among the individual levels in financial year 2013.

The following table represents the allocation of the fair values of the financial instruments carried on the balance sheet at book value to the different levels:

ALLOCATION OF FAIR VALUES OF FINANCIAL INSTRUMENTS

€ THOUSAND	31/12/2013 Level 1	31/12/2013 Level 2	31/12/2013 Level 3	31/12/2012 Level 1	31/12/2012 Level 2	31/12/2012 Level 3
Liabilities and equity						
Liabilities to banks	–	189,656	–	–	210,990	–
Bonded loans	–	–	–	–	33,900	–
Total	**–**	**189,656**	**–**	**–**	**244,890**	**–**

The fair values are determined by means of interest rate curves observable on the market. The expected payment flows were appropriately discounted. There were no reclassifications among the individual levels in financial year 2013.

No offsetting between financial assets and financial liabilities took place as no netting agreements were in existence.

For the presentation of market risks, IFRS 7 demands sensitivity analyses showing the impact of hypothetical changes in relevant risk variables on earnings and equity. This assumes that the position on the reporting date is representative of the whole year.

The open foreign currency positions of the most significant foreign currencies as of the reporting date are documented below.

31/12/2013

		US$ thousand	GBP thousand	SAR thousand	AUD thousand	THB thousand
Cash and cash equivalents	+	3,529	2,124	30,480	5,849	810,880
Trade accounts receivable	+	12,058	1,532	160,173	5,374	220,552
of which currency hedged	-	9,209	–	–	–	–
Financial liabilities	-	2,001	931	129,710	1,987	333,411
Net exposure	=	**4,377**	**2,725**	**60,943**	**9,236**	**698,021**

31/12/2012

		US$ thousand	GBP thousand	SAR thousand	AUD thousand	THB thousand
Cash and cash equivalents	+	7,211	539	39,095	3,690	400,695
Trade accounts receivable	+	10,258	1,409	124,382	5,504	71,803
of which currency hedged	-	6,931	–	–	–	–
Financial liabilities	-	5,022	421	108,847	1,126	154,962
Net exposure	=	**5,516**	**1,527**	**54,630**	**8,068**	**317,536**

For the currency risk, a sensitivity analysis is carried out using the US dollar as an example, as this is the most important foreign currency for the Group. The indirect quotation for the US dollar against the euro stood at US$1.38/€ as of 31 December 2013, as against US$1.32/€ as of 31 December 2012. Assuming a realistic range of fluctuation of +/-10% in the exchange rate as of the reporting date, the impact in terms of profit (+) or loss (-) would be as follows:

€ THOUSAND	2013		2012	
	US$ 1.24/€	US$ 1.52/€	US$ 1.20/€	US$ 1.45/€
Impact (before taxes)	353	-289	465	-380

A sensitivity analysis for interest rate risk is performed for loans with floating interest rates. As of the reporting date 31 December 2013 all floating rate loans were hedged against the effects of any changes in interest rates using appropriate instruments. Further information on this topic can be found in note (37.2).

In the operating business, the outstanding balances are continuously monitored at the divisional level, i.e. locally. Insofar as the Hansen & Rosenthal Group handles sales, details are also integrated into their monitoring system. Default risks are addressed by individual impairments and flat-rate impairments (additions).

Non-recoverable receivables are booked out and the difference is posted to the impairment account (used). When a doubtful receivable is realised, the previous impairment is cancelled (reversal).

The maximum default risk is given by the book values of the financial assets reported in the balance sheet, including free-standing derivatives with a positive market value. As of the reporting date, there are no material agreements in place that reduce the maximum default risk.

(38) Order commitments

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

€ THOUSAND	31/12/2013	31/12/2012
Fixed assets	3,686	6,022
Intangible assets	141	37
Total	**3,827**	**6,059**

(39) Contingent liabilities

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

€ THOUSAND	31/12/2013	31/12/2012
Deposits for guarantees	1,187	1,187
Joint liability for pensions	72	81
Total	**1,259**	**1,268**

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

Subsoil contaminated with harmful substances used in connection with explosives production was already discovered some time ago on a piece of land belonging to a Group company, which was used to produce explosive materials. Investigations found that the pollutants were unable to be removed using current technology. The company is therefore focusing its ongoing measures on monitoring and securing the pollutants and supporting research projects into developing more advanced chemical/physical treatment methods. Based on expert's estimations, a provision of €1.1 million was constituted with regard to the necessary measures and their costs. It is currently unclear if new methods will be developed in the future that would allow a clean-up to take place and therefore generate additionally necessary expenses. This circumstance is subject to a current surveillance by the Board. Negotiations with the county of Recklinghausen as the regulation authority are also being carried on to limit the risks of accountability to the current market value of the estate.

