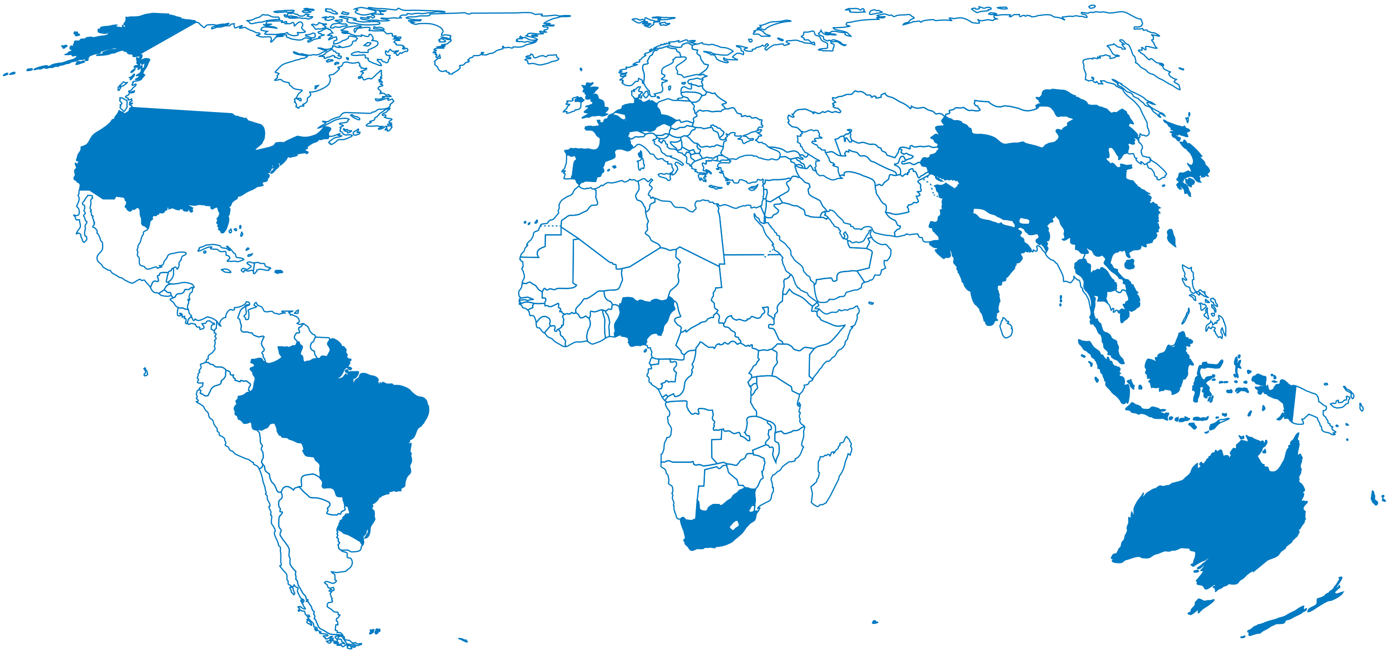
FINANCIAL REPORT

of H&R GmbH & Co. KGaA

2023

Our Mission Statement

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



GLOBAL PRESENCE

Our Business Model

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

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

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

OUR PRODUCTS

We produce high-quality chemical-pharmaceutical specialty products, transform our business model to make our operations more sustainable, and work to ensure that we can continue to reliably provide our customers with the products they need.

Our feedstock base is to become more diverse through the increased use of renewable, synthetic and recycled materials.

COSMETIC & PHARMACEUTICAL SPECIALTIES

In this specialized area of H&R's activities, emulsifiers and bases for the cold processing of ointments, creams and lotions have been successfully developed in recent years. Individual advice and specific recommended formulations give many pharmacies and pharmaceutical and cosmetic manufacturers security in formulating premium products.

CABLE FILLERS

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

PETROLEUM JELLIES & WHITE OILS

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

WAXES & EMULSIONS

The H&R Group specializes in waxes. Based on our integrated raw materials portfolio, we develop, produce and sell paraffins and formulated waxes for specific industrial applications.

PROCESS OILS

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

MINERAL-OIL TRADE & INDUSTRY

Modern, high-performance engines need top-quality motor oil in order to withstand the demands of daily use. H&R motor oils satisfy the requirements of the newest generation of engines and were manufactured for use by major manufacturers.

CONSTRUCTION INDUSTRY

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

PLASTICS

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

OUR KEY FIGURES

Overall, the general market and business conditions the company faced were anything but easy. Nevertheless, we were able to achieve stability during the year and recorded solid income. With sales revenue of nearly €1.4 billion, we achieved EBITDA of €92.7 million.

SALES IN 2023

€1,352.3 MILLION

EBITDA IN 2023

€92.7 MILLION

EMPLOYEES IN 2023

1,704

THE H&R GROUP IN FIGURES

IN € MILLION	2023	2022	Change (absolute)
Sales revenue	1,352.3	1,576.0	-223.7
of which Chemical-Pharmaceutical Raw Materials Refining	828.2	1,020.6	-192.4
of which Chemical-Pharmaceutical Raw Materials Sales	492.7	526.7	-34.0
of which Plastics	51.3	49.0	2.3
Reconciliation	-20.0	-20.3	0.3
Operating income (EBITDA)	92.7	124.9	-32.2
of which Chemical-Pharmaceutical Raw Materials Refining	58.1	92.7	-34.6
of which Chemical-Pharmaceutical Raw Materials Sales	31.5	33.4	-1.9
of which Plastics	4.7	5.0	-0.3
Reconciliation	-1.6	-6.2	4.6
EBIT	30.3	69.6	-39.3
Earnings before income tax	18.8	62.0	-43.2
Consolidated net income	10.6	45.4	-34.8
Consolidated income attributable to shareholders	10.6	42.7	-32.1
Consolidated income per share (undiluted, in €)	0.28	1.15	-0.87
Cash flow from operating activities	119.1	38.0	81.1
Equity ratio (in%)	50.6	49.0	1.6
Employees as of December 31 (absolute)	1,704	1,631	73

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Dear Shareholders,

The H&R annual report always begins with a personal contextualization of the business figures by the Executive Board. Why is this so important?

The financial statement figures provide you with comprehensive information regarding the company's performance in the past financial year. This nevertheless remains a one-dimensional picture as these are first and foremost financial presentations in accordance with fixed rules. The management report offers an additional facet. This provides context for the figures on the basis of relevant explanations, delivering economic framework data, drawing comparisons between the past financial year and the previous year, and outlining the risks and opportunities. Here, too, the lawmakers stipulate a clearly defined framework for the remarks made.

Only on the basis of the statements of the Executive Board do the mandatory notes come together to create an overall picture which communicates to the reader from a corporate perspective how the company evaluates the previous twelve months. And perhaps more importantly, the Management Board also expresses its personal expectations regarding developments in the current financial year and beyond. Which direction will the company develop in? How much pace will we gather?

The facts concerning the past year are easily summarized: H&R recorded lower figures for virtually all the key performance indicators in financial year 2023 than in the previous year. Operating income totaled €92.7 million (2022 EBITDA: €124.9 million) and the net result came to €10.6 million (2022: €42.4 million). As in the previous year, we will propose to the Annual Shareholders' Meeting that a dividend of €0.10 per share be distributed. The management report supplements the statements on the figures for you with the exact percentage and absolute changes.

However, what can be easily overlooked here but should, in our opinion, not be forgotten under any circumstances is the context: the figures for 2023 are being compared with a previous year which was the second-best year in the company's history. From the outset, we didn't expect to repeat such a result in 2023. In fact, at the beginning of the year, we were still reckoning with an income range starting where we were ultimately able to conclude the previous year.

The path there was not exactly direct either, initially involving downward revisions of our

Niels H. Hansen,
Managing Director of H&R GmbH & Co. KGaA

expectations, then bottoming out in the summer, from when we began to gain strength and ultimately follow an upward trajectory again. The EBITDA figure achieved ranks 2023 among the top ten years for H&R.

This we achieved in spite of mixed economic climate conditions. Supplies of feedstocks for our two German specialty production sites were secured at more favorable conditions than in 2022. Similarly, the costs of electricity and gas remained at a tolerable level as a result of the price caps introduced by the German government as economic policy measures.

However, all this could only partially offset the German industry's competitive disadvantages compared with other market participants, as products made using Russian raw materials continued to make it into the Western European market via third countries such as India and Turkey in spite of the sanctions, in some cases even via EU countries, thus increasing margin pressure.

This seemingly negligent "porosity" almost felt like morally symbolic politics were more important to the European decision makers than painful restrictions at the expense of the Russian government: Moscow department store shelves stocked with Italian hazelnut cocoa spread or German washing machines? No way! We would like to have also seen the same standard applied to products in the EU markets made using Russian gas or oil.

Whereas the overriding wish of our customers in the previous year had still been unrestricted supplies, last year the prospect of a long-running war in Ukraine and a generally slow economic recovery following Covid-19 led to generally more pessimistic appraisals in many of our customer industries. Increasing concerns regarding further military conflicts was a factor which negatively affected sentiment in many of our markets in 2023. We consequently also felt corresponding effects in our customer industries' supply and purchase volumes as well as in the form of dwindling revenues.

But let us now turn our attentions to the future. A number of the factors described will likely persist in the current financial year. Russia's policy of aggression can influence global economic development, as can supposedly regional conflicts in, for example, Gaza and the Red Sea. The political and societal divide in the United States is only ostensibly way in the distance. There are autocratic forces at work within our own value system here in Germany, too, which could jeopardize what H&R stands for: being an open-minded company which is committed to a corporate philosophy characterized by thinking globally and acting locally. The current debate regarding Germany and its economic and defense policy position in the heart of Europe remains gripping and will undoubtedly have a bearing on our customers' business focuses in one way or another.

We are monitoring the increasing bureaucratization and regulation which is increasingly threatening to stifle technological innovations and entrepreneurial decisiveness with a great deal of skepticism. The familiar principle of “Do good and talk about it!” has continuously shifted its focus to the latter part. As such, this annual report will likely be the last to focus on business developments rather than on mandatory reporting on sustainability topics.

Operationally, on the other hand, we are keen to tackle the topic of transformation in the direction of greater sustainability. This will very much shape our customer markets' day-to-day activities in the years to come. H&R will support them by offering its own solutions for a climate-friendly chemical industry. We will look to procure and produce our own sustainable feedstocks as well as introduce new technologies and product grades. I firmly believe we will benefit from increasing demand if H&R succeeds in offering customers more environmentally friendly solutions.

We wish to make real progress on this path in the course of this year – and we would be delighted to continue to do so together with you!

I would like to finish my remarks by picking up on my introduction once again and correcting myself: a truly comprehensive picture of business development can only be formed with the inclusion of your perspective, dear shareholders. I therefore look forward to conversing with you during the year, at the Annual Shareholders' Meeting on May 28, at an upcoming conference or at some other opportunity.

All the best,

Executive Board of H&R KGaA

Niels H. Hansen
Sole Managing Director

Salzbergen, March 2024

Company Representative Bodies

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

Executive Board

As the general partner with full personal liability, H&R Komplementär GmbH is responsible for managing H&R KGaA. It conducts business and runs the company. In the 2023 financial year, the Executive Board comprised:

Niels H. Hansen
Sole Managing Director

The Supervisory Board

The Supervisory Board of H&R KGaA is responsible for the supervision of the Executive Board. In financial year 2023, the Supervisory Board of H&R KGaA comprised the members listed below. The Chairman of the Supervisory Board of H&R KGaA is Dr. Joachim Girg.

Chairman of the Supervisory Board

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

Members of the Supervisory Board

Roland Chmiel
Deputy Chairman,
Certified public/chartered accountant

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

Sven Hansen
Business administration

Dr. Hartmut Schütter
Chartered process engineer, freelance consultant

Dr. Rolf Schwedhelm
Attorney and specialist lawyer (tax law), and partner in the law firm Streck Mack Schwedhelm

Patrick Ewels
Continuing education coordinator,
Works council chairman of H&R ChemPharm GmbH

Thomas Merting
Chemical technician

Dominik Franz
Process technician,
Works council chairman of GAUDLITZ GmbH and GAUDLITZ Plastic Technologies GmbH & Co. KG

The Advisory Board

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

Eckbert von Bohlen und Halbach
Managing Director of Bohlen Industrie GmbH

Dr. Erwin Grandinger
Entrepreneur

Dr. Gerhard Hinterhäuser
Entrepreneur

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

Michaela Pulkert
Master of Business Administration

Dr. Mazdak Rafaty
Entrepreneur

Wilhelm Scholten
Managing Director of Ölfabrik Wilhelm Scholten GmbH

Dr.-Ing. Peter J. Seifried
Chemical engineer, independent consultant

Dr. Torsten Sevecke
Director at the Bundeswehr Command and Staff College (BwCSC)

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

Supervisory Board Report

Dear shareholders, dear readers,

Unlike in the past two years, in which our company fared well in terms of earnings, we were unable to decouple ourselves from the general economic situation and the deteriorating economic environment in the chemical-pharmaceutical industry in the 2023 reporting year. Even though the Covid-19 pandemic is behind us, the effects of the war in Ukraine continue to weigh on the economy in Germany and Europe. Since the terror attack by Hamas on Israel on October 7, 2023, and Israel's subsequent military operation into the Gaza Strip, a long-standing source of conflict has been reignited. The world we live in is changing ever more rapidly, and this is unlikely to change any time soon. This will make pursuing our transformation goals, and in particular the improvement of our operating model, no easier.

Given these circumstances, H&R GmbH & Co. KGaA was unable to match the very good results of the two previous years in 2023:

I. With EBITDA of €92.7 million (previous year: €123.6 million), H&R GmbH & Co. KGaA achieved an acceptable operating result relative to its track record since 2001. Income before tax (EBT) amounted to €30.3 million (previous year: €60.2 million) and consolidated income attributable to shareholders fell to a quarter of the previous year's figure at €10.6 million. Sales reached €1,352 million – slightly below the 2022 figure (14.2%) due to volume and, above all, price factors.

II. In the area of transformation, the adopted strategy was modified to reflect the current uncertainties and further consolidated. Using an updated and partially revised process plan, it was determined which feedstocks could be used at what time to achieve the set targets with sustainable feedstocks.

III. The international Sales segment once again proved to be a reliable source of income in 2023. The new site in Lumut, Malaysia, only received the necessary official environmental documents at the end of December, which delayed the planned commissioning of the new unit. Setbacks of this kind were offset by positive developments at other locations.

IV. The Plastics division, based in Coburg, continued its stable development in the reporting year and once again achieved a favorable result in a challenging market environment in the automotive industry.

A closer analysis of the annual results reveals the following factors that deserve special mention:

First, the reasons for the sharper percentage decline in EBT and consolidated income attributable to shareholders compared to EBITDA lie in the increased non-value-adding investments in the area of ESG (environmental, social and governance) and, in particular, in the fulfillment of safety and environmental protection requirements. Although we invested less overall than in the previous year, depreciation and amortization were at a higher level as a result of expenses incurred in previous years. In turn, this had a greater impact on EBITDA, which was lower than in 2022, and also affected other net income levels to roughly the same extent. When considering earnings, the effects of government assistance measures (electricity price cap) should not go unmentioned. Our company received subsidies of €12.0 million in the past financial year, which offset the negative effects at least in part. Second, the current situation is having a massive negative impact on virtually the entire production process throughout our organization, which is very different from crises in the past.

As reported in detail last year, the supply of raw materials is proving difficult due to EU sanctions against Russia. More expensive goods have to be purchased from other sources to replace supplies previously sourced from Russia. The materials now used at the sites in Salzbergen and Hamburg are more expensive and have a different output structure to the majority of the feedstocks that were processed before the Russian army invaded Ukraine. To make matters worse, competitors from neighboring EU states are still allowed to import and process Russian oil. Non-EU countries also continue to use Russian feedstocks, and supply the finished products to the European market. This represents a clear competitive disadvantage for our company.

Major pressure is also being placed on sales due to the tense economic situation. Important customer industries to our organization, such as the automotive industry and its suppliers, the construction industry and the chemical industry, are struggling with the economic downturn. We can only hope that the situation eases again and that we do not face a prolonged downward spiral.

Given these circumstances, and following intensive discussions, the Executive Board and Supervisory Board intend to propose to the Annual Shareholders' Meeting that a dividend of €0.10 be distributed for each share for the financial year 2023, and that, in addition, the distributable profit be carried forward to new account.

Key Focal Points of Supervisory Board Work

Five recurring topics were the focus of the plenary sessions of the Supervisory Board in the reporting year. Unsurprisingly for a company with two production sites in Germany, **safety** was the main topic of discussion. The health and safety of our employees and partners is our top priority. A zero-accident record is therefore one of the Board's main areas of focus. Each meeting of the Refinery Technology and Strategy Committee began with an update on the topic of safety and this topic also took on a prominent position at the beginning of every regular Supervisory Board meeting. But the topic of safety goes far beyond a zero-accident record. Process and plant safety is also of great importance for the smooth running of our production. The same goes for IT security in a globally connected world. In our October meeting, all safety aspects in the Chemical-Pharmaceutical area, as well as in the sales units and at GAUDLITZ, were discussed by the Supervisory Board.

The second key topic was the evolution of our refinery operating model and the **transition** to sustainable production. H&R GmbH & Co. KGaA has set itself ambitious targets for 2035, and has initiated projects and earmarked investments aimed at achieving climate-friendly, and ideally carbon-neutral, production. The sometimes rapidly changing conditions call for a swift response and changes to our business activities. Due to the current uncertainties, medium and long-term plans should only be seen as guidelines. As we work towards our goals for 2035, the pendulum will certainly swing more often in one direction than the other.

The **supply of raw materials** to our refinery sites is closely linked to the second key topic. Since the start of the war in Ukraine in February 2022, the procurement of raw materials has become much more challenging. In addition to the cost implications and the changed output structure of new feedstocks, exceptions in the implementation of EU sanctions against Russia will lead to competitive disadvantages for H&R GmbH & Co. KGaA. In general, wherever extensive sanction mechanisms apply, there are great opportunities to earn money by circumventing these restrictions. The Supervisory Board and the Executive Board are in complete agreement that only sanction-compliant raw materials should be used in refinery operations. This does not make the gradual use of more climate-friendly raw materials any easier.

As with the topic of safety, every meeting of the Refinery Technology and Strategy Committee includes an update on our company's **investment projects**. In addition, news on this topic is discussed in plenary sessions at the beginning of each Supervisory Board meeting. As mentioned above, the proportion of non-value-adding investments in the area of ESG continues to rise. However, crucial investments to achieve our 2035 transformation goals require sustainable and stable earnings.

The international **ChemPharm Sales segment**, our most stable earnings generator, also once again received a great deal of attention from the full Supervisory Board in 2023. Fortunately, restrictions relating to the Covid-19 pandemic were also lifted in China at the start of the year and the Executive Board was once again able to travel to the country for the first time since the turn of 2019/20. This means that business activities in the East Asian region, which is important for H&R, are slowly returning to stable conditions. It remains to be seen if and when the pre-Covid levels will be reached again. Project progress at the new site in Lumut, Malaysia, was also on the agenda, as were the safeguarding and expansion of our activities in North and South America, India and Africa.

Objectives and Composition of the Supervisory Board

Following the change of legal form in 2016, the activities performed by the Supervisory Board of our company have focused primarily on control functions and an advisory role. In contrast to companies with the legal form of a limited partnership (AG), the Supervisory Board of a limited liability company (KGaA) has no statutory co-determination rights when it comes to, e.g., major investment projects or defining the company's strategy, and no human resources competencies regarding the managing directors (e.g., their appointment or dismissal, extending, altering or terminating contracts, and dealing with matters relating to their remuneration). At H&R GmbH & Co. KGaA, this function is performed by an Advisory Board of the company acting as the general partner, which has been composed of independent members of the Supervisory Board since it was set up as part of the change in legal form. In this respect, the recommendations of the German Corporate Governance Code in the current version dated April 28, 2022, only apply to a limited extent or not at all to the legal form of a partnership limited by shares (KGaA).