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

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

On the basis of its supposed involvement in the cartel, H&R ChemPharm GmbH has been included in litigation by three of the defendants in the course of claims for damages brought by candle manufacturers against members of the wax cartel before courts in England and the Netherlands. In the meantime, both in England and in the Netherlands settlements were reached without acknowledgment of a legal tort and without prejudice in order to limit the costs.

(40) Other financial obligations

The financial obligations resulting from long-term rental and lease contracts as well as other obligations stretching over several years, become apparent from the following table (nominal amounts):

€ THOUSAND	31/12/2013	31/12/2012
Due within one year	8,164	13,042
Due > 1 year and < 5 years	11,401	14,664
Due > 5 years	23,929	24,669
Total	**43,494**	**52,375**

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

In addition, other financial liabilities at the Salzbergen location include contracts for the delivery of natural gas, compressed air and nitrogen as well as maintenance and servicing contracts regarding the process control system.

(41) Governance bodies of H&R AG

EXECUTIVE BOARD

	Membership of Supervisory or Advisory Boards
Niels H. Hansen Chairman of the Executive Board Hamburg	
Luis Rauch Chief Financial Officer (until 31/8/2013) Hamburg	
Detlev Wösten Deputy Chairman Refineries Buchholz	

SUPERVISORY BOARD

	Membership of Supervisory or Advisory Boards
Dr. Joachim Girg Chairman of the Supervisory Board, Managing Director of H&R Beteiligung GmbH, Hamburg	Member of the Supervisory Board of Hamburger Getreide-Lagerhaus Aktiengesellschaft, Hamburg
Roland Chmiel Deputy Chairman Auditor, Partner of Partnership Weiss-Walter-Fischer-Zernin, Munich	Member of the Supervisory Board of Togal Werk AG, Munich
Nils Hansen Managing partner of companies of the H&R Group, Hamburg	Member of the Supervisory Board of Otto M. Schröder Bank Aktiengesellschaft, 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 and Training and Services mbH, Berlin
Anja Krusel (since 31.05.2012) CFO of Microsoft Deutschland GmbH, Munich	
Dr. Hartmut Schütter (since 31/5/2013) Consulting Engineer, Schwedt/Oder	

SUPERVISORY BOARD (EMPLOYEE REPRESENTATIVES)

	Membership of Supervisory or Advisory Boards
Reinhold Grothus Chairman of the Works Council H&R ChemPharm GmbH, Salzbergen	
Rainer Metzner Sales Manager - Medical Chairman of the Works Council GAUDLITZ GmbH, Coburg	
Harald Januszewski GAUDLITZ GmbH, Coburg	

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

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

The following goods and services have been rendered for related companies and persons who might exercise a significant degree of influence, or utilised by them:

TRANSACTIONS WITH HANSEN & ROSENTHAL

€ THOUSAND	Transactions to Hansen & Rosenthal 2013	Transactions to Hansen & Rosenthal 2012	Transactions from Hansen & Rosenthal 2013	Transactions from Hansen & Rosenthal 2012
Supplies of chemical pharmaceutical products	639,382	420,012	28,496	9,122
of which Salzbergen	227,290	251,012	–	–
of which Hamburg	395,633	155,266	–	–
Ancillary costs from delivery transactions (freight costs, road tolls, etc.)	–	177	4,802	5,395
Commission fees	528	699	1,935	2,234
Other services and passed-through third party related costs (e.g. EDP services and personnel costs)	6,385	1,918	169	2,481

All companies of the majority shareholder Nils Hansen, including H&R Beteiligung GmbH as the controlling company, are pooled under Hansen & Rosenthal (H&R). In the current year there were no business events involving H&R Beteiligung GmbH. In the prior year, dividends amounting to €9,003 thousand were paid to H&R Beteiligung.