The objectives and composition of the Supervisory Board are reviewed by us at regular intervals and are adjusted, or elaborated, as and when required. This last occurred at the meeting on March 27, 2024. Accordingly, the Supervisory Board of H&R GmbH & Co. KGaA is to be composed so as to ensure the qualified monitoring of, and provision of advice to, the Executive Board. All in all, its members should have the knowledge, skills and professional experience required to enable them to perform the duties incumbent upon a Supervisory Board of a capital market-oriented group of companies with international operations in the refinery segment, and in the business with chemical-pharmaceutical specialty oils and plastics, in a due and proper manner. The special features that apply to structures in which the company acting as the general partner is a family-run business must be taken into account within this context.

Supervisory Board members should have entrepreneurial/business experience in at least one of the areas listed in the skills profile table, as well as general knowledge of the refinery segment or related areas. On the basis of their knowledge, skills and professional experience, they should be able to perform the duties incumbent upon a Supervisory Board member in a company with international operations and safeguard H&R Group's public image. At least one-third of the shareholder representatives should have long-standing international experience in the markets relevant to H&R. When proposing candidates to the Annual Shareholders' Meeting for election, attention should also be paid to an individual's personality, integrity, motivation, professionalism and independence.

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

The Supervisory Board of H&R GmbH & Co. KGaA would like to promote and strengthen a culture of diversity as a forward-looking foundation for our business. To us, diversity is a way of thinking that is characterized by mutual respect and open-mindedness. The Supervisory Board places particular emphasis in this regard on promoting women to leadership positions. According to the requirements set out in Section 96, paragraph 2 of the German Stock Corporation Act (AktG), the Supervisory Board should comprise at least 20% female members and at least 20% male members. Based on the total number of Supervisory Board members, the target for female members is therefore two. The aim is to have achieved these objectives by the middle of 2026 at the latest. As a matter of principle, the selection of Supervisory Board members should be based on professional criteria alone. An individual's skin color, religious affiliation, gender or sexual orientation are no reasons to exclude a particular candidate. In general, adhering to these quotas is seen as the joint responsibility of the shareholder and employee representatives.

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

SUPERVISORY BOARD COMMITTEES OF H&R GMBH & CO. KGAA AND THEIR COMPOSITION AT THE END OF 2023

COMMITTEE	MEMBERS
Audit Committee	Roland Chmiel (chairman)
	Sabine U. Dietrich
	Dr. Joachim Girg
	Dr. Rolf Schwedhelm
Refinery Technology and Strategy Committee	Dr. Hartmut Schütter (chairman)
	Sabine U. Dietrich
	Dr. Joachim Girg
	Sven Hansen
Nomination Committee	Sven Hansen (chairman)
	Dr. Joachim Girg
	Dr. Rolf Schwedhelm
Committee for Related Party Transactions and Other Legal Issues	Dr. Rolf Schwedhelm (chairman)
	Roland Chmiel
	Dr. Joachim Girg
	Sven Hansen
	Sabine Dietrich

General Information About Supervisory Board Activities

The Supervisory Board diligently and conscientiously performed the supervisory and advisory duties required by law, the Articles of Association and internal rules of procedure. During financial year 2023, the Supervisory Board and the Executive Board had a good, intensive working relationship. The Executive Board kept the Supervisory Board Chairman informed about all important issues on a regular basis and in a timely manner. The Supervisory Board and the Executive Board also stayed in close contact outside meetings in order to ensure a constant flow of information and an exchange of opinions.

At the meeting on October 25, 2023, a lawyer from a renowned international law firm with which H&R has had a close client relationship for many years provided training on the latest legal developments for Supervisory Board members.

At the beginning of October 2023, the Chairman of the Supervisory Board accompanied the Managing Director to a three-day working meeting at our two production sites in Durban, South Africa. In addition to discussions with local management on business development, strategy/transformation and training strategies, there were also customer visits with two major South African companies and a meeting with a bank. Compared to the first visit of the Chairman of the Supervisory Board to Durban in 2014, significant developments were clear to see in almost all areas.

Topics Discussed by the Full Supervisory Board

A total of six Supervisory Board meetings were held in person in 2023. The attendance rate of the Board members was 100%. Four meetings (7%) were held by video.

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

In 2023, five other topics were discussed at all meetings. In order to keep the number of repetitions to a minimum in the following list of meeting topics, these should be mentioned briefly in advance:

I) Safety – Safety records of our sites (employees and plants), and process and IT security

II) Transformation – Transition of our refinery operating model to sustainable production

III) Raw materials procurement – Addressing new market conditions following the outbreak of the war in Ukraine

IV) Investment projects – Support for auditing measures, environmental protection and ESG projects as well as measures to optimize our production and make it more flexible

V) ChemPharm Sales international – Expansion of the business, current projects and implemented measures

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

The 2023 annual session began on **February 1, 2023**, with a report on the status of the work associated with the annual financial statements for 2022. The main topic of the meeting was HR and personnel planning. With baby boomers set to retire over the next few years, Germany is heading for a deficit of several million workers. The Covid-19 pandemic has also had a tangible impact on the working world. With the close involvement of employee representatives, the development of personnel figures at H&R GmbH & Co. KGaA was discussed. Ways of recruiting new employees and requirements for the professional development of existing staff were discussed in depth. The presentation and discussion of the Supervisory Board's self-assessment (efficiency audit) for the past year was also on the meeting's agenda.

The second Supervisory Board meeting, which was held on **March 30, 2023**, was used to discuss the annual financial statements for 2022. After the necessary supporting documents had been discussed by the Audit Committee in its meeting on March 23, 2023, in the presence of the auditor, the documents were then made available to all Supervisory Board members from this date. Following extensive editing, the audit reports were debated with the auditors at the meeting. On the recommendation of the Audit Committee, after detailed examination the Supervisory Board approved the company's annual financial statements, the consolidated financial statements and the combined management and Group management report, as well as the 2022 subordinate status report, and proposed to the Annual Shareholders' Meeting that the annual financial statements of H&R GmbH & Co. KGaA as of December 31, 2022, be adopted in the version submitted to the Annual Shareholders' Meeting. Furthermore, the proposal for the appropriation of earnings and the auditor's proposal were approved on the recommendation of the Audit Committee and proposed to the Annual Shareholders' Meeting for approval. All of the above resolutions were passed unanimously. In addition, the Supervisory Board Report was approved in form and content and released for publication on the following day as part of the 2022 annual report. The main contents of the Sustainability Report, including the 2022 non-financial Group report, were also discussed at this meeting. Due to the different publication date of April 30, 2023, and final reviews, the Supervisory Board passed the resolution by circular resolution on April 25, 2023.

After the search for a successor for the Chairman of the Refinery Technology and Strategy Committee, Dr. Hartmut Schütter, resident of Schwedt/Oder, proved unsuccessful, the Supervisory Board unanimously decided, on the recommendation of the Nomination Committee, to propose Dr. Hartmut Schütter for re-election to the Supervisory Board at the Annual Shareholders' Meeting, despite exceeding the age limit of 70 years. This proposal was also unanimously accepted by the Supervisory Board. In relation to the nominations, the full Supervisory Board intensively discussed the composition of the Supervisory Board of H&R GmbH & Co. KGaA.

The Supervisory Board also discussed the agenda for the Annual Shareholders' Meeting to be held on May 23, 2023. Following a detailed discussion of the agenda and the resolutions proposed by the Supervisory Board to the Annual Shareholders' Meeting, the members of the Supervisory Board approved the intention of the Managing Director of the general partner to convene the Annual Shareholders' Meeting in due time on May 23.

On **May 22, 2023**, the day before the Annual Shareholders' Meeting, the third meeting of the full Supervisory Board was held. In the first part of the meeting, the Executive Board reported on the current status of preliminary work and the expected procedure of the Annual Shareholders' Meeting. The meeting focused on a presentation of our refinery operating model under changing parameters. Changes in the procurement of raw materials and the increased prices for electricity and gas were presented in detail and possible consequences and countermeasures were discussed.

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

Name	Dr. Joachim Girg	Roland Chmiel	Sabine U. Dietrich	Patrick Ewels
Age	59	66	63	42
Function	Chairman of the Supervisory Board; representative of the majority shareholder; financial expert	Deputy Chairman; independent financial expert	Independent member of the Supervisory Board	Employee representative; works council chairman of H&R ChemPharm Group, Salzbergen
Occupation/professional background	MBA	MBA; Certified public/chartered accountant	Chartered engineer	Continuing education coordinator
Profile requirements				
Family-run SME, capital market operator	x	x		
Refinery business & petroleum specialty products; plastics			x	x
Application research & product development				
Production; marketing; sales/distribution; digitalization			x	
Sustainability, especially environmental, social and governance (ESG) elements		x	x	x
Internationality	x		x	
Accounting & auditing	x	x		
Controlling & risk management	x	x	x	
Financing & capital market	x			
Law & taxes		x		
Boards	Audit Committee; RTS; Nomination Committee, LEGAL Committee	Audit Committee (chairman); LEGAL Committee	Audit Committee; RTS; LEGAL Committee	
On the panel since/elected until	September 2011/ 2027 AGM	May 2011/2026 AGM	May 2019/2025 AGM	May 2022/2027 AGM
Panel activity (# meetings/participation)	Meetings 6/6 Boards 17/17	6 / 6 11 / 11	6 / 6 16 / 16	6 / 6 –
Additional board functions	none	none	COMMERZBANK AG, Frankfurt; MVV Energie AG, Mannheim; member of the supervisory board	

Dominik Franz	Sven Hansen	Thomas Merting	Dr. Hartmut Schütter	Dr. Rolf Schwedhelm
39	**55**	**44**	**79**	**68**
Employee representative; works council chairman of GAUDLITZ GmbH, Coburg	Entrepreneur	Employee representative	Independent member of the Supervisory Board	Independent member of the Supervisory Board
Process technician	Industrial manager (degree in Business Administration)	Chemical technician	Chartered process engineer, freelance consultant	Attorney; specialist lawyer (tax law)
	x			x
x	x	x	x	
	x		x	
	x		x	
				x
	x			
				x
				x
	RTS; Nomination Committee (chairman), LEGAL Committee		RTS (chairman)	Audit Committee; Nomination Committee, LEGAL Committee (chairman)
May 2022/2027 AGM	August 2016/ 2027 AGM	May 2022/2027 AGM	May 2013/2023 AGM	May 2011/2026 AGM
6 / 6 –	6 / 6 10 / 10	6 / 6 –	6 / 6 5 / 5	6 / 6 10 /12
	none		none	Deutsche Anwalt Akademie Gesellschaft für Aus- und Fortbildung sowie Serviceleistungen mbH, Berlin; chairman of the supervisory board

The latter mainly involved discussing adjustments to our investment budget and the impact on the transformation roadmap. The meeting was rounded off with an update from the Executive Board on the economic situation and the determining market factors for our sites in South East Asia.

In the second part of the meeting, an intensive exchange of ideas took place between the Supervisory Board members, without the Executive Board.

The fourth meeting of the full Supervisory Board took place in Hamburg on **August 30, 2023**. Two major topics dominated the agenda: business performance in the first half of 2023, and an update to our sustainability strategy and transformation plan. With regard to the first point, a slight recovery in earnings figures was reported compared to the start of the year, although positive effects from the electricity price cap, for example, were not able to fully compensate for all the negative effects. For point two, the tension between sociopolitically driven sustainability goals and the current technical possibilities was examined in detail. The status of individual projects and current partnerships in the area of sustainability and transformation were discussed with regard to this topic, as were the availability of recycled feedstocks in the second half of the current decade.

The fifth Supervisory Board meeting of our company was held at the H&R Ölwerke Schindler refinery site at Neuhof in the Port of Hamburg on **October 25, 2023**. The Executive Board and local site management kicked off the meeting with an overview of the latest developments. These included the use of new raw materials, progress with maintenance measures and the construction of new tanks, cooperation with authorities and the status of investment projects. This was followed by a site inspection by the members of the Supervisory Board.

The committee addressed the core topic of security in depth at this meeting. In collaboration with the refinery managers of the two production sites in Salzbergen and Hamburg, an external safety specialist presented the current safety strategy. This was followed by a discussion between all participants. The external safety consultant rated occupational health and safety at H&R to be “at a high level”.

In a detailed presentation, the Executive Board of GAUDLITZ GmbH & Co. KG from Coburg gave a detailed presentation on occupational safety at its sites where it produces plastic parts for the automotive and medical technology sectors. Regular training measures were discussed, as were exemplary cases of incidents and their consequences, protective equipment and safety checks.

In addition to occupational health and safety, IT security is of crucial importance to our organization. Based on the general situation of national IT security, the Executive Board and an IT security expert spoke about IT security at H&R. They discussed various current examples as well as measures that are in the process of being implemented and how they are being monitored, and IT security projects that are currently being planned. The Board was informed that the H&R IT department is aiming for ISO 27001 certification by the end of 2024.

To round off the meeting day, the latest developments at GAUDLITZ were discussed and the Supervisory Board received training on important current legal developments.

Last year’s meeting season was concluded on **December 12, 2023**, with the sixth meeting of the Supervisory Board. As in previous years, the agenda focused on a review of the current financial year, the 2024 budget, and the five-year planning. An update to the statement of compliance to be submitted was discussed in detail and approved unanimously. The document has been available on the website since December 19, 2023. The status of the work on the annual financial statements was also reported on. The last item on the Supervisory Board’s agenda for the year was a review of the 2023 meeting period.

The Work of the Supervisory Board Committees

A total of 19 Supervisory Board meetings were held in the 2023 reporting year. The Audit Committee and the Refinery Technology and Strategy Committee held combined meetings on five dates, and the Audit Committee met separately on two occasions. The Committee for Related Party Transactions and Other Legal Issues (LEGAL Committee) met four times and the Nomination Committee met three times.

The attendance rate remained very high at over 97%. The two excused absences related to the Audit Committee.

Audit Committee

Roland Chmiel
Chairman of the Audit Committee

The Audit Committee held a total of seven meetings in financial year 2023, five of which were held jointly with the Refinery Technology and Strategy Committee (RTS).

A particularly important part of the committee's work in this financial year was again the audit of the annual financial statements and the combined management report of H&R GmbH & Co. KGaA and the Group, the non-financial Group report, the subordinate status report and the proposal for the appropriation of net income. These documents relating to the 2022 financial year were discussed in detail with the auditor and the Executive Board in the meeting on March 23, 2023. The Audit Committee then gave the Supervisory Board its recommendations regarding approval of the financial statements for financial year 2022 and the proposal to the Annual Shareholders' Meeting concerning the appropriation of the distributable profit as of December 31, 2022, and the election of the auditors for financial year 2023.

The Audit Committee's work also particularly included issuing the audit engagement to the auditors elected for financial year 2023 – including defining the focal points of the audit and determining the auditing firm's fees, as well as the assessment of the audit quality. The course and results of the audit of the financial statements were also followed, discussed and evaluated in a timely manner. Regarding the monitoring of the auditors' impartiality, the Audit Committee implemented appropriate measures to ensure that it is notified in a timely manner of intended letters of engagement to the auditors and/or to members of the auditing firm's network regarding non-audit services. After assessing the admissibility of such services and/or potential risks they might pose to the auditors' independence, the letters of engagement were approved in advance in each case, provided that they were found to be unobjectionable.

In addition, the Audit Committee monitored the effectiveness of the corporate governance systems (compliance management, internal control system, risk management, internal audit). In this process, the adequacy and effectiveness of the measures and procedures implemented in these areas were determined. Individual adjustments and updates were discussed, as was the revision of the role definition for Group-wide IT authorization management. The Audit Committee also dealt with the activity reports of the Internal Audit department, Compliance Management and the external data protection officer, and the regular reports on the risk situation. Other topics of discussion included the retendering of the audit, budget planning for the coming financial years from 2024, the latest developments in the regulations on non-financial and sustainability-related reporting, the Group-wide application of these regulations and external audit of the reporting, the potential impact of the German Supply Chain Act and the statement of compliance with the German Corporate Governance Code (GCGC).

For the purposes of self-assessment of the efficiency of the Supervisory Board and its activities, the assessment procedure applied to date involving a detailed questionnaire was again conducted for financial year 2023. Support for this internal solution by external consultants was decided against after intensive discussion in the committee. In addition to the associated costs, the reason for this decision was the estimated low level of knowledge that would be gained. This topic will be addressed again in the second half of 2024.

On top of the committee meetings, the Chairman of the Audit Committee, the Executive Board, the Head of Finance, and the Head of Internal Audit held regular discussions to exchange information and coordinate their work. The Chairman also provided close support with the preparation and audit of the annual financial statements of H&R GmbH & Co. KGaA, the consolidated financial statements and the annual financial statements of individual Group companies, holding regular discussions with the auditor in this regard.

Refinery Technology and Strategy

Dr. Hartmut Schütter Chairman of the Refinery Technology and Strategy Committee

The Refinery Technology and Strategy Committee held five meetings in the 2023 financial year, in each case jointly with the Audit Committee. While in the previous year, some of the meetings were still required to take place virtually, all committee meetings, which were prepared in the usual manner through regular coordination with the Chairman of the Supervisory Board and the higher-level refinery management and subsequently evaluated, were fortunately able to take place in person in Hamburg again in 2023.

The regular focal points of the committee meetings again included the analysis of occupational safety performance, selectively supplemented by elements of the entire HSSEQ (health, safety, security, quality) complex and, above all, its continuous improvement as well as the investments that have been designed and planned and are currently being implemented.

The following focal points of the meetings are to be listed in addition to the above and in more detail:

- January 31, 2023: Project budget for the refineries at Neuhof and Salzbergen; flue gas desulphurization project; transformation status

- May 22, 2023: Renewable feedstocks (sources, processing strategy); flue gas desulphurization (FGD) project

- August 29, 2023: Status and progress of the FGD and NextGate/Power-to-Liquid projects; transformation update

- October 24, 2023: HSSEQ, including plant safety analysis and benchmark; FGD process modification; PtL plant

- December 12, 2023: HSSEQ, shown under analysis/comparison of sickness rates; evaluation of study modification FGD project budget 2024

The attendance rate of committee members was 100%, with two members participating via video.

Committee for Related Party Transactions and Other Legal Issues

Dr. Rolf Schwedhelm Chairman of the Related Party Transactions Audit Committee

The committee met four times for meetings in the 2023 financial year. The physical meetings took place in Hamburg on March 23, June 28, October 25 and December 11, 2023.

A regular subject of the meetings was the specification of the spot checks – in accordance with the process description for the internal procedure implemented to assess the requirements of Section 111a (2) sentence 1 AktG – and the detailed examination of these spot checks. Extensive documentation was submitted by the Executive Board and reviewed by the committee. In addition, members of the Executive Board and employees from individual departments involved in these transactions attended meetings of the committee and answered questions and held discussions with committee members.

Another point of focus of the meetings was the review of existing contractual relationships, in particular the contracts in connection with contract manufacturing by H&R Chemisch-Pharmazeutische Spezialitäten GmbH for H&R Vertrieb GmbH, between the related parties with regard to the requirements of Section 111a AktG. The documents and contracts submitted by the Executive Board as well as the information and explanations provided were evaluated by the committee and discussed in detail with the Executive Board. Individual contractual provisions were added at the suggestion of the committee.

All participants were present at the four meetings (attendance rate of 100%). In four instances, participation took place online.