The supply of goods for chemical-pharmaceutical products from the Salzbergen site takes place under a long-term distribution and supply contract, by which the relevant Hansen & Rosenthal company purchases the products and then resells them to end customers in its own name and for its own account. In addition, Hansen & Rosenthal receive a commission fee for deliveries from the Hamburg site included in a long-term commission contract for marketing of certain products. Moreover, IT as well as staffing services are provided to the Hansen & Rosenthal Group by subsidiaries of the H&R Group.

The following receivables and liabilities existed as of 31 December 2013:

RECEIVABLES AND LIABILITIES DUE TO HANSEN & ROSENTHAL

€ THOUSAND	Receivables from Hansen & Rosenthal 31/12/2013	Receivables from Hansen & Rosenthal 31/12/2012	Liabilities to Hansen & Rosenthal 31/12/2013	Liabilities to Hansen & Rosenthal 31/12/2012
Goods and services	25,956	14,701	3,517	631
Other services	36,404	7,212	86	–
Total	**62,360**	**21,913**	**3,603**	**631**

Trade account receivables from Hansen & Rosenthal in the amount of €7,416 thousand were sold to banks as part of factoring agreements without recourse.

Other receivables mainly concern receivables from the commission business (€36,398 thousand, previous year: €7,106 thousand), where Hansen & Rosenthal, as commission agent, receives payments from customers and forwards them to H&R AG.

The following services were rendered for joint ventures, or utilised by them:

TRANSACTIONS WITH JOINT VENTURES

	Provided to joint ventures		Received from joint ventures	
€ THOUSAND	2013	2012	2013	2012
Purchase of hydrogen and steam	–	–	1,566	1,684
Interest income	6	11	–	–
Rental income	41	41	–	–
Services	1,578	232	4,513	–
Total	**1,625**	**284**	**6,079**	**1,684**

The following receivables and liabilities existed as of 31 December 2013:

RECEIVABLES AND LIABILITIES DUE TO JOINT VENTURES

	Receivables from joint ventures		Liabilities owed to joint ventures	
€ THOUSAND	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Goods and services	281	242	189	176
Other services	535	252	–	–
Total	**816**	**494**	**189**	**176**

SUPERVISORY BOARD AND EXECUTIVE BOARD. For fulfilling their tasks, the members of the Supervisory Board received a total of €1,402 thousand (previous year: €1,179 thousand). Of this sum, the performance-related element of the remuneration accounted for €276 thousand (previous year: €182 thousand). Former members of the Executive Board and their surviving dependants received a total remuneration of €233 thousand (previous year: €242 thousand). For former members of the Executive Board and their surviving dependants, the pension commitments totalled €3,289 thousand (previous year: €3,291 thousand).

The remuneration of the individual members of the Executive Board and the Supervisory Board of H&R AG is composed as follows:

EXECUTIVE BOARD REMUNERATION

	Niels H. Hansen		Luis Rauch		Detlev Wösten		Total	
	Chairman of the Executive Board		Chief Financial Officer		Deputy Director			
	since 1 January 2012		Member of the Executive Board from 1 January 2012 to 31 August 2013		since 1 August 2011			
IN €	2013	2012	2013	2012	2013	2012	2013	2012
Fixed compensation*	284,702	356,586	294,933	407,106	194,077	206,586	773,712	970,278
Fringe benefits**	251	251	337,770	11,112	14,741	14,468	352,762	25,831
Subtotal	**284,953**	**356,837**	**632,703**	**418,218**	**208,818**	**221,054**	**1,126,474**	**996,109**
Variable remuneration	74,375	80,762	75,000	57,688	126,500	43,601	275,875	182,051
Total	**359,328**	**437,599**	**707,703**	**475,906**	**335,318**	**264,655**	**1,402,349**	**1,178,160**

* Pursuant to the resolution of the meeting of the Supervisory Board of 22 August 2013, the Executive Board waived 15% of its fixed remuneration for the months of August through December 2013 included.
**This sum also includes use of company cars and accident insurance contributions as well as payments in relation to the leaving compensation Executive Board member Luis Rauch amounting to € 330 thousand.
*** The Executive Board did not reeceive any long-term variable remuneration for years 2012 and 2013.

In the financial year, the members of the Supervisory Board received a total of €264 thousand (previous year: €285 thousand).