Nomination Committee

Sven Hansen
Chairman of the Nomination Committee

The Nomination Committee met three times in the 2023 financial year. Following several preliminary discussions, the Nomination Committee met for the first time on March 8, 2023, and discussed the results of the search for a successor for Dr. Hartmut Schütter in detail. Despite numerous talks, no suitable candidate with the required skill set was found.

At its meeting on March 23, 2023, the Nomination Committee consequently resolved to propose to the Annual Shareholders' Meeting that Dr. Hartmut Schütter be elected to the Supervisory Board for a further term of office despite exceeding the age limit of 70 years on account of his in-depth knowledge and close involvement in the transformation process and ongoing investment projects. At the same time the Nomination Committee resolved to step up its search for a suitable candidate.

After being reelected by the shareholders at the 2023 Annual Shareholders' Meeting of H&R GmbH & Co. KGaA, Dr. Hartmut Schütter requested in the Supervisory Board meeting on December 12, 2023, that the question of his succession be settled as soon as possible. The Nomination Committee then held its third meeting of the reporting year on the same day. At that time, the succession pool consisted of four people: one woman and three men. It was decided to hold further talks with all of these people without delay.

The committee met on January 30, 2024, to address this matter, and narrowed down the group of potential candidates. Finally, on February 29, 2024, the Nomination Committee resolved to propose Dipl.-Ing. Peter Brömse, Reken, to the Annual General Meeting for election to the Supervisory Board as the successor to Dr. Hartmut Schütter following further rounds of interviews.

The attendance rate at the three committee meetings in the 2023 reporting year was 100%, with two members attending via video.

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

Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Hamburg, audited the annual and consolidated financial statements and the combined management report for H&R GmbH & Co. KGaA and the Group for financial year 2023 and issued an unqualified audit certificate for each.

The annual financial statements for H&R GmbH & Co. KGaA and the combined management report for H&R GmbH & Co. KGaA and the Group were prepared in accordance with the requirements of the German Commercial Code (HGB). The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European

Union (EU) and the additional requirements as set forth in Section 315(a), paragraph 1 of the HGB. The auditors carried out the audit in accordance with Section 317 HGB and the generally accepted auditing principles promulgated by the Institute of Public Auditors in Germany (IDW). The Executive Board distributed the aforementioned documents to the Supervisory Board in good time. The annual and consolidated financial statements and the combined management report were explained and discussed in detail by the auditor at the Audit Committee meeting on March 12, 2024.

The audit reports by Grant Thornton were distributed to all Supervisory Board members and were reviewed thoroughly in the presence of the auditors at the Supervisory Board meeting on the financial statements held on March 27, 2024. The auditors reported on particularly important audit matters, the main findings of their audit and confirmed that the internal control and risk management system had no major weaknesses as far as the accounting process was concerned. In addition, the auditors talked about significant transactions and decisions that had been taken concerning accounting policies. At the plenary meeting, the Chairman of the Audit Committee gave an extensive report on the Audit Committee's review of the annual and consolidated financial statements.

Based on the recommendation by the Audit Committee and following our own audit of the annual and consolidated financial statements, we approved the results of the audit conducted by the auditors and have no objections to raise in respect of both the annual and the consolidated financial statements including the combined management and Group management report. The annual financial statements are submitted to the Annual Shareholders' Meeting for approval.

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

The Executive Board has prepared a separate non-financial Group report for the 2023 financial year in accordance with the provisions of Sections 315b et seq. in conjunction with 289b et seq. HGB and Art. 8 of the EU Taxonomy Regulation (2020/852). The Supervisory Board has commissioned a voluntary limited assurance audit in accordance with ISAE 3000 for the non-financial report for the 2023 financial year, which will be carried out by April 30, 2024, and also by Grant Thornton. The Audit Committee and the entire Supervisory Board will duly examine the non-financial report with regard to the correctness and appropriateness of the reporting. Subsequently, the non-financial Group report will be published on the company's website.

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

The auditors informed the Supervisory Board of the outcome of the audit and issued the following auditors' opinion:

"Having carried out the audit and assessment in accordance with our professional duties, we confirm that

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

Closing Remarks and Thanks

There were no changes in the composition of the Supervisory Board of H&R GmbH & Co. KGaA in the past year. The Annual Shareholders' Meeting re-elected Dr. Hartmut Schütter to the Board for a five-year term of office.

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

All the best,

On behalf of the Supervisory Board

Dr. Joachim Girg, Chairman

H&R in the Capital Market

Capital Markets and Share Price Performance

Recovery of Global Economic Growth Falters

Overall, there was a mixed picture in the global stock markets in 2023 that was shaped by various economic and geopolitical factors. While many industry sectors were unable to register any clear catch-up effects in the form of real demand and rising sales figures, the majority of the stock markets continued to recover from the effects of the Covid-19 pandemic. Above all, the major technology companies experienced strong growth and were among the main market drivers. In particular in the areas of industry and production, however, companies saw operating burdens, for example relating to supply chains, energy and raw materials prices, and increasing regulation, which influenced the results and, indirectly, also share valuations. In particular, the focus on environmental, social and governance (ESG) criteria increased, resulting in strong interest in green technology shares, renewable energies and sustainable investments.

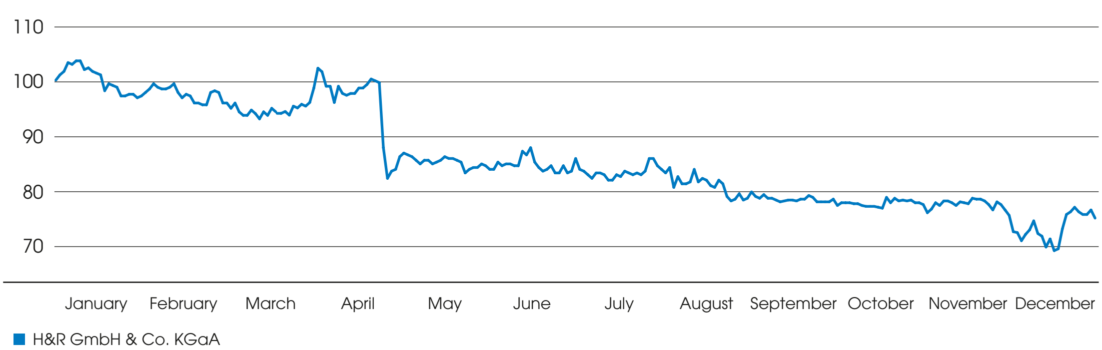
H&R Share Price Under Pressure Over the Course of the Year

For stocks such as the H&R share with a business model closely tied to the volatile raw materials markets and to energy cost developments, the situation remained difficult.

The company has made a clear commitment to the transformation of its own business model and is laying the groundwork for this accordingly. Future performance nevertheless continues to depend on how quickly and to what extent non-fossil feedstocks will be available to us. Other sectors and other companies may be able to transform their own business models more quickly, thereby promising their investors significantly shorter-term profit prospects. Pressure on the H&R KGaA share was accordingly high. Based on the price of €6.20 at the start of the year, the share attempted to climb toward the €6.50 mark throughout January, but only achieved a maximum of €6.42. The share remained above €6.00 until publication of the Q1 results, but then continued to yield in the course of the year at the same time as the company figures improved. At year-end, the share ended trading at €4.68, down approximately 25%.

PERFORMANCE OF THE H&R SHARE

(INDEX JAN. 2, 2023=100)



BASIC DATA ON THE H&R SHARE

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

Number of Shares, Market Capitalization and Trading Volume

The number of company shares issued totaled 37,221,746 as of December 31, 2022.

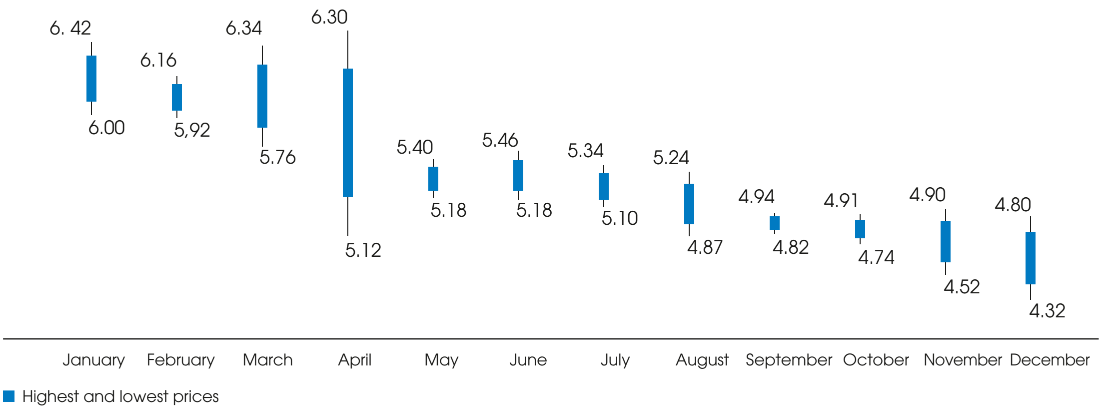
As a company in the Prime Standard segment, H&R KGaA meets exacting disclosure and transparency standards. The share price can be obtained from the trading systems and the financial press. Around 1.7 million shares were traded for H&R via Xetra last year. Another 870 thousand shares changed hands via Tradegate, Deutsche Börse's platform for private investors. There were therefore approximately 2.5 million traded shares in 2023, compared to 4.2 million in 2022. In terms of daily volumes and closing prices, the total trading volume resulting from this stood at around €13.5 million (previous year: €28.9 million).

KEY SHARE DATA/XETRA CLOSING PRICES

	2023	2022	2021	2020	2019
Number of shares on December 31	37,221,746	37,221,746	37,221,746	37,221,746	37,221,746
Earnings per share	€0.30	€1.15	€1.35	€-0.24	€-0.04
Highest price for the year	€6.42	€7.58	€10.25	€6.23	€7.99
Lowest price for the year	€4.32	€5.30	€5.31	€3.56	€4.93
Price on December 31	€4.68	€6.02	€7.02	€5.47	€5.22
Market capitalization on December 31	€174.2 million	€224.1 million	€261.3 million	€203.6 million	€194.3 million
Average daily trading volume	€ 53 thousand	€113 thousand	€270 thousand	€316 thousand	€162 thousand

HIGHEST AND LOWEST PRICES OF THE H&R SHARE IN 2023/XETRA CLOSING PRICES

IN €



Shareholder Structure

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

According to an informal notification, the stake in the share capital held by Mr. Wilhelm Scholten on December 31, 2023, was unchanged at 6.06%. 5.45% of this was held via Wilhelm Scholten Beteiligungen GmbH and the remaining 0.61% was held via Ölfabrik Wilhelm Scholten GmbH and a subsidiary.

The remaining 32.5% of H&R shares were in free float as of December 31, 2023. Of these, around 2.4% were in turn held by institutional investors.

RESEARCH COVERAGE OF THE H&R SHARE
Kepler Cheuvreux
Baader Bank
DZ Bank

Get in Touch

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

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

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

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

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Fax: +49 (0) 40-43218-390
E-mail: investor.relations@hur.com
Website: www.hur.com

Combined Management and Group Management Report of H&R GmbH & Co. KGaA

Group Fundamentals

Corporate Structure and Business Model

Sectors and Organizational Structure

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

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

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

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

Group's Legal Structure

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

At the end of the reporting period, there were 47 consolidated subsidiaries (December 31, 2022: 48). The list of shareholdings can be found in the notes to the consolidated financial statements under "Scope of Consolidation and Holdings". The ChemPharm Refining segment, which primarily consists of the specialty production sites in Germany, has a functional management structure. Managerial staff within this segment have cross-site responsibility for key functions such as raw materials purchasing, project management, accounting, and sales/distribution.

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

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

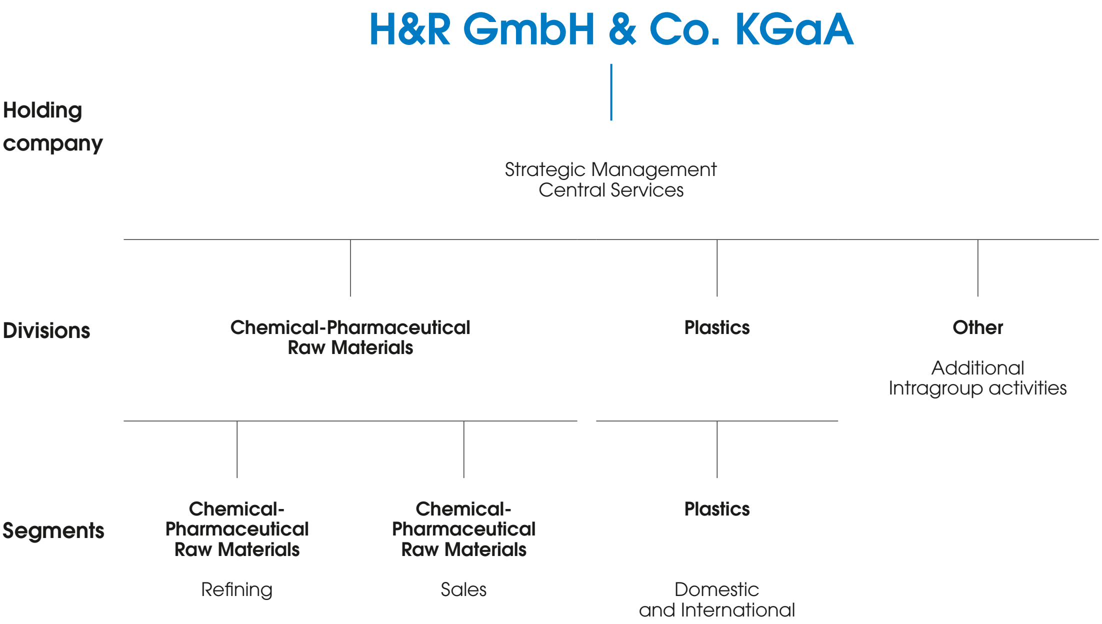
Sites

At year-end 2023, our Group employed 1,704 people worldwide (December 31, 2022: 1,631). The following overview shows the most important sites of our three segments with more than 25 employees:

MAIN SITES IN THE H&R GROUP

Continent	Country	City	Division	Employees
Africa	South Africa	Durban	ChemPharm	70
Asia	China	Wuxi	Plastics	141
		Ningbo/ Daxie	ChemPharm	121
		Fushun	ChemPharm	104
	Thailand	Bangkok/ Si Racha	ChemPharm	70
Europe	Germany	Hamburg	ChemPharm	319
		Salzbergen	ChemPharm	423
		Coburg	Plastics	116
	Benelux	Nuth	ChemPharm	36
	United Kingdom	Tipton	ChemPharm	49
	Czech Republic	Dačice	Plastics	88

OVERVIEW OF GROUP STRUCTURE



Main Products, Services and Business Processes

At our domestic production sites in the ChemPharm Refining segment, we are currently using hydrocarbon-based feedstocks. Bio-based products, synthesized products and recycled base materials are likewise already used as feedstock in addition to fossil products. Our feedstocks are used to produce approximately 800 specialty products: process oils, technical and medical white oils, paraffins and wax products. By-products and co-products produced as part of our processes are either processed to produce other high-quality specialty products or are used in bitumen to build roads. Another part is sold on to refineries as feedstock. At special filling facilities, we also formulate end products based on well-known end customers' formulations.

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

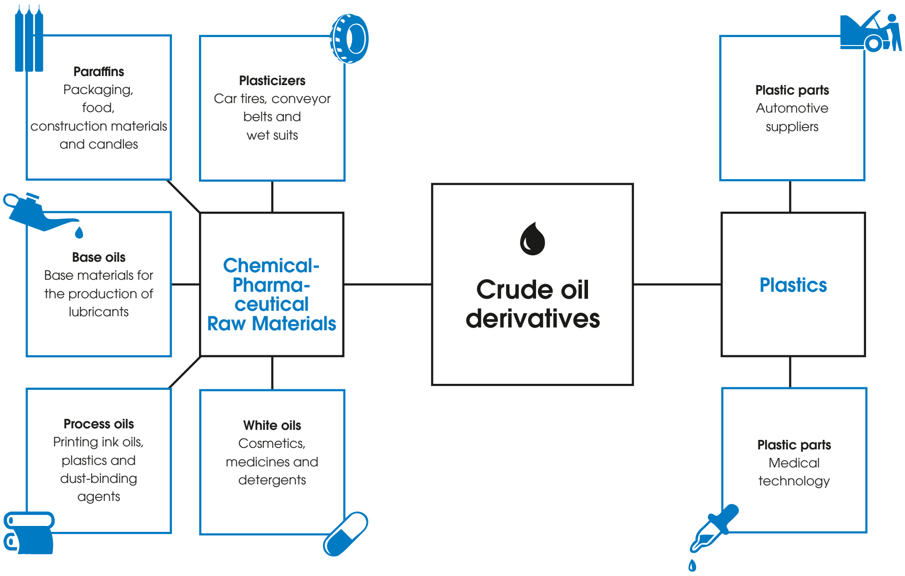
In the Plastics segment, we manufacture precision plastic parts, as well as components and medical consumables.

Objectives and Strategy

Key Purchasing and Sales Markets and Competitive Situation

The basis of our production of chemical-pharmaceutical specialty products are hydrocarbons from fossil-based, synthetic or bio-based sources. We mainly source our fossil-based feedstocks from fuel refinery operators. Bio-based, synthetic and recycled products originate from our network of partners, from sources available on the market and from our own production. Consistently focusing on the customers' applications, we generate chemical-pharmaceutical specialty products from these. Over the decades, we have developed a solid market presence.

CRUDE OIL SPECIALTIES



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

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

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

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

2023 was characterized by a macroeconomic situation which was recovering only very slowly from the impacts of the pandemic, Russia's invasion of Ukraine and the rising cost of living. In hindsight, the resilience – including that of H&R KGaA – is quite remarkable. In spite of the upheavals in the raw materials, energy and food markets related to war and the high inflation, the global economy slowed down, but did not come to a standstill.

The obvious causes of this slowing down are the continued high inflation in many parts of the world and the consequently tighter monetary policy in particular in the United States and the euro area. On top of this, there is the still slow economic recovery in China. In addition to the aforementioned war in Ukraine, other ongoing geopolitical tensions, in particular between the United States and China, contributed to there being little growth in global trade.

Legal and Economic Factors

Economic Factors

Russia's war against Ukraine and its consequences undoubtedly remained of overriding significance as an economic factor in the past financial year.

Whereas 2022 was characterized by high feedstock and energy prices, high demand from our customer industries for reliable delivery volumes and a willingness to pay reasonable prices for them, the past financial year was shaped by generally lower feedstock costs and therefore also material expenses. The high energy costs, a well-known competitive disadvantage for Germany industry when compared globally, were somewhat offset by market policy instruments such as the electricity price cap. In contrast, demand – a key driver of successful business development – remained rather moderate. Many of our customers were less optimistic about their own situation and were in particular extremely price-sensitive. Product prices accordingly continued to be very much determined by competition, in particular volumes from Southern European refineries making negotiations with a number of our customers more difficult, which in turn made passing on the above costs a sensitive issue. The countries in the southeast of the European Union benefited in particular from their special status regarding the ongoing purchasing of Russian raw materials and used this to subsidize their own end products produced in the EU.

The issue of the cost of materials is closely related to currency translation effects. The price of crude oil worldwide is denominated in US dollars, meaning that H&R is directly affected by fluctuations in this reserve currency and the corresponding currency translation effects, due to its high requirements for raw materials and the fact that raw material supplies are sourced internationally. In the Plastics segment, too, we may see currency translation effects due to the multinational distribution of sites across Germany, China, the United States and the Czech Republic, as well as its dependence on, for example, increases in the price of raw materials traded in foreign currencies. These effects were of an insignificant magnitude in financial year 2023.