SUPERVISORY BOARD REMUNERATION

	Fixed remuneration		Remuneration for Supervisory Board activities		Variable remuneration		Total	
IN €	2013*	2012	2013	2012	2013	2012	2013	2012
Dr Joachim Girg (Chairman)	56,250	47,541	20,000	11,107	–	–	76,250	58,648
Roland Chmiel (Deputy Chairman)	28,125	21,639	15,000	12,910	–	–	43,125	34,549
Nils Hansen	18,750	20,000	10,000	13,811	–	–	28,750	33,811
Dr Rolf Schwedhelm	18,750	20,000	2,500	3,770	–	–	21,250	23,770
Anja Krusel	18,750	11,694	7,500	3,689	–	–	26,250	15,383
Dr. Hartmut Schütter (since 23/7/2013 onwards)	7,572	–	1,555	–	–	–	9,127	–
Reinhold Grothus	18,750	20,000	2,500	1,230	–	–	21,250	21,230
Harald Januszewski	18,750	11,694	–	–	–	–	18,750	11,694
Rainer Metzner	18,750	20,000	–	–	–	–	18,750	20,000
Former members								
Bernd Günther[1] (until 31/5/2012)	–	24,918	–	7,268	–	–	–	32,186
Volker Woyke (from 31/5/2012 to 31/10/2012)	–	20,847	–	4,980	–	–	–	25,827
Holger Hoff (until 31/5/2012)	–	8,306	–	–	–	–	–	8,306
Total Supervisory Board	**204,447**	**226,639**	**59,055**	**58,765**	**–**	**–**	**263,502**	**285,404**

[1] Chairman until 31/5/2012
* Pursuant to the resolution of the meeting of the Supervisory Board of 22 August 2013, the Supervisory Board waived 15% of its fixed remuneration for the months of August through December 2013 included.

The employee representatives on the Supervisory Board receive remuneration that is not related to their work for the Supervisory Board in addition to their Supervisory Board remuneration. This remuneration came to a total of €174 thousand in financial year 2013 (previous year: €259 thousand). Further details are provided in the remuneration report, which forms part of the management report.

In October of 2012, H&R AG established an Advisory Board, which advises the Executive Board. Expenses of €90 thousand were incurred for the activities of the Advisory Board in 2013 (prior year: €15 thousand). In 2013, fees paid to members of the governing bodies of H&R AG within the scope of consultant agreements amounted to €105 thousand (prior year: €60 thousand). As of 31 December 2013, liabilities in the amount of €297 thousand (prior year: €417 thousand) existed in regard to members of the governing bodies.

(43) Declaration of conformity in accordance with Article 161 AktG rung nach § 161 AktG

The declaration on the German Corporate Governance Code specified by Article 161 of the German Companies Act (AktG) was submitted in December 2013. It is published on the Internet at www.hur.com and is included in this annual report.

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

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

€ THOUSAND	31/12/2013	31/12/2012
Audits	407	338
Other certification or valuation services	–	–
Tax consultancy services	–	3
Other services	43	130
Total	**450**	**471**

Audit fees include the amounts paid for auditing the consolidated financial statements and for the statutory audits of the financial statements of H&R AG and its subsidiaries.

(45) Exemption from disclosure under Article 264 Paragraph 3 HGB

The following fully consolidated subsidiaries have elected to make use of the opportunity to be released from the requirement of disclosure in accordance with Article 264 Paragraph 3 in conjunction with Article 325 of the German Commercial Code (HGB), and partly made use of concessions regarding audits and the preparation of their financial statements:

- H&R Ölwerke Schindler GmbH
- H&R Chemisch-Pharmazeutische Spezialitäten GmbH
- GAUDLITZ GmbH
- H&R Lube Blending GmbH
- H&R ChemPharm GmbH
- H&R Lube Trading GmbH
- H&R International GmbH
- H&R InfoTech GmbH
- H&R South Africa GmbH
- SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH

(46) Risk management policy, capital management and safeguards

However, the operating business as well as the financing transactions of the H&R Group, as an internationally active company, are subject to different financial risks. These specifically include liquidity risk and counterparty default risk, as well as risks associated with fluctuations in raw material prices, currency exchange rates and interest rates. These risks are limited through systematic risk management measures, such as hedging transactions.

H&R AG has implemented a Group-wide risk management system, which serves as the basis for identifying, analysing and valuing these risks, so that informed decisions can then be taken with regard to preventing or limiting such risks. The key components of the risk management systems are planning and controlling, Group-internal regulations and reporting. Regular conferences are held to discuss current business developments, operational results, potential risks and opportunities, objectives and management procedures. Derivative financial instruments are also utilised in this context. The purchase of derivative financial instruments for speculative purposes is not permitted. All transactions with derivative financial instruments must be approved by the Executive Board.

The Group companies are subject to strict risk management. Dealing authorisations, responsibilities and supervision procedures are established on a binding basis in internal guidelines. In this respect, derivative financial instruments may not, as a matter of principle, be implemented for speculative purposes, but instead serve to hedge against risks in connection with the operating business. Credit risk exposure to contractual partners is investigated systematically at the time of signing a contract and monitored on an ongoing basis. In addition to this, credit risk is reduced using appropriate types of security.

The Executive Board defines the equity of the Group as the basic parameter for capital management, which in turn serves to ensure that the Group can continue to cover its investment needs and debt service. In this context, the H&R Group tries to achieve a capital structure that optimises the costs of capital provided both by lenders and by investors. Further important basic parameters with regard to our capital structure are net debt and net gearing which describes the ratio between net debt and equity. These ratios are subject to permanent surveillance by the Executive board.

Due to the bond loans, the syndicated loans and the bilateral loans H&R AG is obliged to meet the financial covenants that are connected to the relation of net debt to operational result (EBITDA) and the financial equity ratio.

CAPITAL STRUCTURE*

€ MILLION	2013	2012	2011	2010	2009
Net Debt / EBITDA	2.24	2.97	2.15	1.08	1.79
Equity ratio in %	31.8	34.2	38.0	42.5	39.3
Net gearing in %	42.2	73.4	79.4	49.2	64.7

* Prior year's values adjusted in accordance with IAS 19R.

LIQUIDITY RISKS. The H&R Group ensures that it has sufficient liquidity by monitoring its liquidity status daily and by means of financing facilities that have not been used in full. Compliance with financial covenants is a crucial part of the financing agreements. As of 31 December 2013, the gearing permitted for the syndicated loan was raised from 3.0 to 3.5, bringing it into line with the borrower's note loans. As a purely precautionary measure, we have also agreed a waiver for the 1st quarter of 2013, although no breach of the covenant is expected. It was agreed to increase the debt level as of 30 June 2013 and as of 30 September 2013. Compliance with the financial covenants continues to be a crucial part of the financing agreements in 2013. If these covenants were to be breached again and could not be renegotiated this would jeopardise the continued existence of the Group. We are countering the risk of a repeated breach of financing conditions by means of an extensive, and in the opinion of the Executive Board, sustainable series of activities to reduce debt and improve earnings. They comprise the greater use of factoring, a modified commission model for our distribution partners, which improves margins for H&R AG, converting the Salzbergen site to contract processing and an optimised financing structure.

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

RAW MATERIALS PRICE RISK. The H&R Group is exposed to price fluctuation risks among other things in the purchasing of raw materials, particularly the purchasing of atmospheric residue and vacuum gas oil. Most supply agreements concluded with customers relating to specialty products manufactured by the Chemical-Pharmaceutical Raw Materials Division's specialty refineries incorporate prices fixed for a period of three months at the most. A specialty refinery's production process, from the delivery of raw materials to the supply of the finished product to the customer, can take up to eight weeks. This means that rapid increases in raw materials costs cannot be passed on immediately to markets but only with a time delay. Relevant price developments are subject to constant monitoring and analysis. Rising raw materials prices may result in windfall losses in earnings, and falling raw materials prices may lead to windfall profits, which will, as a rule, balance out over time. Moreover, H&R AG faces risks arising from changes of gas prices, which were covered in 2011 by using hedging instruments.

FOREIGN CURRENCY RISKS. The international alignment of the H&R Group means that its operating activities give rise to currency risks, among other things, that result from exchange-rate fluctuations between the company's currency and other currencies. These arise particularly in the purchasing area as a result of US dollar transactions. Such risks are hedged using forward transactions in the trading business. Hedging is not performed in the production process, as the length of time entailed in the production process means that the intended hedge may be reversed by the time that the currency forward transaction has concluded.