Legal Factors

In addition to compliance with the rule of law in general, licensing issues are paramount for H&R, such as regarding the operation of plants or the Regulation on the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). We are seeing increasing hurdles here involving ever greater complexity and lengthier and more extensive procedures coupled with shorter approval windows.

Again in 2023, there were aspects to be considered in relation to Russia's war against Ukraine. First and foremost, there is sanctions law, which legally restricted trade with Russia above all for European market participants. In contrast to the previous year, the German government's other economic and regulatory policy responses to the overall developments were much more constructive, however: following uncertainties regarding gas contingency planning and the debate concerning windfall taxes, the government intervened to support the market with the energy and electricity price caps.

Objectives

Across all of its divisions, H&R strives to achieve sustainable and commercially successful development in its income. We have set ourselves the ambitious goal of producing 70% of our core products on the basis of renewable resources by 2030 and of making our production climate-neutral by 2035. In doing so, we are following a comprehensive approach, which goes beyond the pure raw material aspect/increased use of bio-based or synthesized products. We also intend to drive forward the approach of increased sustainability through the efficient use of water, energy and heat. We additionally intend to continuously develop our expertise in this field in order to successfully continue on the path toward increased sustainability. The previous guiding principle of a "green refinery" that ideally produces as few combustion products as possible on the basis of fossil fuels will initially be replaced with a more sustainable and, in the medium term, climate-neutral production site.

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

Strategy

The umbrella term used to describe our strategic approach is **G.A.T.E.**, referring to a "gateway to the future". In line with our goal of achieving further international expansion, we see ourselves as a company that thinks **g**lobally. At the same time, we are building regional connections and we operate at a local level. The most important driver of our economic activity is our proximity to the market, which enables us to always **a**ct with a deep understanding of our customers' specifications and needs in a user-oriented manner. We also remain "**t**echnovative" by ensuring that our sites are always on the cutting edge of technological development and by keeping a close eye on innovative process and product solutions. We successfully combine economy and ecology, acting in an economically prudent way, with full awareness of the resources we are using. **E**co², i.e., "ecology x economy", increases the potential in both areas exponentially while representing a key step toward sustainability.

We still regard the selection of our raw materials as the factor with the greatest leverage. In this respect, we have been pursuing a "three-pillar strategy" for several years. It describes the path away from fossil base materials toward more bio-based and synthesized products. The objective is a sustainable supply of raw materials with renewable hydrocarbons, which have the same properties as crude oil, without its fossil-based DNA. Therefore, H&R is not aiming to decarbonize its production processes, but intends to change the source of carbon instead. The traditional fossil-based raw materials are to be replaced with water, green electricity from the wind and sun, biomass and recycled base materials. By technically further developing our production processes and closely coordinating with our customer industries, we want to expand our portfolio of feedstocks that can be used by introducing sustainable grades and generate climate-friendly and market-oriented specialty products at the end of the value chain.

Status of the Realization of the Strategic Objectives in Financial Year 2023

We generally adhered to our objectives and the strategy in 2023. We are of the opinion that there are no alternatives to topics such as sustainability, resource conservation and the efficient use of resources; in other words, objectives which are important not only to the company, but also sociopolitically. Transformation of the Group's own business model is nevertheless neither an end in itself, nor can it be considered entirely independently of overall economic developments. It has to be financeable – on the basis of existing business – and it has to be realizable throughout the value chain. In the past year, we unfortunately neither saw a broader offering for the procurement of sustainable feedstocks, nor could we discern a clear willingness on the part of our customers to accordingly also pay more for sustainable products. The latter was above all attributable to the customers' own situations in the financial year and does not, in our opinion, constitute a structural and general hurdle. We nevertheless pressed ahead with our efforts to be more sustainable: expansion of the site in Lumut, Malaysia, was advanced in 2023 and preparations for its startup were made. When fully operational, the site will be used above all for the processing of bio-based sustainable feedstocks. The site will additionally enhance the supply situation in Asia, an important region for us, while simultaneously reducing the carbon emissions caused to date for transportation between Europe and Asia.

Overall, fewer by-products were ultimately combusted again this time. Thanks to target-oriented sales/distribution and customers requesting specific compositions of certain by-products, we succeeded in selling more of these components to other refinery customers. Instead of being used for combustion, for example as marine diesel oil, these components, which are known as cracker feed, were converted into other value added products. For 2023, the share of by-products that were able to be sold in higher-quality applications was over 95%.

Company Control

Internal Management System

The Group is managed based on the comprehensive reporting of key performance indicators and ratios that look at the areas of profitability, liquidity, the capital structure and operating performance. In addition to this, we monitor both company-specific and macroeconomic early indicators. At the production level, this includes data relating to plant availability, throughput volumes and quality parameters. In sales and distribution, we draw on sales volume statistics, general market data and macroeconomic early indicators for their management. The management system also consists of monthly reports from the divisions, the management of risks and opportunities and our functional management structure, whereby responsibility is assigned for more than one site in important areas such as raw materials purchasing, project management and sales/distribution.

Control Parameters

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

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

H&R KGaA calculates EBITDA as follows:

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

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

RECONCILIATION OF OPERATING INCOME (EBITDA) TO CONSOLIDATED INCOME (IFRS)

IN € MILLION	2023	2022
Operating income (EBITDA) of H&R GmbH & Co. KGaA	92.7	124.9
Depreciation and amortization of intangible assets and property, plant and equipment	-62.4	-55.3
Financing income	1.2	0.3
Financing expenses	-12.7	-7.8
Income taxes	-8.2	-16.7
Consolidated income	10.6	45.4

We calculate the EBT as income before tax.

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

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

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

CHANGE IN FREE CASH FLOW

IN € MILLION	2023	2022	2021	2020	2019
Cash flow from operating activities	119.1	38.0	37.4	60.1	95.9
Cash flow from investing activities	-56.3	-72.5	-48.6	-38.1	-75.1
Free cash flow	62.8	-34.5	-11.1	22.0	20.8

The starting point for calculating and reporting cash flow from operating activities in 2023 was, first of all, consolidated income which had fallen by around 76.7% year-over-year to €10.6 million (December 31, 2022: €45.4 million). With this as a basis, we generated a significantly improved cash flow of €119.1 million in spite of higher depreciation and amortization due to the simultaneous decrease in net current assets (December 31, 2021: €38.0 million). Investing activity was around 22.4% lower in the past financial year, amounting to €-56.3 million (December 31, 2022: €-72.5 million). As a result, there was a corresponding recovery in free cash flow, which rose from €-34.5 million to €62.8 million.

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

Another control parameter relating to our capital structure is net gearing, which is the ratio of our net financial debt to equity. As a consequence of debt being significantly reduced in the course of 2023 while equity fell only to a limited degree, this performance indicator fell from 42.9% to 29.1%.

CAPITAL STRUCTURE

	2023	2022	2021	2020	2019
Net debt/EBITDA	1.46	1.52	1.13	2.25	2.42
Equity ratio (in %)	50.6	49.0	46.7	46.5	43.3
Net gearing in %	29.1	42.9	39.9	35.3	37.4

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

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

INCOME AND VOLUME TREND

IN € MILLION	2023	2022	2021	2020	2019
Sales volume of core products in kt[1)]	799	811	869	805	815
EBITDA	92.7	124.9	132.5	55.8	52.9
of which REFINING	58.1	92.7	103.4	35.2	29.2
of which SALES	31.5	33.4	29.0	25.9	30.7
of which PLASTICS	4.7	5.0	3.9	-0.4	-4.9
EBIT	30.3	69.6	81.6	-0.3	7.4
EBT – income before tax	18.8	62.0	73.4	-10.4	-1.2

1) Chemical-Pharmaceutical Raw Materials division.

Research and Development

Focus of Our R&D Activities

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

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

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

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

Plastics. The use of increasingly sophisticated technologies in vehicles to reduce fuel consumption and carbon emissions is leading to a growing demand for lightweight and simultaneously complex plastic parts. We often develop such parts – which consist of several different materials – in cooperation with our customers. In light of the increasing trend toward electric mobility, we expect the intended range optimization in this sector to lead to the further and accelerated substitution of metal with plastic parts.

R&D Expenses

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

At just over €2.0 million, R&D spending was on a par with the previous year. Our R&D ratio, defined as R&D expense divided by sales, was above the previous year, at 0.15%, due to the significant decline in sales.

RESEARCH AND DEVELOPMENT COSTS

IN € THOUSAND	2023	2022	2021	2020	2019
Research and development costs	2,051	2,030	2,520	2,795	2,801
of which ChemPharm	1,919	1,924	2,031	2,240	2,216
of which Plastics	132	106	489	555	585
as % of annual sales	0.15	0.13	0.21	0.32	0.26

Report on Economic Position

Trends in the Business Environment

Macroeconomic Conditions

In the opinion of the experts at the International Monetary Fund (IMF), the global economy developed only moderately in the course of 2023, but was nevertheless very stable. Above all, inflation fell faster than expected, as likewise assessed by the OECD. The economy proved to be surprisingly robust in 2023 in particular in the United States as well as in emerging markets and developing countries. In other regions in contrast, this growth dynamic was barely noticeable: in the euro area, for example, growth remained muted due to weak consumption, high energy prices and cautious investment. In total, the IMF estimated the increase in global output in 2023 at 3.1% at the beginning of 2024, with growth in 2024 likely to be exactly the same at 3.1%. The OECD reaches the same conclusion for 2023, but is slightly more pessimistic regarding 2024, with a forecast of 2.9% growth.

According to the IMF and the OECD, growth in the euro area came to 0.5% in 2023, but should recover to 0.9% (IMF) or 0.6% (OECD) in 2024. The expectation is that the upswing will be driven by stronger private household consumption, as the impacts of the energy price shock are dwindling and inflation is falling, thus buoying growth in real incomes. In comparison to their forecasts in late fall 2023, however, both organizations have revised their expectations downward by 0.3 percentage points, this primarily being attributable to a carryover of the weaker than expected 2023 result.

The outlook for the Germany economy began to look gloomier in the fall. While temporary stress factors such as supply bottlenecks subsided, many businesses were anticipating that economic momentum would remain weak up to the end of the year. The OECD and IMF experts accordingly noted a drop in the 2023 gross domestic product in early 2024, estimated at -0.3% (IMF) and -0.1% (OECD). However, impetus should come in 2024 from increases in real wages as a driver of the consumer-related industries. In view of the large order backlogs, industry will also be able to ramp up its production slightly again, even though no major momentum can be expected from the global economy for the time being. In all, gross domestic product is likely to increase by between 0.3% (OECD) and 0.5% (IMF).

EXCHANGE RATES US$ PER € IN 2023

(CLOSING RATE US$ PER €)

The euro, which is the functional currency used to calculate the earnings trend at H&R KGaA, started the financial year at an exchange rate of US$1.07. The single currency hit its high for the year of US$1.12 in mid-July, before falling to a low of US$1.05 in October. There were then signs of a recovery in the closing quarter, which took the euro to € 1.10 at the end of the year.

Crude oil prices (all data refer to the daily closing prices for a barrel of North Sea Brent) fluctuated greatly in the course of the year, but remained permanently below the levels seen in 2022. Starting from around US$84 at the beginning of the year, the price initially fluctuated up to the mid-year point within a range from US$88 as its high to US$71, the lowest price for the year. Oil became increasingly expensive from summer, leading to prices around the US$95 mark having to be paid in September. Surprisingly, the terror attack on Israel and the consequences of the war for Gaza had next to no impact on the price of oil: the oil price fell continuously in the closing quarter of 2023. It was trading at US$77 for a barrel of Brent at the end of the year. We had originally assumed a significantly higher average annual price of US$110 per barrel of North Sea Brent for the budget year.

Industry-specific Climate

The German Chemical Industry Association (VCI) believed the business trend in the chemical sector had bottomed out at the end of the year, but was not yet able to identify a turnaround. Accordingly, the German chemical industry merely trod water, above all because the high energy and raw materials prices and the lack of orders burdened business up to the close of the year. The VCI saw its member companies in particular having to cut their costs by closing production facilities, abandoning individual business areas or transferring investments abroad.

The decline in production for 2023 as a whole totaled 8%. Industry sales even fell by around 12%.

Overview of Business Development and Performance

In 2023, H&R sold a total of 798,885 tons of core products from its Chemical-Pharmaceutical Raw Materials division (2022: 810,863 tons) to external customers. Due to price factors, it generated lower sales than in the previous year, at €1.35 billion (2022: €1.58 billion). Considerably less needed to be spent in particular on feedstocks and energy than in the previous year, at €1.03 billion (2022: €1.27 billion). All in all, the operating income (EBITDA) generated by the Group amounted to €92.7 million (2022: €124.9 million).

Events With a Major Impact on Business Development and Performance

Overall, the Group's €1,352.3 million of sales was around 14.2% below the prior-year level (2022: €1,576.0 million). The reduced sales development was driven above all by significantly lower raw materials and energy costs than in the previous year.

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

The expectations with which H&R KGaA started financial year 2023 were based on the assumption that developments would be muted compared with the previous year. We predicted rising sales but significantly lower operating income (EBITDA) ranging between €95.0 million and €110.0 million in comparison to 2022. However, after the first quarter of 2023, it was already evident that, mathematically speaking and even if an optimistic view was taken of the rest of the year, achieving this was highly unlikely. Following a significant correction to a range of €70.0 million to €90.0 million after the first quarter, we revised our forecast in November ("minimum EBITDA of €80.0 million") and most recently again in December to EBITDA of approximately €90.0 million. Sales revenue totaling €1,352.3 was ultimately achieved – less than expected at the start of the year. At €92.7 million, the EBITDA recognized in the consolidated income statement for the financial year was once again slightly above our projected range.

The consolidated net income attributable to shareholders, which we did not forecast, was €10.6 million for 2023 (2022: €42.7 million).

FORECASTS FOR FINANCIAL YEAR 2023

Forecast date	Publication of the 2022 annual report	Publication of Q1/2023	Ad hoc 10/2023	Ad hoc 12/2023	Actual value
Total sales	"€1,700.0 million to €1,900.0 million"	not defined	not defined	not defined	€1,352.3 million
Sales in ChemPharm Refining	"≥ €1,122.0 million"	not defined	not defined	not defined	€828.2 million
Sales in ChemPharm Sales	"≥ €527.0 million"	not defined	not defined	not defined	€492.7 million
Sales in Plastics	"≥ €51.0 million"	not defined	not defined	not defined	€51.3 million
EBITDA at Group level	"between €95.0 million and €110.0 million"	"€70.0 million to €90.0 million"	"between €80.0 million and €90.0 million"	"around €90.0 million"	€92.7 million

In the Chemical-Pharmaceutical Raw Materials division, sales were below the prior-year level at €1,320.9 million due to raw materials price factors (2022: €1,547.3 million). Considered separately, the revenue of the segments was also below the prior-year figures, but did come closer and closer to the forecasts from the beginning of the year as the year progressed or indeed surpassed them. Instead of the figure of at least €64.6 million of EBITDA expected at the start of the year in the forecast report, our refinery sites did at least generate a total of €58.1 million. The international activities of the ChemPharm Sales segment contributed another €31.5 million to the operating income and came close to matching the prior-year figure. A contribution of €26.6 million had been expected. The Plastics division likewise developed stably. The segment achieved sales revenue above the prior-year level at €51.3 million (2022: €49.0 million) in spite of the volatile situation in the automotive industry. EBITDA was also stable and totaled €4.7 million, thereby likewise surpassing the expectations at the beginning of the year (€3.8 million). In the previous year, operating income was only €5.0 million.

Economic Position of the H&R Group

Assessment of Economic Performance and Overall Statement by the Management Board

H&R's business performance was initially much more muted during the reporting period than the Management Board had expected at the beginning of 2023. This was primarily due to energy and electricity costs remaining high until the price caps took effect and the far greater fluctuation in demand among many customer industries compared with the previous year. At the same time, the cost of raw materials stabilized at a level which was high but still considerably lower than in 2022. Overall, the Group proved to be extremely robust and achieved a pleasing result for the year, with operating income of €92.7 million.

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

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

Results of Operations

In financial year 2023, we generated sales of €1,352.3 million (previous year: €1,576.0 million), down on the previous year's level. The revenue share from the Chemical-Pharmaceutical business (sales contribution in 2023: 96.2%; previous year: 96.9%) fell significantly in both segments: 18.9% in the ChemPharm Refining segment and 6.5% in the ChemPharm Sales segment. In the Plastics segment, meanwhile, there was an increase in sales of 4.7% (sales contribution in 2023: 3.8%; previous year: 3.7%). In terms of operating income (EBITDA), the Refining segment yielded 37.3%, while the Sales segment shrank by a much smaller 5.8%. The Plastics segment reduced by 6.8%. Overall, consolidated operating income (EBITDA) totaled €92.7 million (previous year: €124.9 million). Driven by the weaker year-over-year result, there was a 1.0-percentage-point drop in the EBITDA margin to 6.9%, compared to 7.9% in 2022.

Due to higher depreciation and amortization, consolidated income before interest and taxes (EBIT) totaled €30.3 million in 2023 (previous year: €69.6 million). Income before tax (EBT) decreased from €62.0 million in 2022 to €18.8 million. Consolidated income attributable to shareholders amounted to €10.6 million (previous year: €42.7 million).

The company reported lower earnings per share of €0.28 for 2023, as against €1.15 per share in the prior-year period.

CHANGES IN SALES AND INCOME

IN € MILLION	2023	2022	2021	2020	2019
Sales revenue	1,352.3	1,576.0	1,188.4	873	1,075.3
EBITDA	92.7	124.9	132.5	55.8	52.9
EBIT	30.3	69.6	81.6	-0.3	7.4
Income before tax	18.8	62.0	73.4	-10.4	-1.2
Consolidated income attributable to shareholders	10.6	42.7	50.2	-9.0	-1.4
Earnings per share	0.28	1.15	1.35	-0.24	-0.04

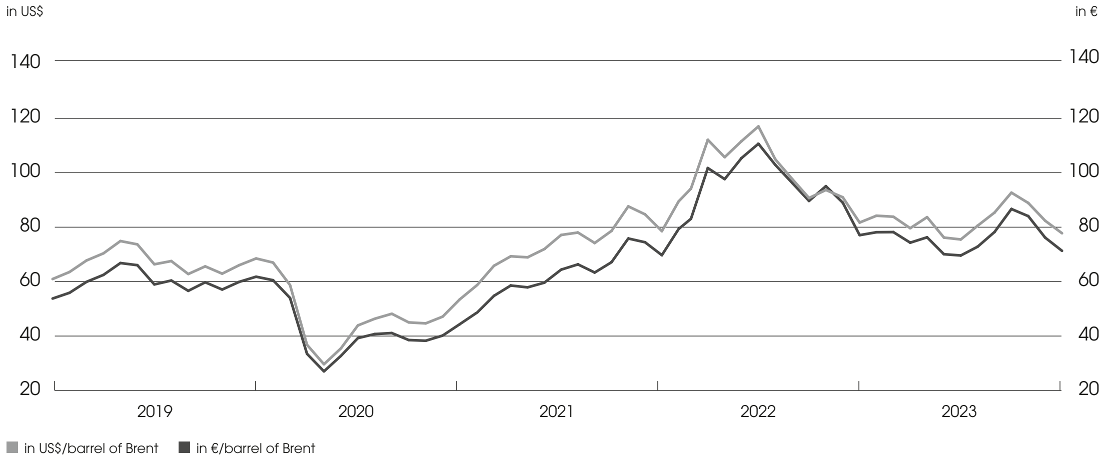
Trend in Orders

Throughout 2023, new orders for products in our Chemical-Pharmaceutical business reflected varying factors. Whereas in the previous year in direct relation to the emerging war in Ukraine, reliable producers like H&R who were able to deliver were especially in demand, our customer industries and their end customers faced a secure supply situation in 2023, but were suffering due to the generally high costs of raw materials, energy, logistics and the necessary services. Many market participants were accordingly cautious regarding their purchase volumes. This affected our two German production sites more than our international business. The tonnages of the core products sold therefore failed to match the previous year's figure in the Refining segment. International business, on the other hand, was able to increase its sales. Overall, volumes were therefore similar in both segments.