INTEREST RATE RISKS. The H&R Group employs variable interest-rate facilities, among other things, as part of its financing activities. Interest hedging instruments are implemented to limit risks arising from changes in market interest rates. These concern interest rate caps and interest rate swaps. Such transactions may be entered into on a decentralised basis within the H&R Group but require the prior approval of the Executive Board. Further information concerning financial instruments can be found in note (37).

(48) Events after the reporting date

On 7 February 2014 and within the scope of the Waiver and Amendment procedure begun in December of 2013, the syndicated loan of H&R AG was amended and restructured. In this connection, the syndicated revolving loan in the amount of €90 million was transformed into a bilateral revolver and letter of credit facility in the amount of €72 million with an increase option to €90 million. No other events took place after the balance sheet date that could lead to a significant impact on the financial position and financial performance of the H&R Group.

(49) Approval of the financial statements

The financial statements were approved by the Executive Board on 11 March 2014, and released for publication.

Salzbergen, 11 March 2014

The Executive Board

Niels H. Hansen	Detlev Wösten
Chairman of the Executive Board	Deputy chairman of the Executive Board

(50) Attestation by the legal representatives

We hereby affirm that, to the best of our knowledge and according to the applicable accounting standards, the consolidated financial statements convey a true picture of the financial position and financial performance and the results of operations of the Group and that the combined management report presents the course of business including operating profits and the situation of the Group in such a way that a true and fair view is presented and the material opportunities and risks to the projected development of the Group are described.

Salzbergen, 11 March 2014

The Executive Board

Niels H. Hansen	Detlev Wösten
Chairman of the Executive Board	Deputy chairman of the Executive Board

Auditor's Report

We have audited the consolidated financial statements prepared by the H&R Aktiengesellschaft, Salzbergen, comprising the statement of financial position, the income statement and statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the H&R Aktiengesellschaft, Salzbergen, for the business year from January 1 to December 31, 2013. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company´s Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, March 11, 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Niklas Wilke	ppa. Christoph Fehling
(German Public Auditor)	(German Public Auditor)

ADDITIONAL INFORMATION

Glossary

Barrel
Unit of measurement for liquid; in relation to oil products, a barrel contains 159 litres.

Blending
In the production of lubricants, blending refers to the mixing of oil and additives to form automotive and industrial lubricants.

Brent
Leading type of oil from the North Sea.

Cash flow
Key financial figure: cash balance of inflow and outflow of funds; split between current operations, investment activity and financing activity.

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

Earnings per Share
Key financial figure: net income for year divided by the weighted average number of outstanding shares; shows how high the profit is for each share.

EBITDA
(Earnings before interest, taxes, depreciation and amortisation) Key financial figure: defined as consolidated earnings before interest earnings, taxes on income as well as depreciation on tangible assets and amortisation of goodwill. In the case of H&R, operation income.

Equity Ratio
Key financial figure: shows the ratio of equity to total assets and represents the finance structure.

Free cash flow
Key performance indicator: the sum of cash flow from operating activities and cash flow from investing activities; provides information about the liquid funds held after capital expenditure has been deducted.

German Corporate Governance Code
Recommendations and suggestions on conduct from the governmential commission of the same name on corporate management and supervision for listed companies in Germany.

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

Net Debt
Differing from the financial indicator of net financial debt, which consist of financial liabilities less liquid funds, current financial assets and derivative financial instruments measured at fair value, the net debt definition as basis of calculation for the covenants contains alternate parameter, founding on the financial agreements; provides information on the amount of debt remaining if all liquid funds were used to repay existing liabilities.

Net Gearing Ratio
Key performance indicator: the ratio of net financial debt to equity; provides an insight into the financing structure.

Net Working Capital
Key performance indicator: net working capital is defined as trade receivables plus inventories less trade payables.

Paraffin
Products of special refinery production: paraffin is oil-based wax which is used in over 100 different industries and sectors for manufacturing a wide variety of products.

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

Propane Deasphalting Unit (PDU)
Extraction unit which produces deasphalted oil and asphalt from vacuum residue using propane as solvent.

Return on Capital Employed (ROCE)
Key performance indicator: the ratio of EBIT to average capital employed (equity plus net financial debt, pension provisions and other non-current provisions); crucial for value-based corporate management at H&R AG.

Return on Equity
Key performance indicator: the ratio of profit (consolidated net profit before minority interests) to average equity; provides information about the amount of interest paid on capital from equity providers.

Special Refinery Activities
Production of highly refined raw materials for the chemical and pharmaceutical industries using oil-based materials.