In the Plastics division, the figures were generally on a par with the prior-year level, suggesting stable development. There was a positive result for the automotive sector year-over-year: a good 2.8 million new vehicles were registered in the German car market in 2023, 7% more than in 2022. In addition to the original equipment manufacturers, those to benefit were the suppliers of components small parts, including the GAUDLITZ companies.

OIL PRICES 2019–2023

(AVERAGE MONTHLY PRICES)



Trends in the Main Items on the Income Statement

During the reporting period, there was a €-17.2 million change in inventories of finished products and work in progress (previous year: €36.0 million). After two substantial increases in the previous years, our cost of materials fell by 18.9% to €1,033.1 million in financial year 2023 (previous year: €1,274.0 million) as a direct consequence of the lower raw materials and energy prices.

TRENDS IN THE MAIN ITEMS ON THE INCOME STATEMENT

IN € MILLION	2023	2022	2021	2020	2019
Sales revenue	1,352.3	1,576.0	1,188.4	873	1,075.3
Changes in inventories	-17.2	36.0	31.1	-24.8	-1.7
Other operating income	29.9	37.1	29.6	28	25.6
Cost of materials	-1,033.1	-1,274.0	-901.6	-634.3	-844.6
Personnel expenses	-102.8	-99.6	-99.2	-83.0	-88.5
Depreciation and amortization	-62.4	-55.3	-50.9	-56.1	-45.5
Other operating expenses	-135.9	-150.2	-115.6	-103.2	-113.8
Operating result	**30.7**	**70.2**	**81.7**	**-0.3**	**6.9**
Financial income	-11.9	-8.2	-8.4	-10.1	-8.1
Consolidated income before taxes	**18.8**	**62.0**	**73.4**	**-10.4**	**-1.2**
Consolidated income before minority interests	**10.6**	**45.4**	**52.5**	**-7.8**	**0.1**
Consolidated income attributable to shareholders	**10.6**	**42.7**	**50.2**	**-9.0**	**-1.4**

Personnel expenses increased to €102.8 million (previous year: €99.6 million) as a consequence of growth in the workforce, contractual tariff adjustments and higher profit-sharing due to the good consolidated income.

There was marginal impairment of goodwill totaling €0.4 million. Depreciation and amortization totaled €62.4 million (2023: €55.3 million).

Earnings Trend by Segment

ChemPharm Refining. Sales volumes of core products at our Group's largest segment fell approximately 3.9% short of the prior-year figure to total 394,419 tons (2022: 410,454 tons).

The lower segment sales were due above all to the reduced cost of raw materials being passed on in the form of lower product prices. All in all, sales amounted to €828.2 million (previous year: €1,020.6 million). In addition, operating income (EBITDA) for the segment fell by approximately 37.3% year-over-year, from €92.7 million in the previous year to €58.1 million.

ChemPharm Sales. Sales in the international segment fell by 6.5% to €492.7 million (previous year: €526.7 million). At the same time, however, we recorded a slight growth in sales from around 400,409 tons in the previous year to 404,465 tons in 2023. As in previous years, there were mixed developments in income at our subsidiaries, but they were generally less profitable than in the last year: all in all, income was approximately 5.8% lower than our prior-year result at €31.5 million (2022: €33.4 million).

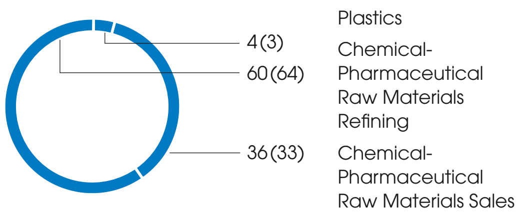
Plastics. With €51.3 million in sales, our Plastics segment made more of a contribution to total sales than in the previous year (2022: €49.0 million). After contributing €5.0 million to operating income (EBITDA) in the previous year, the segment achieved a comparable EBITDA level in absolute terms in the reporting period (€4.7 million).

KEY FIGURES BY SEGMENT (IFRS)

IN € MILLION	2023	2022	2021	2020	2019
Sales revenue					
ChemPharm Refining	828.2	1,020.6	745.3	524.6	665.0
ChemPharm Sales	492.7	526.7	412.2	317.0	376.9
Plastics	51.3	49.0	43.8	40.1	43.2
Reconciliation	-20.0	-20.3	-12.8	-8.7	-9.9
Operating income (EBITDA)					
ChemPharm Refining	58.1	92.7	103.4	35.2	29.2
ChemPharm Sales	31.5	33.4	29.0	25.9	30.7
Plastics	4.7	5.0	3.9	-0.4	-4.9
Reconciliation	-1.6	-6.2	-3.8	-4.9	-2.2

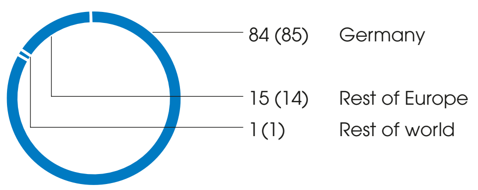
SALES BY SEGMENT IN 2023

IN % (PREVIOUS YEAR'S FIGURES)



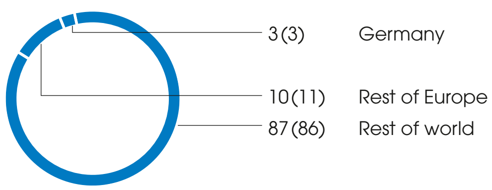
SALES BY REGION IN THE CHEMPHARM REFINING SEGMENT IN 2023

IN % (PREVIOUS YEAR'S FIGURES)



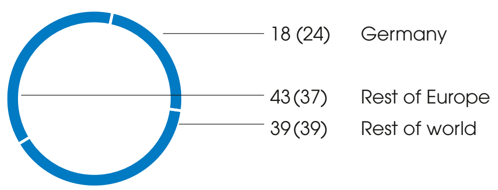
SALES BY REGION IN THE CHEMPHARM SALES SEGMENT IN 2023

IN % (PREVIOUS YEAR'S FIGURES)



SALES BY REGION IN THE PLASTICS SEGMENT IN 2023

IN % (PREVIOUS YEAR'S FIGURES)



Net Assets and Financial Position

Financial Management Principles and Objectives

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

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

We cover our short-term financing needs using a widely syndicated, variable-interest syndicated loan currently with a term up to December 8, 2028. In order to ensure that we remain solvent at all times and to make efficient use of the liquidity of our German subsidiaries, the latter is incorporated into the cash pool structures in place at H&R GmbH & Co. KGaA.

We currently cover our long-term financing needs primarily using bilateral bank loans, the majority of which are refinanced by the German development bank KfW, with interest rates of between 1.5% and 4.46%.

MAIN FINANCING INSTRUMENTS OF THE H&R GROUP

	Original loan amount in € million	Year of issue	Current loan amount in € million	Maturity
Syndicated loan	up to 230.0	2022	52.4	12/8/2028
Redeemable loan	28.8	2015	1.0	12/31/2023
Redeemable loan	10.0	2017	4.2	6/30/2027
Redeemable loan	19.0	2017	5.9	6/30/2026
Redeemable loan	14.5	2017	6.8	9/30/2027
Redeemable loan	7.0	2019	3.0	3/31/2027
Redeemable loan	13.3	2021	10.0	12/31/2026
Redeemable loan	13.3	2021	10.8	12/31/2026
Redeemable loan	30.0	2021	30.0	12/16/2026
Redeemable loan	25.0	2022	25.0	6/30/2032

As of December 31, 2023, there were firmly agreed but unused credit lines in the amount of €156.3 million.

Analysis of the Cash Flow Statement

In spite of significantly lower consolidated income of €10.6 million (2022: €45.4 million), cash flow from operating activities totaled €119.1 million in the reporting period and was therefore well above the prior-year level (previous year: €38.0 million). This amount included €62.4 million of depreciation and amortization (previous year: €55.3 million). This improved performance was driven above all by the lower procurement prices for our feedstocks, which resulted in a significant easing in our net working capital requirements.

Cash flow from investing activities fell from €-72.5 million to €-56.3 million. The main component of this item was the €-53.3 million spent on investments in property, plant and equipment in connection with projects realized in our specialty refineries and sites (2022: €-64.7 million). In total, free cash flow improved significantly to €62.8 million (previous year: €-34.5 million).

Overall, financing activities resulted in a net cash outflow of €-46.9 million (previous year: €41.5 million). Financial liabilities, which had already been steadily reduced in the past, were further reduced in 2023 (€-172.8 million; 2022: €-218.1 million). At the same time, however, new borrowings were down year-over-year at €129.6 million (2022: €259.6 million). At the end of the reporting period, cash and cash equivalents amounted to €69.4 million, compared to €56.0 million a year earlier.

In the fourth quarter of 2023 alone, the company reported a cash flow from operating activities of €17.4 million (Q4/2022: €47.0 million). With investing activities up year-over-year at €-69.3 million (2022: €-21.1 million), the free cash flow for the fourth quarter of 2023 fell to €-51.9 million (Q4/2022: €25.8 million).

The company was able to fulfill its payment obligations at all times in 2023. The total amount of liabilities to banks was €157.6 million as of the reporting date.

FINANCIAL POSITION

IN € MILLION	2023	2022	2021	2020	2019
Cash flow from operating activities	119.1	38.0	37.4	60.1	95.9
Cash flow from investing activities	-56.3	-72.5	-48.6	-38.1	-75.1
Free cash flow	62.8	-34.5	-11.1	22.0	20.6
Cash flow from financing activities	-46.9	41.5	2.5	-57.7	25.4
Cash and cash equivalents as of Dec. 31	69.4	56.0	48.9	55.0	94.8

Capital Expenditure

During the reporting period, our investments in property, plant and equipment of €51.9 million were significantly lower than in the previous year (2022: €65.6 million). We invested a total of €45.1 million in the Chemical-Pharmaceutical Raw Materials division in 2023 (previous year: €58.9 million). A substantial portion of this amount (€41.0 million) was again invested in the ChemPharm Refining segment, where it was used to expand and replace capital assets at the specialty refineries in Hamburg and Salzbergen.

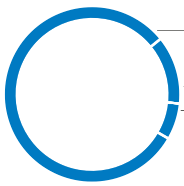
The division's remaining €4.1 million of capital expenditure was divided among our ChemPharm Sales segment's international sites.

In the Plastics segment, investments in property, plant and equipment came to €6.7 million (previous year: €5.5 million). The segment's comparatively high capital expenditure for the second consecutive year relates to the relocation of production to the Czech Republic.

In total, an order commitment for property, plant and equipment amounting to €10.7 million existed as of December 31, 2023. Its financing was secured by existing resources and credit lines.

CAPITAL EXPENDITURE BY REGION IN 2023

IN % (PREVIOUS YEAR'S FIGURES)



CAPITAL EXPENDITURE BY SEGMENT

IN € MILLION	2023	2022	2021	2020	2019
ChemPharm Refining	41.0	54.6	32.5	19.9	75.3
ChemPharm Sales	4.1	5.3	13.9	4.2	5.8
Plastics	6.7	5.5	1.6	0.6	1.7
Reconciliation (other activities)	0.1	0.2	0.2	–	0.1
Group	**51.9**	**65.6**	**48.2**	**24.7**	**82.8**

Analysis of the Statement of Financial Position

As of year-end 2023, the balance sheet total stood at €903.2 million (December 31, 2022: €962.1 million). On the assets side, cash and cash equivalents increased to €69.4 million compared to €56.0 million at the end of the previous year. Meanwhile, trade receivables were down year-over-year at €105.8 million (December 31, 2022: €124.4 million).

Inventories – one of the main components of current assets – likewise fell, by 12.2% to €206.4 million (2022: €235.1 million), primarily as a direct result of the lower cost of materials. Overall, current assets decreased by 10.2% to €407.2 million as of December 31, 2023, compared with €453.5 million at the end of the previous year. They accounted for 45.1% of the balance sheet total.

Non-current assets likewise fell slightly (-2.5%) in financial year 2023 and totaled €496.1 million (December 31, 2022: €508.5 million). Property, plant and equipment fell from €452.5 million to €444.6 million due to the reduced measurement of leases relating to property, plant and equipment. Goodwill fell by €0.4 million to €17.0 million. Overall, non-current assets comprised 54.9% of the balance sheet total.

On the liabilities side of the statement of financial position, current liabilities fell by 18.3% from €294.1 million to €240.2 million and their percentage of the balance sheet total decreased to 26.6% (December 31, 2022: 30.6%). Liabilities to banks decreased from €128.2 million to €77.1 million, thereby accounting for the main share of the changes.

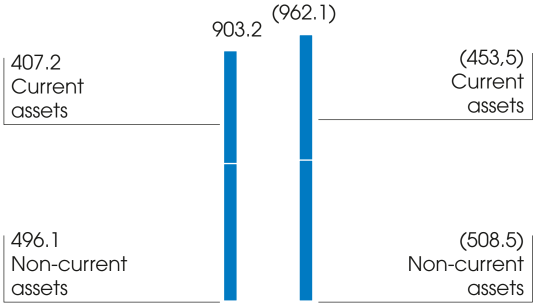
During the same period, non-current liabilities increased by 4.4% to €205.5 million (December 31, 2022: €196.8 million), changing their percentage of the balance sheet total from 20.5% to 22.7%. Non-current liabilities to banks increased from €63.8 million to €80.5 million, thereby accounting for the main share of the changes together with significantly reduced lease liabilities of €33.9 million (December 31, 2022: €41.0 million).

H&R KGaA's equity amounted to €457.6 million at the end of the reporting period (December 31, 2022: €471.2 million). It was around 2.9% lower than in the previous year, due primarily to the lower other reserves this year.

As the balance sheet total and equity both decreased, with the former decreasing much more sharply, the equity ratio was higher as of the reporting date at 50.6% (December 31, 2022: 49.0%). Net gearing (the ratio of net financial liabilities to equity) decreased by 13.8 percentage points from 42.9% to 29.1%.

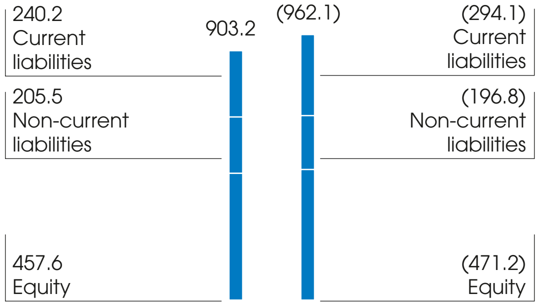
ASSETS 2023

IN € MILLION (PREVIOUS YEAR'S FIGURES)



LIABILITIES AND SHAREHOLDERS' EQUITY 2023

IN € MILLION (PREVIOUS YEAR'S FIGURES)



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

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

IN € THOUSAND	2023	2022	Change
Sales revenue	958	966	-8
Other operating income	4,868	1,970	2,898
Personnel expenses	-769	-744	-25
Depreciation and amortization of intangible assets and property, plant and equipment	-18	-20	2
Other operating expenses	-8,291	-9,556	1,265
Income from equity investments	689	1,396	-707
Income from profit transfer agreements	961	41,210	-40,249
Expenses from loss transfer agreements	-4,446	–	-4,446
Income from lending financial assets	2,497	1,841	656
Other interest and similar income	12,660	3,341	9,319
Depreciation and amortization on investments and current securities	–	-185	185
Interest and similar expenses	-7,807	-4,847	-2,960
Income before tax	**1,302**	**35,372**	**-34,070**
Income taxes	-118	-7,596	7,478
Other taxes	-3	-9	6
Net income	**1,181**	**27,767**	**-26,586**
Profit or loss carryforward	76,137	48,370	27,767
Distribution of dividend	-3,722	0	-3,722
Distributable profit/accumulated deficit	73,596	76,137	-2,541

We have prepared the annual financial statements of H&R GmbH & Co. KGaA (short form: H&R KGaA) in accordance with the German Commercial Code (HGB).

They are published in the Bundesanzeiger (Federal Gazette) and are permanently available for download from the Investor Relations>Publications Overview section of our website (https://hur.com). For financial year 2023, we have combined the management reports of the H&R Group and of H&R KGaA.

H&R KGaA's sales revenues are generated solely by services rendered to companies in the Group. They were nearly at the prior-year level at €958 thousand. Personnel expenses for the reporting period were slightly higher than in the previous year at just under €769 thousand (2022: €744 thousand). Depreciation of property, plant and equipment decreased from €20 thousand to €18 thousand. Other operating expenses came to €8.3 million in the reporting year, down considerably on the previous year (2022: €9.6 million). Income from profit transfer agreements with our subsidiaries fell markedly from €41.2 million to €1.0 million, in particular due to the performance of the specialty production site in Hamburg. Expenses from loss transfer agreements came to €4.4 million (2022: none).

The subsidiaries of H&R KGaA obtain funding for their financing needs from H&R KGaA's resources, which in turn are financed via credit lines. Due to higher demand, other interest and similar income increased from €3.3 million to €12.7 million. Financing costs also rose in 2023; interest and similar expenses went up from €4.8 million to €7.8 million.

Overall, income before tax amounted to €10.2 million (previous year: €35.4 million). Tax expense came to €7.6 million, as against a significantly lower expense of €0.1 million in the prior-year period. Overall, H&R KGaA generated a reduced net profit for the year of €1.2 million (2022: €27.8million).

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

IN € THOUSAND	2023	2022	Change
Concessions, industrial property rights and similar rights and assets acquired against payment, as well as licenses to such rights and assets	2	11	-9
Advance payments	301	43	258
Intangible assets	**303**	**54**	**249**
Other equipment, operating and office equipment	11	19	-8
Property, plant and equipment	**11**	**19**	**-8**
Shares in affiliated companies	223,550	123,550	100,000
Loans to affiliated companies	55,180	64,040	-8,860
Holdings	5,068	5,068	0
Financial investments	**283,798**	**192,658**	**91,140**
Trade receivables	22	1	21
Receivables due from affiliated companies	249,468	265,699	-16,231
Other assets	2,686	72	2,614
Receivables and other assets	**252,176**	**265,772**	**-13,596**
Securities	**31**	**31**	**0**
Bank balances	**71**	**141**	**-70**
Net current assets	**252,278**	**265,944**	**-13,666**
Accruals and deferrals	**14**	**21**	**-7**
Active difference from offsetting of assets	183	109	74
Assets	**536,587**	**458,805**	**77,782**
Subscribed capital	95,156	95,156	0
Capital reserve	59,899	59,899	0
Other retained earnings	29,866	29,866	0
Distributable profit/accumulated deficit	73,596	76,137	-2,541
Equity	**258,517**	**261,058**	**-2,541**
Provisions for pensions and similar commitments	1,474	1,563	-89
Tax provisions	4,823	4,829	-6
Other provisions	1,624	1,919	-295
Provisions	**7,921**	**8,311**	**-390**
Liabilities to banks	142,411	169,408	-26,997
Trade payables	256	263	-7
Liabilities to affiliated companies	127,456	19,749	107,707
Other liabilities	26	16	10
Liabilities	**270,149**	**189,436**	**80,713**
Liabilities and shareholders' equity	**536,587**	**458,805**	**77,782**

As of December 31, 2023, H&R KGaA's balance sheet total had increased by a good 17.0% to €536.6 million (December 31, 2022: €458.8 million). Shares in affiliated companies increased by €100.0 million due to the strengthening of the equity of H&R Ölwerke Schindler GmbH.

Loans to affiliated companies decreased to €55.2 million (previous year: €64.0 million) and related primarily to significant cost control and reduced loans for projects. As a result, the company mainly invested in the maintenance and capacity of the existing process units and their added value at both refinery sites to a lesser degree than in the previous year. Overall, at €283.8 million, financial assets were higher than the previous year's value of €192.7 million.

Receivables due from affiliated companies decreased from €265.7 million to €249.5 million in total. This was mainly due to reduced receivables from the profit and loss transfer agreements. In contrast, other assets increased to a total of approximately €2.6 million. All in all, net current assets fell from €265.9 million to €252.3 million.

On the liabilities side, subscribed capital changed (2022: €95.2 million), and the capital reserve (2022: €59.9 million) did not. Other retained earnings were also comparable to the prior-year figure (2022: €29.9 million). The net income generated during the reporting period, €1.2 million, was posted to distributable profit. Taking into account the dividend distribution agreed by the 2023 Annual Shareholders' Meeting, distributable profit totaled €73.6 million. Equity likewise fell slightly and came to €258.5 million as of December 31, 2023, compared to €261.1 million at the end of the previous year's reporting period. The higher balance sheet total reduced the equity ratio down to 48.2% (December 31, 2022: 56.9%).

Provisions were generally on a par with the previous year at €7.9 million (December 31, 2022: €8.3 million).

Liabilities climbed to €270.1 million (December 31, 2022: €189.4 million), due first and foremost to a significant increase in liabilities to affiliated companies (€127.5 million; previous year: €19.7 million).

Other Legally Required Disclosures

Disclosures in Accordance with Section 289a, Sentence 1, No. 3 and Section 315a, Sentence 1, No. 3 of the German Commercial Code (HGB)

Item 1: Composition of Subscribed Capital

On the reporting date, subscribed capital totaled €95,155,882.68, divided into 37,221,746 ordinary no-par bearer shares. This corresponds to a notional value of around €2.56 per share. There are no different classes of shares; they are all ordinary shares. Each of these shares entitles the holder to one vote.

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

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

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

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

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

In an informal voting rights notification dated December 31, 2023, Mr. Nils Hansen, Quickborn, reported that his share of voting rights totaled 61.42% of the company's voting rights due to his own direct holdings and the attribution of voting rights held by or attributed to H&R Beteiligung GmbH, H&R Internationale Beteiligung GmbH, and H&R Holding GmbH.

According to the aforementioned notification, (i) the share of voting rights of H&R Beteiligung GmbH totaled 59.74% of the company's voting rights due to direct holdings and the attribution of voting rights; (ii) the share of voting rights of H&R Internationale Beteiligung GmbH totaled 26.14% of the company's voting rights due to direct holdings and the attribution of voting rights; and (iii) the share of voting rights of H&R Holding GmbH totaled 59.74% of the company's voting rights due to the attribution of voting rights.

In accordance with an informal notification made at the end of 2023, Mr. Nils Hansen also holds 1.69% of the shares as privately owned shares, meaning that he holds shares corresponding to 61.42% of the share capital in total.

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

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

Item 5: Control Over Voting Rights of Shares Held by Employees

The voting rights of employees who hold shares in the company's capital are not controlled.

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

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

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

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

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

The general partner with full personal liability currently has an option for implementing corporate actions.
Under Section 4, paragraph 5 of the Articles of Association, the general partner with full personal liability is authorized by way of a resolution passed by the Annual Shareholders' Meeting on May 24, 2022 – with the Supervisory Board's approval – to increase the company's share capital up until May 23, 2027, by a maximum of €47,577,000.00 by issuing new, ordinary no-par bearer shares. The issue may be effected in one or more tranches in return for cash and/or contributions in kind (2022 Approved Capital).

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

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

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

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

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

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

e) insofar as is required to grant subscription rights to holders/creditors of bonds carrying conversion or option rights and/or conversion or option obligations and/or tender rights of the issuer to the company's shares to such an extent as such holders/creditors would be entitled to after having exercised their conversion or option rights and/or following the fulfillment of the conversion or option obligations and/or tendering of shares as a shareholder.
The general partner with full personal liability is authorized, with the approval of the Supervisory Board, to specify details about the capital increase and its implementation, including details regarding the rights accruing to the shares and the terms of issue.

Under Section 4, paragraph 6 of the Articles of Association, a resolution passed by the Annual Shareholders' Meeting on May 29, 2020, authorizes the conditional increase of the company's share capital by a maximum of €19,940,383.37 by issuing up to 7,800,000 new ordinary no-par bearer shares with dividend entitlement from the beginning of the financial year in which they are issued (2020 Contingent Capital). The contingent capital increase serves to grant shares as issued by the company, companies under its control, or companies in which it has a majority interest to the holders or creditors of warrants or convertible bonds and profit participation rights/participating bonds with option or conversion rights/ conversion obligations. This only occurs insofar as the option or conversion rights relating to the aforementioned warrants and convertible bonds/ profit participation rights or participating bonds with option or conversion rights are exercised or conversion obligations relating to such bonds are fulfilled and insofar as no treasury shares or new shares from the approved capital are used to satisfy rights. The new shares are issued at the conversion/option price as determined in accordance with the stated authorization.

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

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

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

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

No such arrangements exist at this time.

Subordinate Status Report

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

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

In the report for financial year 2023, the Executive Board came to the following conclusion:

"With regard to the transactions listed in the Report on Relationships with Affiliated Companies for the reporting period from January 1, 2023, to December 31, 2023, based on the circumstances that we were aware of at the time such transactions took place, our company received appropriate consideration for every transaction. No relevant measures were implemented or omitted during the reporting period."

Non-financial Report

The 2023 non-financial statement will again be subject to an audit in accordance with ISAE 3000 and published under the name “Non-financial Report 2023” by April 30, 2024, and made available for download on the company’s website at www.hur.com/en/sustainability/sustainability-report.

Statement on Corporate Governance

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

Events After the Reporting Date

Between December 31, 2023, and the date of this combined group management report, there were no events with a concrete material impact on the net assets, financial position and results of operations.

Report on the Internal Control and Risk Management System and on the Main Opportunities and Risks

Main Features of the Internal Control and Risk Management System and Opinion on the Adequacy and Effectiveness of These Systems

Risk Policy

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

The goal of our risk policy is to optimize the relationship between risks and opportunities while avoiding risks that could jeopardize the company's continued existence as a going concern. Systematic risk management is the direct responsibility of the Executive Board. Risks are identified and communicated by the managing directors of the respective local operating units. As far as possible, risks are eliminated or otherwise addressed at a local level.

As a manufacturer of hydrocarbon-based specialty products and plastic parts, we have a particular responsibility to operate our specialty production plants, processing facilities and production sites for plastic parts in a way that protects both people and the environment. All our production sites therefore have officers who actively work to ensure the safety of our employees and our facilities while protecting the environment.

Internal Control and Risk Management System

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

Risks are classified according to certain criteria. They are then measured using an approach in which the nominal extent of a potential risk is considered in relation to the probability of its occurrence. All risks measured for an individual company are entered in the risk inventory and reported quarterly to the Risk Control department of the parent company, H&R KGaA. The Risk Control department helps the risk managers to establish early-warning indicators that make it possible to react quickly if a risk becomes more acute.

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

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

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

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

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

To the best of our knowledge and on the basis of the information available to us – resulting from the internal control and risk management system detailed above – as of December 31, 2023, there were no weaknesses in internal controls or matters of significance which would indicate that our company-wide internal control and risk management system was inadequate or ineffective as of December 31, 2023.

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

H&R KGaA's accounting guidelines specify uniform accounting and valuation principles for the companies included in the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS).

New accounting regulations are reviewed immediately to determine whether they affect companies in the H&R Group and if necessary are incorporated into our accounting guidelines. The local managing directors are responsible for applying existing regulations at the level of the individual companies. Consolidated financial statements are prepared and drawn up by Group Accounting at H&R KGaA. The employees in this department also serve as contacts to answer questions on accounting matters from the subsidiaries.

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

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

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

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

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

The Risk Management System as it Relates to Derivative Financial Instruments

H&R KGaA has very strict rules governing the use of derivative financial instruments. We only use standard market instruments from selected banks with good ratings. As a rule, the transactions are carried out by the Group Treasury department after approval by the Executive Board of H&R Group Finance GmbH and are then monitored on an ongoing basis. They are used to hedge underlying transactions that either exist already or are highly likely to take place in the future (anticipatory hedging). In financial year 2023, for forex hedging we restricted ourselves to micro-hedging individual risk positions in the area of current foreign currency book positions, the continued existence of which is monitored by the hedging entity during the hedging period. In view of the terms of a maximum of six months, the market values and therefore also the counterparty risks remained manageable. Additionally, we have concluded raw materials price swaps which will lead to stabilization of the profit margin achievable in the co-products area, particularly in the bitumen business, by the end of 2024. To ensure the intended effectiveness, changes in the planning quantities of the risk positions are compared on a monthly basis to the hedging quantities, as well as following the market value movements of the underlying and hedging transaction. Raw material hedges are also reflected as hedges for accounting purposes.

Derivative financial instruments are not used for speculative purposes.

Specific Risks

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

POTENTIAL FINANCIAL IMPACT[1)]

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

[1)] Moderate: some negative effects on business activity, financial position, results of operations and cash flows, for example if EBITDA falls below €60.0 million in 2024.
Significant: substantial negative effects on business activity, financial position, results of operations and cash flows, for example if EBITDA falls below €60.0 million annually over the next two years.
Existential threat: substantial negative effects on business activity, financial position, results of operations and cash flows owing to which the continued existence of the enterprise would be jeopardized, e.g. with EBITDA permanently below €60.0 million.
[2)] 1–33%: unlikely; 34–66%: possible; 67–99%: likely

Low risk Medium risk High risk

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

CORPORATE RISKS

	Likelihood of occurrence	Possible financial impact	Risk classification	Risk situation compared to previous year
Macroeconomic and industry risks				
Fluctuations in demand and margins	possible	significant	high	unchanged
Raw material supply risks	possible	significant	high	unchanged
Risks related to raw materials composition	likely	significant	high	unchanged
Risks related to the impacts of armed conflicts	possible	significant	high	unchanged
Risks from the development of substitute products/general competitive pressure	likely	significant	high	unchanged
Changes in the regulatory, tax and legal environment	likely	significant	high	unchanged
Operating and corporate strategy risks				
Operational risks	possible	moderate	medium	unchanged
Investment risks	possible	significant	high	higher
Risks associated with contractual relationship with Hansen & Rosenthal Group	unlikely	significant	medium	unchanged
Product liability risks	unlikely	moderate	low	unchanged
IT risks/cybersecurity	possible	significant	high	unchanged
Financial Risks				
Liquidity risks	unlikely	significant	medium	unchanged
Risks from the breach of covenants	possible	significant	high	unchanged
Currency risks	possible	moderate	medium	unchanged
Interest rate risks	possible	moderate	medium	unchanged
Risks from defaulting customers and banks	unlikely	moderate	low	unchanged

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

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

Macroeconomic and Industry Risks

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

As a strategically sensible response to the challenge of reduced demand and margins in the medium term, we continue to strive to accelerate the specialization of our production units, doing our very best to avoid producing combustion products and base oils. At the same time, the Group is addressing the reduced need for fossil-based chemical-pharmaceutical specialty products due to societal demand with the targeted strategic expansion of its product portfolio to include bio-based, synthetic and recycled grades. If we can manage to produce specialty products with a high margin in a targeted manner as part of an enhanced production process, this could translate into a significant improvement in our overall results of operations. There is, however, still a demand and margin risk that the company considers to be "high" in general due to the probability of occurrence and the potentially significant impact.

In the Plastics division, we are – like other component manufacturers for automotive suppliers – dependent on industry trends. This applies, in particular, to components called off on a just-in-time basis, which fluctuate depending on the production figures of the OEMs/automobile manufacturers themselves. In response to this, we pressed ahead with our restructuring of the Plastics division and, based on other measures such as strengthening the site in the Czech Republic, we succeeded in stabilizing and further improving the income position. With the economic environment as it is, the risks generally remain high.

Risks Related to Raw Materials Procurement (Risk Class: High). In principle, H&R is reliant on the supply of raw materials and therefore bears a risk with regard to these raw materials being sufficiently available. As long as a substantial portion of our raw materials needs to be procured externally, there is a risk in principle that the procurement of these may be impeded by circumstances that are beyond the control of H&R (wars, pandemics, environmental disasters, etc.). Accordingly, we are diversifying our sources with deliveries from renowned oil companies in different parts of the world.

Feedstocks from Russian sources have not been procured since 2022. We generally safeguarded the overall volume requirements with supplies from alternative sources and were also able to pass the higher prices for these raw materials on to the market. The Gaza war could have resulted in similar risk potential. However, in 2023 this had next to no noticeable effect on crude oil prices and therefore on the cost of raw materials. Nonetheless, the situation illustrates that a deterioration has to be classified as "possible". Accordingly, the risks related to raw materials procurement will likewise be classified as "high" until further notice.

The same risks also exist, in principle, in the Plastics segment. Therefore, our strategy for avoiding bottlenecks in the supply of raw materials also aims at always using several suppliers for important raw materials.

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

This risk, too, manifested itself to an extent last year – the purchase of different raw materials than previously, which were also of a higher quality than Russian goods, led to a change in the output structure. Above all, however, the quality of some of our products improved beyond the specifications agreed with the customers without our being able to achieve higher prices for them ("quality giveaways").

Risks Related to the Impacts of Armed Conflicts (Risk Class: High). Armed conflicts can bundle various aforementioned risks together in a cluster. The material impacts can be that the raw materials needed are no longer available or are available only on the basis of significantly less favorable conditions. In spite of the ongoing war in Ukraine and the serious flare-up of the Gaza conflict, we once again succeeded in guaranteeing raw materials procurement in 2023.

As things stand, we are not expecting the raw materials procurement situation to change in the foreseeable future. We should therefore still be able to secure supplies, albeit on the basis of conditions which will remain less favorable.

Armed conflicts could also have impacts on global trade routes and flows of goods. In particular the situation in the Persian Gulf and therefore access to the Suez Canal could be exacerbated due to political and military tensions and lead to disruptions in trade between Europe and Asia.

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

The risk arising from market or competitive trends is driven by a large number of unknown factors, not all of which can be influenced. For example, it can be said that, for German companies, operating costs constitute a major competitive disadvantage in comparison to companies elsewhere. Our two production sites belong to an energy-intensive industry and therefore have to offset significantly higher prices for electricity and gas than other market participants in Europe/around the world.

Nonetheless, with it now being two years since Russia invaded Ukraine, we consider the basic risk of a gas shortage to be relatively low. Substituting the gas needs in Germany with LNG from the Gulf States or gas from the USA, Norway or the Netherlands rather than from Russian sources is an option which was used in 2022. Due to the higher gas price, the German government introduced regulatory measures in 2023 to guarantee German producers' ability to compete. These instruments will be discontinued in the future, meaning the price situation may deteriorate. However, we have been able to conclude supply contracts at prices below the amounts of last year's gas and electricity price caps.

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

We keep a close eye on regulatory, tax and legal changes resulting from the societal debate on climate change. We focus here in particular on the European Union's climate and energy policies and their regulatory impacts, the latter taking the form both of direct EU Regulations and their transposition into national law. We evaluate our corporate strategy on the basis of these legal guidelines and aim to make a contribution to sustainable business development with our future process and product setup. At the same time, we regularly report on our endeavors in our non-financial statement, making reference to the relevant frameworks such as the German Corporate Governance Code and the EU Taxonomy Regulation.

Our specialty production sites do currently entail emissions and the use of chemicals. The trend in some areas toward tougher legal requirements for the manufacturing sector in Germany and Europe could lead to competitive disadvantages vis-à-vis international and non-European market participants.

Operations are also energy-intensive. The last financial year presented H&R and the entire chemical industry with the challenge of dwindling gas availability. H&R succeeded in cutting the gas requirements of its two German production sites by around a quarter by using alternative energy sources. We do not currently foresee the risk of a gas shortage in winter 2023/24 and the following year.

Operating and Corporate Strategy Risks

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

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

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

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

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

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

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

Investment Risks (Risk Class: High). In the years ahead, we intend to invest in sustainable value creation and in maintaining our existing production sites' ability to compete. We are collaborating with innovative and, in some cases, young partners, in particular in the area of new technologies for the manufacture and processing of sustainable grades. In principle, however, investment projects with this kind of start-up character may entail cost overruns and delays in construction.

To mitigate the risks associated with the project implementation process, we deploy project teams with in-depth knowledge of our plants to professionally coordinate and strictly monitor such value maintenance measures. We adopt the same approach to projects designed to boost sustainable value creation.

At the same time, it is not only the Group's own performance that determines the success of projects. Our project execution is also dependent on the performance of third parties, such as the suppliers of key components and replacement parts. The performance of service providers and engineering partners can likewise have a bearing on completion and subsequent productivity. And last, but not least, we are reliant on external contractors when it comes to realizing projects on time and within the budget. In spite of due care being taken when selecting external project partners, delays or additional costs cannot be ruled out, especially at times of high capacity utilization coupled with a shortage of skilled workers. In individual cases, if facilities which have already been built cannot definitively or at least not completely fulfill their planned purpose, this can result in special depreciation allowances and value adjustments. Overall, we have "upgraded" this risk in comparison to recent years.

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

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

Financial Risks

Our subsidiaries receive the funds they use to execute business and production processes through H&R KGaA, which in turn ensures that such funds will be available. As a result, risks that could arise from or for these financing instruments generally originate directly from H&R KGaA itself.

Financial Covenant Breach Risks (Risk Class: High). Compliance with the financial covenants will also be a crucial part of the financing agreements in 2024. If these covenants were to be breached, which is not expected to happen, this could jeopardize the continued existence of the financing arrangements and therefore the Group's financial and economic situation. Due to the possibility of occurrence and the potentially significant financial impact, this is – from an objective standpoint – fundamentally a "high-risk" issue.

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

In order to cover the net working capital (the sum of inventories and trade receivables less trade payables) required for our production activities, a large part of the line of credit under the syndicated loan, which currently amounts to €230.0 million, has been earmarked as a risk cushion. At year-end, €52.4 million had been utilized for cash loans and €21.3 million for guarantees.

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

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

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

Currency Risks (Risk Class: Medium). As an international group, we are exposed to various exchange rate risks. The depreciation of a foreign subsidiary's local currency can diminish the cash flow it generates in relation to the Group currency, the euro. Furthermore, revenues from the sale of products from within the euro area to a country outside the euro area will fall if the foreign currency in question depreciates against the euro.

Some of the most important foreign currencies for us are the US dollar, the Chinese renminbi, the British pound, the Thai baht, the Malaysian ringgit and the South African rand.

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

The US dollar/euro exchange rate generally affects our raw material costs, as we purchase our main raw materials in US dollars. Decreases and increases in the value of the US dollar against the euro while raw material costs in US$ remain unchanged therefore have an impact on our raw material costs in EUR. However, changes in the raw material costs due to exchange rates would generally also be reflected in the selling prices, and the competition would also feel the effects.

Interest Rate Risks (Risk Class: Medium). Changes in market interest rates lead to a change in the fair value of fixed-interest financial instruments and to fluctuations in interest payments for variable-interest financial instruments. We take out fixed-interest loans for investment projects to increase planning certainty for net interest income. The interest rate risks materialized to an extent as a result of the increase in particular of the euro interest rate coupled with higher short-term debt in the context of greater liquidity being tied up in net current assets due to the price of oil. We expect to see a higher interest expense burden again in 2024.

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

General Statement by the Management Board on the Risk Situation

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

Company Rating

The creditworthiness of H&R KGaA has not been evaluated by an independent rating agency. Our banking partners review the credit standing of H&R KGaA on an ongoing basis. The Deutsche Bundesbank classified H&R as "eligible" on April 27, 2023.