Syndicated Loan
Granting of a fixed credit line for a specified period of time by a consortium of several banks.

Tool
Designation for the injection mould in the manufacture of plastic parts.

Value Creation
Increase in value of goods used in the production process.

WACC
Weighted Average Cost of Capital

White Oil
Product of special refinery production: highly refined and purified oil which is used especially as an input material in the cosmetics and polystyrene industries.

List of graphics and tables*

* The tables in the consolidated financial statements are not listed.

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

		2013	2012	2011	2010	2009	2008
Sales volume (main products)[1]	KT	734	839	872	932	812	775
Revenue	€ MILLION	1,214.4	1,228.9	1,209.5	1,056.8	762.3	1,035.2
Operating result (EBITDA)	€ MILLION	32.6	49.4	89.1	103.4	65.6	51.2
EBIT	€ MILLION	-4.1	25.5	68.1	82.0	44.7	34.9
Earnings before taxes	€ MILLION	-16.8	1.6	54.5	73.6	36.2	23.8
Consolidated earnings (before minority interests)	€ MILLION	-14.0	0.4	38.5	52.0	25.1	9.6
Group profit/(loss) after minority interests	€ MILLION	-14.0	0.5	38.5	52.0	25.0	9.5
Consolidated earnings per share (undiluted)	€	-0.47	0.02	1.29	1.74	0.83	0.32
Dividend per share	€	0.00	0.00	0.60	0.65	0.45	0.40
Market capitalisation as at 31/12	€ MILLION	260.7	354.4	496.1	630.9	449.0	326.7
Balance sheet total	€ MILLION	594.7	623.1	636.6	532.4	462.4	432.5
Net Working Capital	€ MILLION	104.2	188.9	265.0	202.2	161.9	141.1
Equity	€ MILLION	189.2	213.3	236.7	226.4	181.7	165.4
Equity capital share	%	31.8	34.2	37.2	42.5	39.3	38.2
Net indebtedness	€ MILLION	73.1	146.3	183.4	110.4	117.1	102.5
Net gearing	%	38.6	68.6	77.5	48.8	64.5	62.0
Operating cash flow	€ MILLION	88.9	84.7	-11.8	52.1	21.5	16.0
Free cash flow	€ MILLION	72.8	50.9	-54.2	19.3	-2.1	-28.9
ROCE	%	-1.0	5.3	15.1	21.7	13.0	11.5

[1] Chemical-Pharmaceutical Raw Materials Division.

Adjusted key figures [1] (IFRS)

		2013	2012	2011	2010	2009	2008
Adjusted operating income (EBITDA)	KT	32.6	49.4	89.1	103.4	65.6	73.2
Adjusted EBIT	MIO. €	-4.1	25.5	68.1	82.0	44.7	56.9
Adjusted pre-tax earnings	MIO. €	-16.8	1.6	54.5	73.6	36.2	45.8
Adjusted EBITDA margin	%	2.7	4.0	7.4	9.8	8.6	7.1
Adjusted return on equity	%	-6,9	0.1	16.3	25.6	14.4	17.4

[1] Figure has been adjusted for the provision for the cartel fine of €2008 million.

Financial calendar

www.hur.com

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.

24 February 2014	Publication of provisional figures for financial year 2013 Press and Analysts' Conference
31 March 2014	Publication of Final Figures 2013
9 May 2014	Publication of Q1 Report 2014
13 May 2014	Annual Shareholders' Meeting, Hamburg
14 August 2014	Publication of Q2 Report 2014
14 November 2014	Publication of Q3 Report 2014

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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Disclaimer

Forward-looking statements

This document contains forward-looking statements that reflect management's current views with respect to future events. Such statements are subject to risks and uncertainties that are beyond h&r's ability to control or estimate precisely, such as future market and economic conditions, the behavior of other market participants, the ability to successfully integrate acquired businesses and achieve anticipated synergies and the actions of government regulators. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. h&r does not intend or assume any obligation to update any forward-looking statements to reflect events or circumstances after the date of these materials.

Variances for technical reasons

For technical reasons (e. g. conversion of electronic formats) there may be variances between the accounting documents contained in this annual report and those submitted to the electronic Federal Gazette (Bundesanzeiger). In this case, the version submitted to the electronic Federal Gazette shall be binding.

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

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