Report on Opportunities

Opportunities Management

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

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

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

Specific Opportunities

Opportunities Arising from Market and Macroeconomic Trends (Opportunity Class: Medium). The focus of operators of big refineries on producing fuels and lubricants means that H&R's specialty production sites in the Chemical-Pharmaceutical Raw Materials division could play a more significant role in supplying the market with specialty products such as paraffins, or process oils and white oils. This is especially true if refineries with a similar setup to a Group 1 site were to withdraw from the market.

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

The possibility of increased demand within society for products with a smaller carbon footprint or even for climate-neutral grades could afford H&R additional opportunities. Our three-pillar strategy for supplying our production sites with fossil, bio-based and synthetic base materials and our existing ability to refine "traditional" mineral-oil-based products in our processes using green hydrogen are initial steps in this direction. At the same time, green hydrogen in conjunction with green carbon opens up new opportunities. Long-chain hydrocarbon compounds can be obtained from these two materials together in the course of synthesization. With the NextGate project, we intend to produce e-fuels and synthetic waxes from these non-fossil base materials at the Hamburg site. We are anticipating major market opportunities for both products, although H&R is focusing in particular on its synthetic wax market shares. We nevertheless believe we are in a strong position in the area of fuels. Together with the Hamburg-based company Mabanaft, we are running the joint venture P2X-Europe, which will act as both a buyer and seller of synthetic grades and will safeguard our production sites' access to these base materials. There are currently promising agreements regarding the sourcing of extensive volumes of synthetic base materials based on the realization of additional projects in Norway and on the Iberian peninsula.

Over the past few years, we have laid the foundation for stable business in the international business. For example, the researchers at the International Monetary Fund are again forecasting an increase in global output of 3.0% for 2024. This may fluctuate in the course of the year, among other things due to numerous conflicts, but it does illustrate that H&R's international expansion strategy is generally proving a success. Globally, and in particular in Asia, in which our Group generates a large proportion of the income of its Sales segment, the growth prospects are significantly better than the average.

For the Plastics division, demographic developments will create attractive growth opportunities, especially in the field of medical technology. Further opportunities will be generated by the trend in the automotive industry toward replacing heavy metal parts with lighter plastic components to reduce vehicle weight. The increasingly dynamic electric mobility initiatives pursued by automotive manufacturers have the potential to offer additional impetus, as the longer range of more lightweight vehicles can be a significant sales argument. Thanks to cooperation with our partners, we are ready for this trend, too. At the same time, we parted ways with some of our customers for cost and efficiency reasons, thereby consolidating our profitability. We expect this to likewise strengthen our business.

Strategic Opportunities for the Company (Opportunity Class: High). We believe that considerable opportunities lie in the development of our operating model. In addition to the flexibility of plant configuration and the ability to actively manage our output structure, we are particularly focusing on the right, diversified use of base materials. In financial year 2023, the positive effects of using specific base materials for operating model transformation were delayed. This was first and foremost attributable to a lack of availability of suitable grades, which were not available or not available to the desired extent at the refineries we had selected as potential suppliers, or which were available only on unfavorable delivery terms. Regardless, we are convinced that this area offers a great deal of potential. Based on a revamped and expanded feedstock and by-product portfolio of the production sites, we aim to strengthen market-oriented production that focuses exclusively on specialty products. We have also achieved initial successes in the use of sustainable raw materials, e.g. on a hydrogen or carbon dioxide basis, and see major potential with the commissioning of the NextGate plant for future scaling of this technology to an industrial level. We will harness this potential by means of the above-mentioned positioning as a joint venture and cooperation partner. In addition to synthesized grades, we see great potential for more climate-friendly feedstocks as part of the recycling route: sourced from old tires by means of pyrolysis or from end-of-life plastic, base materials made from recycled materials could make up a large proportion of the sustainable grades available in the market. Here, too, we are interested in securing such raw materials sources at an early stage through cooperative arrangements.

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

Economic Performance Opportunities (Opportunity Class: Medium). Operating specialty production sites is very energy-intensive. By investing in cutting conventional carbon emissions and achieving lower energy consumption, H&R KGaA has already met important climate goals and conserved energy in the past. At the same time, we took advantage of the special compensation arrangements for energy-intensive businesses.

All in all, we see the debate on climate change and the efforts to forge ahead with the energy transition not only as a challenge, but also as an opportunity. This will be the case in particular if the EU and the German government as the competent regulators act in such a way that the high environmental, occupational health and safety, and energy standards can be met without proving to be an additional competitive disadvantage compared with other countries and regions.

We believe that a commitment to the increased production of green hydrogen and green carbon and the products to be obtained from these offers significant potential.

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

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

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

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

Overall Statement on Opportunities

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

Forecast Report

Future Focus of the Group

Companies and Segments
Statements concerning short-term company performance from January 1 to December 31 of financial year 2024 assume that, based on our current knowledge, the structure of the Group will remain largely unchanged.

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

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

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

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

Products and Services
In spite of the above-mentioned changes in the operating model, we plan for our production sites to offer an almost identical product portfolio either directly or via our Sales segment – with one significant difference, namely that whatever was previously produced exclusively on a fossil basis will henceforth be created using increasing volumes of feedstocks on a plant, recycled or synthetic basis. Alongside achieving its own sustainability goals by 2030 and 2035, H&R will support its customers with their sustainability approaches in the next few years with a climate-friendly product portfolio.

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

Expected Performance in Financial Year 2024

Macroeconomic Conditions

General Economic Environment

The global economy was facing a mixed bag of factors at the turn of the year: post-pandemic growth lost some of its momentum in 2023 and inflation fell but was proving persistent, but at the same time a dip into recession failed to materialize. Estimated at 3.1% in 2023, global GDP growth is expected by the IMF to remain steady and by the OECD to fall to a slightly lower 2.9% in 2024.

Our internal budget for financial year 2023 is based on a US dollar/euro exchange rate, which we set at 1.10 for the purposes of the planning process.

For crude oil prices, we rely on the estimates published by the economics departments of major banks. For budget year 2024, on the planning date we assumed a price of US$85 per barrel of North Sea Brent, which is slightly higher than the average annual price of US$82 seen in 2023.

It is also higher than the daily oil price, which is currently stable but high after the previous year's sharp increase.

Industry Environment

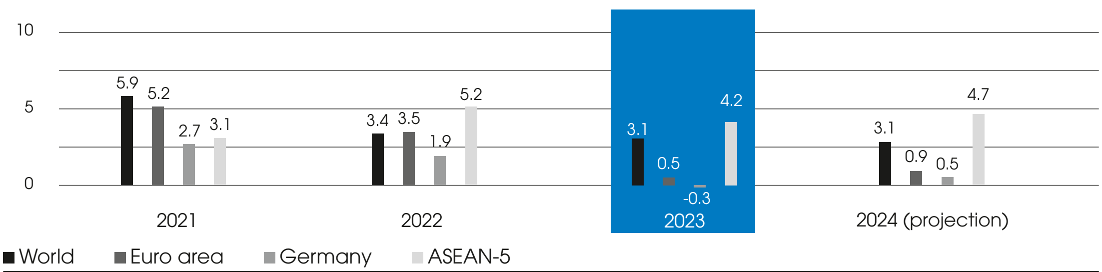
A recessionary mood prevailed in the industry at year-end. According to the assessment of the industry association VCI, both the current business situation and the expectations for the coming months are negative. The VCI does not expect chemical production to increase further in the year to come. A 3% drop in industry sales is forecast.

At the same time, the business situation remaining challenging is forcing companies to make painful adjustments. At the turn of the year, the VCI warned that the longer the economic situation prevailed, the more likely the closure of additional facilities would be. The industry association also said that the abandonment of loss-making lines of business, the relocation of investments to abroad and redundancies could no longer be ruled out.

According to the industry, what it needs for a competitive economy and a green transformation is above all competitive energy prices. At the same time, the topic of energy is, as far as the industry is concerned, just one of many unresolved problems. The list of deficiencies continues to include the decaying infrastructure, the shortage of skilled workers and excessive bureaucracy and regulation. A competitive economy secures the basis for a sustainable future, says the VCI. Only then can the key political objectives – prosperity, green transformation, the welfare state and healthy public finances – be achieved, it posits.

GLOBAL ECONOMIC GROWTH FORECAST

IN %, SOURCES: IFW, DIW, IMF



Company Performance

Sales and Earnings

The following table compares the actual values of the main or key control figures used by the H&R Group for the past financial year with the original forecast and shows the outlook for financial year 2024. It comprises sales and EBITDA.

COMPARISON OF ACTUAL VALUES WITH FORECAST

Key figure	Original forecast FY 2023	Actual FY 2023	Outlook FY 2024
Consolidated sales	€1,700.0 million to €1,900.0 million	€1,352.3 million	€1,200.0 million to €1,500.0 million
of which ChemPharm Refining	66%	€828.2 million (approx. 60%)	62%
of which ChemPharm Sales	31%	€492.7 million (approx. 36%)	34%
of which Plastics	3%	€51.3 million (approx. 4%)	4%
Reconciliation with consolidated sales	n.a.	€-20.0 million	n.a.
Consolidated EBITDA	approx. €95.0 million to €110.0 million	€92.7 million	approx. €90.0 million to €110.0 million
of which ChemPharm Refining	68%	€58.1 million (approx. 60%)	68%
of which ChemPharm Sales	28%	€32.5 million (approx. 35%)	27%
of which Plastics	4%	€4.7 million (approx. 5%)	5%
Reconciliation with consolidated EBITDA	n.a.	€-1.6 million	n.a.

Sales. Our sales are affected considerably by the cost of raw materials for our Chemical-Pharmaceutical division. If our planning assumptions for crude oil prices and the US dollar/euro exchange rate materialize during the year, we anticipate that prices for raw materials and products will remain constant and high overall. We also assume we will be able to pass on these costs in the form of higher product prices.

All in all, we expect consolidated sales in 2024 to be on a par with 2023. The contribution from our ChemPharm Refining segment will account for around 62% of this amount. The ChemPharm Sales business will contribute approximately 34%, a lower percentage than in the previous year. The Plastics division is expected to contribute around 4% to total sales.

Income. H&R achieved a generally stable income result in the past financial year in spite of a weakening in the recovery from the coronavirus pandemic and the market situation remaining difficult. As such, EBITDA of €92.7 million in 2023 was another clear indication that H&R is able to act flexibly while nevertheless having stable roots in the market.

However, it must also be noted that measures implemented by the German government, such as the electricity and gas price caps, did ease the cost pressure to a degree. Based on the latest judgment of Germany's Federal Constitutional Court, we have to assume that comparable measures to support German industry will not be implemented for financial year 2024. We have nevertheless largely already sourced our energy for 2024 and therefore anticipate that energy costs overall will be more on a par with those at the end of the year than the peak prices seen in 2023. We likewise expect our feedstock costs to be similar to those of 2023, with corresponding repercussions for our net working capital requirements. Overall, we expect the ChemPharm Refining segment's contribution to income to be slightly higher and therefore somewhat stronger.

The Plastics segment was able to report a clearly recovered earnings trend again in 2023. This trend is expected to strengthen in financial year 2024. Above all, we expect the move of the Czech site within Dačice to give the area of electric mobility a boost, which should offer positive effects for the overall performance of the GAUDLITZ Group.

All in all, for 2024 we are initially forecasting consolidated operating income (EBITDA) of between €90.0 million and €110.0 million, thus higher than in financial year 2023 if business development and performance are good. Accordingly, the income of H&R GmbH & Co. KGaA for 2024 in accordance with the German Commercial Code (HGB) will also be better than in the previous year.

Based on budget assumptions, we expect the contribution to consolidated income made by our activities in the ChemPharm Refining segment to be around 68%. International business should account for approximately 27%. The Plastics division should contribute around 5% to the Group's operating income (EBITDA).

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

No structural changes to the income statement are expected for 2024.

Liquidity

We extended the syndicated credit line arranged in 2022 in the amount of €230.0 million by one year to December 8, 2028, in the fourth quarter of 2023. A bank loan in the amount of €30.0 million due in December 2023 was extended by three years to mature in December 2026.

This provides H&R with sufficient liquidity to make the necessary investments to maintain profitability. Net working capital fell in 2023, primarily due to oil prices. The proportion of the credit line available increased accordingly, to cover needs related to fluctuations in the net working capital, refinancing requirements and other liquidity requirements.

We therefore consider our liquidity to be secured in the long term.

Capital Expenditure

Even in challenging times, we will invest in the future viability of our sites. Around 65% of total capital expenditure will be in the ChemPharm Refining segment. Around 23% of capital expenditure will be in the Sales segment and approximately 11% will be focused on investments in the Plastics segment and on other items. A small percentage will relate to other items. The lion's share will therefore once again go to the two German production sites.

Financing Measures

The Articles of Association of H&R KGaA provide for authorizations to increase the share capital in return for cash and/or contributions in kind. At present, however, no specific corporate actions are planned.

H&R KGaA has entered into various loan agreements with banks. We cover our short-term financing needs using a widely syndicated loan with a current volume of €230.0 million. This has a term of five years and has two one-year extension options, one of which was utilized in 2023. In order to ensure that we remain solvent at all times and to make efficient use of the liquidity of our German subsidiaries, the latter is incorporated into the cash pool structures in place at H&R GmbH & Co. KGaA. We currently cover our long-term financing needs primarily using redeemable loans that are refinanced by the German development bank KfW.

The bilateral loans of H&R GmbH & Co. KGaA and the syndicated loan are subject to compliance with various financial covenants.

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

Overall Statement by the Executive Board on Future Business Trends

H&R GmbH & Co. KGaA ended the last financial year with a significantly reduced EBITDA year-over-year, but overall still achieved income levels among its top ten results since the IPO. We nevertheless have to accept that global political and global economic correlations have so far curbed the transformation of Germany’s chemical industry and therefore also of the H&R Group far more than would be desirable. Overall, this puts us in illustrious company, with the German government and the European Union both having had to recognize that setting ambitious targets alone is not enough: for real momentum, you also need the right parameters. For our area of business, the transformation targets are dependent above all on the availability of green energy and green feedstocks. We have built up an appropriate network over the past few years.

We are therefore confident that we can support the upcoming transformation in our customer industries rapidly and securely. Specifically, we intend to fulfill our customers’ requirements for more sustainability and environmentally friendly and future-friendly products. At the same time, we will not lose sight of our long-term objectives to push ahead with internationalization and to focus on the further enhancement of the operation of our highly specialized production sites. The advantages these offer – such as an improved output of high-quality products, a diversified product portfolio in the direction of greater sustainability and synthesized products – need to be expanded, thereby strengthening their standing compared to the competition.

Based on what has been achieved, our plans and the situation as of the editorial deadline for this management report, we are therefore initially formulating our expectations for 2024 with an operating income (EBITDA) target in the range of €90.0 million to €110.0 million.

Consolidated Financial Statements

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

as of December 31, 2023

ASSETS

IN € THOUSAND	Notes	12/31/2023	12/31/2022
Current assets			
Cash and cash equivalents	(6.38)	69,443	55,997
Trade receivables	(7.38)	105,805	124,427
Income tax refund claims		4,772	946
Inventories	(8)	206,387	235,051
Other financial assets	(9.38)	9,282	20,190
Other assets	(10)	11,493	16,938
Current assets		**407,182**	**453,549**
Non-current assets			
Property, plant and equipment	(11)	444,576	452,529
Goodwill	(12)	17,020	17,393
Other intangible assets	(12)	15,533	16,925
Shares in holdings valued at equity	(13)	3,550	4,262
Other financial assets	(9.38)	10,045	12,577
Other assets	(10)	1,866	1,735
Deferred tax assets	(34)	3,466	3,102
Non-current assets		**496,056**	**508,523**
Total assets		**903,238**	**962,072**

LIABILITIES AND SHAREHOLDERS' EQUITY

IN € THOUSAND	Notes	12/31/2023	12/31/2022
Current liabilities			
Liabilities to banks	(14.38)	77,090	128,225
Trade payables	(15.38)	103,065	99,392
Income tax liabilities		8,511	6,660
Contract liabilities	(16)	4,004	2,519
Other provisions	(17)	17,934	18,780
Other financial liabilities	(18.38)	12,848	14,841
Other liabilities	(19)	16,715	23,646
Current liabilities		**240,167**	**294,063**
Non-current liabilities			
Liabilities to banks	(14.38)	80,472	63,782
Pension provisions	(20)	56,085	54,312
Other provisions	(17)	2,786	2,759
Other financial liabilities	(18.38)	33,956	41,091
Other liabilities	(19)	20,303	22,181
Deferred tax liabilities	(34)	11,852	12,720
Non-current liabilities		**205,454**	**196,845**
Equity			
Subscribed capital	(21)	95,156	95,156
Capital reserve	(22)	46,427	46,427
Retained earnings	(23)	278,819	272,789
Other reserves	(24)	-7,385	9,269
Equity of H&R GmbH & Co. KGaA shareholders		**413,017**	**423,641**
Non-controlling interests	(25)	44,600	47,523
Equity		**457,617**	**471,164**
Total liabilities and shareholders' equity		**903,238**	**962,072**

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

January 1, 2023, to December 31, 2023

IN € THOUSAND	Explanatory notes	1/1–12/31/2023	1/1–12/31/2022
Sales revenue	(27)	1,352,255	1,576,043
Changes in inventories of finished and unfinished goods		-17,245	36,044
Other operating income	(28)	29,868	37,136
Cost of materials	(29)	-1,033,112	-1,273,958
Personnel expenses	(30)	-102,765	-99,563
Depreciation, impairments and amortization of intangible assets and property, plant and equipment	(11.12)	-62,399	-55,322
Other operating expenses	(26.31)	-135,920	-150,154
Operating result		**30,682**	**70,226**
Income from holdings valued at equity	(13)	-423	-668
Financing income	(32.38)	1,243	255
Financing expenses	(33.38)	-12,697	-7,784
Income before tax (EBT)		**18,805**	**62,029**
Income taxes	(34)	-8,242	-16,665
Consolidated income		**10,563**	**45,364**
of which attributable to non-controlling interests		7	2,654
of which attributable to shareholders of H&R GmbH & Co. KGaA		**10,556**	**42,710**
Earnings per share (undiluted), €	(35)	0.28	1.15
Earnings per share (diluted), €	(35)	0.28	1.15

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

January 1, 2023, to December 31, 2023

IN € THOUSAND	Explan-atory notes	1/1–12/31/2023	1/1–12/31/2022
Consolidated income		**10,563**	**45,364**
of which attributable to non-controlling interests		7	2,654
of which attributable to shareholders of H&R GmbH & Co. KGaA		10,556	42,710
Positions that will not be reclassified into profit or loss			
Remeasurement of defined-benefit pension plans	(9.20)	-1,872	24,908
Deferred taxes	(34)	1,068	-7,171
Total remeasurement of defined-benefit pension plans		**-804**	**17,737**
Valuation effects from equity instruments	(38)	-2,442	-2,702
Deferred taxes	(34)	37	40
Total change in valuation effects from equity instruments		**-2,405**	**-2,662**
Total positions that will not be reclassified into profit or loss		**-3,209**	**15,075**
Positions that may subsequently be reclassified into profit or loss			
Changes in the fair value of derivatives held for hedging purposes	(38)	-5,756	6,225
Deferred taxes	(34)	1,711	-1,862
Total change in the fair value of derivatives held for hedging purposes		**-4,045**	**4,363**
Changes in the currency translation adjustment item	(24)	-13,134	-2,114
Total positions that may subsequently be reclassified into profit or loss		**-17,179**	**2,249**
Other comprehensive income		**-20,388**	**17,324**
of which attributable to non-controlling interests		-2,930	-1,006
of which attributable to shareholders of H&R GmbH & Co. KGaA		-17,458	18,330
Total comprehensive income		**-9,825**	**62,688**
of which attributable to non-controlling interests		-2,923	1,648
of which attributable to shareholders of H&R GmbH & Co. KGaA		-6,902	61,040

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

as of December 31, 2023

IN € THOUSAND	Subscribed capital (21)	Capital reserve (22)	Retained earnings (23)
1/1/2022	**95,156**	**46,427**	**212,342**
Consolidated income	–	–	42,710
Other comprehensive income	–	–	17,737
Total comprehensive income	–	–	60,447
12/31/2022	**95,156**	**46,427**	**272,789**
Dividend	–	–	-3,722
Consolidated income	–	–	10,556
Other comprehensive income	–	–	-804
Total comprehensive income	–	–	9,752
12/31/2023	**95,156**	**46,427**	**278,819**

Other reserves/cumulative other comprehensive income					
Valuation effects from equity instruments (24)	Derivative financial instruments (24)	Difference from currency translation adjustment (24)	Equity attributable to shareholders of H&R KGaA	Non-controlling interests (25)	Total
5,834	**-19**	**2,861**	**362,601**	**45,875**	**408,476**
–	–	–	42,710	2,654	45,364
-2,662	4,363	-1,108	18,330	-1,006	17,324
-2,662	4,363	-1,108	61,040	1,648	62,688
3,172	**4,344**	**1,753**	**423,641**	**47,523**	**471,164**
–	–	–	-3,722	–	-3,722
–	–	–	10,556	7	10,563
-2,405	-4,045	-10,204	-17,458	-2,930	-20,388
-2,405	-4,045	-10,204	-6,902	-2,923	-9,825
767	**299**	**-8,451**	**413,017**	**44,600**	**457,617**

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

January 1, 2023, to December 31, 2023

IN € THOUSAND			Explanatory notes	2023	2022
1.		Consolidated income		10,563	45,364
2.		Income taxes		8,242	16,665
3.		Net interest income		11,861	7,530
4.	+/–	Depreciation and amortization/appreciation on fixed assets and intangible assets		62,399	55,322
5.	+/–	Increase/decrease in non-current provisions		-2,235	-3,756
6.	+	Interest received		836	255
7.	–	Interest paid		-8,209	-5,510
8.	+/–	Income tax received/paid		-6,806	-14,031
9.	+/–	Other non-cash expenses/income		749	2,091
10.	+/–	Increase/decrease in current provisions		-601	-1,480
11.	–/+	Gain/loss from the disposal of intangible assets		300	1,005
12.	–/+	Changes in net working capital		42,479	-57,972
13.	+/–	Changes in remaining net assets/other non-cash items		-509	-7,503
14.	**=**	**Cash flow from operating activities (sum of items 1 to 13)**	(37)	**119,069**	**37,980**
15.	+	Proceeds from disposals of property, plant and equipment		746	59
16.	–	Payments for investments in property, plant and equipment		-53,295	-64,742
17.	–	Payments for investments in intangible assets		-4,358	-5,277
18.	–	Payments for the acquisition of financial investments		–	-2,500
19.	+	Dividends received from holdings valued at equity		289	–
20.	+	Dividends received from other holdings		357	–
21.	**=**	**Cash flow from investing activities (sum of items 15 to 20)**	(37)	**-56,261**	**-72,460**
22.	**=**	**Free cash flow (sum of items 14 and 21)**		**62,808**	**-34,480**
23.	–	Dividend paid by H&R KGaA		-3,722	–
24.	–	Payments for settling financial liabilities		-172,838	-218,072
25.	+	Proceeds from taking up financial liabilities		129,618	259,586
26.	**=**	**Cash flow from financing activities (sum of items 23 to 25)**	(37)	**-46,942**	**41,514**
27.	**+/–**	**Changes in cash and cash equivalents (sum of items 14, 21 and 26)**		**15,866**	**7,034**
28.	+	Cash and cash equivalents at the beginning of the period		55,997	48,924
29.	+/–	Changes in cash and cash equivalents due to changes in exchange rates		-2,420	39
30.	**=**	**Cash and cash equivalents at the end of the period**		**69,443**	**55,997**

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

as of December 31, 2023

(1) General Information

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

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

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

The 2023 consolidated financial statements were prepared in euros (€). Unless stated otherwise, all amounts are shown in thousands of euros (in € thousand). Rounding can lead to the amounts mentioned in this report not adding up exactly to the sums stated, and to percentages not exactly matching the amounts reported.

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

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

(2) Effects of New Accounting Standards

Standards and Interpretations to Be Applied for the First Time in the Current Financial Year

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

STANDARDS AND INTERPRETATIONS TO BE APPLIED FOR THE FIRST TIME

Standard/ Interpretation	Title	IASB effective date	Date of EU endorsement	EU effective date	Material impact on H&R
IFRS 17	Insurance Contracts	1/1/2023	11/19/2021	1/1/2023	none
Amendments to IFRS 17	Insurance Contracts – Initial Application of IFRS 17 and IFRS 9 – Comparative Information	1/1/2023	9/08/2022	1/1/2023	none
Amendments to IAS 1 and IFRS Practice Statement 2	Presentation of Financial Statements – Disclosure of Accounting Policies	1/1/2023	3/02/2022	1/1/2023	none
Amendments to IAS 8	Definition of Accounting Estimates	1/1/2023	3/02/2022	1/1/2023	none
Amendments to IAS 12	Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1/1/2023	8/11/2022	1/1/2023	none
Amendments to IAS 12	International Tax Reform – Pillar Two Model Rules	5/23/2023	11/08/2023	1/1/2023	See note

Global Minimum Taxation Level

The H&R KGaA Group meets the conditions of the scope of application of the Amendments to IAS 12 introduced as a result of the international pillar-two rules dated May 23, 2023. The amendments provide a temporary mandatory exception for the recognition of deferred taxes that may arise due to the utilization of a top-up tax.

The mandatory exception applies retrospectively. As there was no legislation as of December 31, 2022, for the implementation of a minimum taxation level in any country in which H&R KGaA or its subsidiaries operate, retrospective application would have no impact.

The H&R KGaA Group is active in the Federal Republic of Germany (FRG) with its top parent company H&R GmbH & Co. KGaA. The FRG transposed the rules into national law with an announcement in the Federal Law Gazette on December 27, 2023.

H&R KGaA anticipates application of the rules regarding minimum taxation levels in relation to the activities of the subsidiary in Hong Kong. The tax rate in Hong Kong can be below 15% due to a two-tier taxation system. As the rules regarding minimum taxation levels are only applicable in Germany for financial years beginning on or after January 1, 2024, there are no effects on current taxes for the annual financial statements as of December 31, 2023.

The KGaA Group applied the temporary mandatory exception rules for deferred taxes that may arise from a top-up tax and accordingly did not take any deferred taxes into account for these matters.

Had the concept of the top-up tax been applied in 2023, the effects would have been insignificant.

Published Standards and Interpretations That Are Not Yet Being Applied.
As of the reporting date, the following accounting standards had already been published by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards Interpretations Committee (IFRS IC) but application of the standards was not yet mandatory.

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

PUBLISHED STANDARDS AND INTERPRETATIONS THAT ARE NOT YET BEING APPLIED

Standard/ Interpretation	Title	IASB effective date	Date of EU endorsement	EU effective date	Material impact on H&R
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	1/1/2024	11/20/2023	1/1/2024	none
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current	1/1/2024	12/19/2023	1/1/2024	none
Amendments to IAS 1	Classification of Liabilities as Current or Non-current – Deferral of Effective Date	1/1/2024	12/19/2023	1/1/2024	none
Amendments to IAS 1	Non-current Liabilities with Covenants	1/1/2024	12/19/2023	1/1/2024	none
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements	1/1/2024	to be determined	to be determined	See note
Amendments to IAS 21	The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability	1/1/2025	to be determined	to be determined	none

Supplier Finance Arrangements
The amendments to IAS 7 and IFRS 7 concern in particular additional disclosures regarding reverse factoring arrangements to enhance the transparency of such arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. H&R KGaA has made such arrangements for 2024 and will consequently comply with the disclosure requirements.

(3) General Accounting and Measurement Methods

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

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

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

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

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

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

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

Shares in Holdings Valued at Equity
Interests in associates and in joint ventures are reported in accordance with the equity method. Joint ventures are companies that H&R KGaA manages jointly with a third party. H&R KGaA's interest in associates ranges from 20% to 50%. Under the equity method, the carrying amount of holdings valued at equity is increased or reduced by the change in equity corresponding to H&R KGaA's interest in the equity of these companies. The Group's interest in associated companies and in joint ventures includes the goodwill arising from the acquisition. The changes in the pro rata equity affecting the income statement are recognized under income from holdings valued at equity.

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

Currency Translation

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

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

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

EXCHANGE RATES FOR THE MAIN CURRENCIES

	Closing rates 12/31/2023	Closing rates 12/31/2022	Average rates 12/31/2023	Average rates 2022
US dollar	1.1050	1.0666	1.0816	1.0539
British pound	0.8691	0.8869	0.8699	0.8526
Australian dollar	1.6263	1.5693	1.6285	1.5174
South African rand	20.3477	18.0986	19.9544	17.2097
Thai baht	37.9730	36.8350	37.6330	36.8620
Chinese renminbi	7.8509	7.3582	7.6591	7.0801
Czech crown	24.7240	24.1160	23.9980	24.5600
Malaysian ringgit	5.0775	4.6984	4.9316	4.6292

Cash and Cash Equivalents

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

Financial Instruments

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

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

Financial Assets

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

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

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

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

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

At H&R KGaA, the group of financial assets measured at fair value through profit or loss includes financial assets held for trading, in particular derivative financial instruments and securities.

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

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

Within the scope of real factoring agreements with a term until December 31, 2023, H&R KGaA sells short-term trade receivables to a bank. H&R KGaA is free to decide whether or not, and to what extent, receivables are sold within certain limits. All material opportunities and risks were transferred to the buyer, meaning that the receivables sold were fully derecognized and no continuing involvement was recognized in the statement of financial position.

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

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

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

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

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

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

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

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

Inventories

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

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

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

Property, Plant and Equipment

Property, plant and equipment is valued at cost less cumulative depreciation and impairment losses plus reversals of impairments.

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

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

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

The useful lives used can be summarized as follows:

ASSETS

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

Leasing Costs

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

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

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

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

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

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

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

ASSETS

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

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

Impairment
As of each reporting date, the carrying amounts of goodwill, other intangible assets, and property, plant and equipment are checked for any indications of impairment. In the case of goodwill, an impairment test is performed on an annual basis.

If an asset does not generate cash flows largely independently of other assets, the impairment test is performed at the level of the relevant cash-generating units. H&R KGaA essentially considers both strategic business units under standard management with comparable product portfolios and, occasionally, also individual, legally autonomous companies to be cash-generating units.

The impairment test is performed by comparing the carrying amount of the cash-generating unit or the relevant property, plant and equipment or intangible assets with their recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and the value in use. The recoverable amount here is the value in use determined using the discounted cash flow method. If the carrying amount exceeds the recoverable amount, an impairment equal to the difference must be recognized through profit or loss.

The first step involves writing goodwill off in full. Any remaining impairment is, as a rule, allocated to the remaining non-current assets of the cash-generating unit in proportion to their carrying amounts.

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

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

The plan is based, in particular, on assumptions concerning the trend in sales revenue, the material usage ratio and investments already initiated as well as on empirical values and market expectations. Pursuant to IAS 36, investments to expand capacity for which no cash outflows have occurred to date are not included.

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

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

Benefits Received
Government grants are recognized at their fair value if there is sufficient certainty that the grant will be received and the Group can meet all the related conditions. Performance-related government grants are deducted from the corresponding expenses. In financial year 2023, this related in particular to the effects of the electricity and gas price caps.

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

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

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

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

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

Other Provisions

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

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

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

Recognition of Revenue

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

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

Income Taxes

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

Current and deferred taxes are essentially recognized in profit or loss, unless they are related to circumstances recognized in other comprehensive income or directly in equity. In that case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity.

The regulations regarding the global minimum taxation level (pillar two) fall within the scope of IAS 12. The Group is applying the temporary mandatory exception for the effects had on deferred taxes by a top-up tax. The possible effects of a top-up tax are recognized as current taxes at the time of occurrence.

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

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

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

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

Contingent Liabilities and Contingent Assets

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

(4) Discretionary Decisions and Estimates

In preparing the consolidated financial statements, a certain amount of assumptions and estimates must be made that will affect the amount and presentation of the assets and liabilities, income and expenses, and contingent liabilities recognized in the reporting period. Estimates are based on empirical values and other assumptions that are deemed to be appropriate given the circumstances and which are based on current knowledge and the best information available. In addition, the trends in the economic environment in the industries and regions in which the Group does business, which are currently assumed to be realistic, were also taken into account in regard to expected future business developments.

H&R KGaA operates in a complex geopolitical environment which is subject to a significant amount of macroeconomic uncertainty. In addition to Russia's war against Ukraine, factors worth mentioning here include the Gaza conflict and tensions in the Persian Gulf, which are leading to an increased level of uncertainty in our forecasts and discretionary decisions. As a result, actual results may differ from estimates and discretionary decisions; this could have a material impact on the net assets, financial position and results of operations of H&R KGaA.

The following significant matters are affected by such estimates and discretionary decisions:

Impairment Tests/Impairment
Testing intangible assets and property, plant and equipment for impairment, and identifying signs of an impairment, requires estimates in order to determine the recoverable amount of a cash-generating unit. In particular, assumptions must be made with regard to future net cash inflows, the underlying interest rates and the expected useful lives and residual amounts.

The substantial rise in interest rates in the fourth quarter of 2023 prompted a review of the valuation interest rates (WACC) which serve as key parameters in the annual impairment tests of the cash-generating units to which goodwill is allocated (performed at the end of Q3) and production sites (performed at the end of the year). Updating of the impairment tests as of December 31, 2023, did not lead to the need for impairment.

For sensitivity analyses, a possible fluctuation range of 10% is assumed. Additional information can be found in Note (12).

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

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

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

Property, Plant and Equipment/Leases
In accounting for property, plant and equipment, discretionary decisions and estimates, which are based on estimates by management, are required in determining economic lives uniformly throughout the Group. The accounting of leases requires discretionary decisions with regard to the determination of interest rates and the lease term. To determine the incremental borrowing rate, reference interest rates are derived from risk-free interest rates with appropriate maturities, increased by credit risk premiums and adjusted by a liquidity and country risk premium.

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

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

Risks Related to the Impacts of Armed Conflicts
In particular following the outbreak of Russia’s war of aggression against Ukraine, H&R KGaA saw an increase in the cost of raw materials, transport, logistics and energy. The Gaza conflict could have had similar risk potential, but it had next to no noticeable effect on the price of crude oil and therefore on the cost of raw materials. The Group assumes there will be no change in the raw materials procurement situation in the foreseeable future, meaning supplies are secured, albeit on the basis of conditions which will remain less favorable.

Armed conflicts could also have impacts on global trade routes and flows of goods. In particular the situation in the Persian Gulf and therefore access to the Suez Canal could be exacerbated due to political and military tensions and lead to disruptions in trade between Europe and Asia. In addition, the conflicts contributed to increased inflation and rising interest rates, which had an impact on the impairment tests of intangible assets and property, plant and equipment, among other items.

(5) Scope of Consolidation and Holdings

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

The disposal in financial year 2023 resulted from the closure of the company GAUDLITZ INC, Delaware, United States. The addition in financial year 2022 related to the newly formed company H&R West Africa Ltd, Lagos, Nigeria. The table below shows the changes to H&R KGaA's consolidated group during the financial year:

CHANGE IN THE NUMBER OF CONSOLIDATED COMPANIES

H&R KGaA and consolidated companies	Germany	Abroad	Total
1/1/2022	**23**	**24**	**47**
Additions	–	1	1
Disposals	–	–	–
12/31/2022	**23**	**25**	**48**
Additions	–	–	–
Disposals	–	-1	-1
12/31/2023	**23**	**24**	**47**

CHANGE IN THE NUMBER OF JOINT VENTURES

	Germany	Abroad	Total
1/1/2022	**4**	**–**	**4**
Additions	–	–	–
Disposals	–	–	–
12/31/2022	**4**	**–**	**4**
Additions	–	–	–
Disposals	–	–	–
12/31/2023	**4**	**–**	**4**

H&R KGaA holds shares in some companies via trust companies. These indirect shares are also fully consolidated whenever H&R GmbH & Co. KGaA exercises control. The holdings are shown in the list of shareholdings.

The following table provides an overview of the companies included in the consolidated financial statements of H&R KGaA. The holdings are unchanged compared to the previous year with the exception of the 100% stake in GAUDLITZ INC, Delaware, United States, which was disposed of in the financial year.

FULLY CONSOLIDATED SUBSIDIARIES

Company name	Company headquarters	Seg-ment	Interest held by H&R GmbH & Co. KGaA in %
H&R Chemisch-Pharmazeutische Spezialitäten GmbH	Salzbergen, Germany	a	100
H&R Lube Blending GmbH	Salzbergen, Germany	a	100
H&R ChemPharm GmbH	Salzbergen, Germany	a	100
H&R LubeTrading GmbH	Salzbergen, Germany	a	100
H&R International GmbH	Hamburg, Germany	b	100
H&R Ölwerke Schindler GmbH	Hamburg, Germany	a	100
H&R OWS Chemie GmbH & Co. KG	Hamburg, Germany	a	100
H&R OWS Beteiligungsgesellschaft mbH	Hamburg, Germany	a	100
H&R InfoTech GmbH	Hamburg, Germany	d	100
HRI IT-Consulting GmbH	Münster, Germany	d	100
H&R Benelux B.V.	Nuth, Netherlands	b	100
H&R ChemPharm (UK) Ltd.	Tipton, UK	b	100
H&R ANZ Pty Ltd.	Victoria, Australia	b	100
H&R Singapore Pte. Ltd.	Singapore, Singapore	b	100
H&R Global Special Products Co. Ltd.	Bangkok, Thailand	b	100[1)]
H&R Malaysia Sdn. Bhd.	Port Klang, Malaysia	b	100[1)]
H&R ChemPharm (Thailand) Limited	Bangkok, Thailand	b	100
H&R Wax Malaysia Sdn. Bhd.	Batu Caves, Malaysia	b	100
H&R Japan K.K.	Tokyo, Japan	b	100
H&R ChemPharm Asia Sdn. Bhd.	Lumut, Malaysia	b	100
H&R Group Vietnam Company Limited	Ho Chi Minh City, Vietnam	b	100
PT HUR Sales Indonesia	Jakarta, Indonesia	b	100
H&R India Sales Private Limited	Mumbai, India	b	100
Dunrose Investments 148 (Proprietary) Limited	Sandton, South Africa	b	100
H&R Africa Holdings (Pty) Limited	Durban, South Africa	b	100
H&R South Africa (Pty) Limited	Durban, South Africa	b	100
H&R South Africa GmbH	Hamburg, Germany	b	100
H&R Africa Proprietary Limited	Durban, South Africa	b	100
H&R West Africa Ltd.	Lagos, Nigeria	b	100
H&R China Holding GmbH	Hamburg, Germany	b	51
H&R China (Hong Kong) Co., Ltd.	Hong Kong, China	b	51
H&R China (Ningbo) Co., Ltd.	Ningbo, China	b	51
H&R China (Fushun) Co., Ltd.	Fushun, China	b	51
H&R China (Daxie) Co., Ltd.	Daxie, China	b	51
H&R Grundstücksverwaltungs GmbH	Salzbergen, Germany	a	98.68
H&R Grundstücksverwaltungs-Beteiligungsgesellschaft mbH	Salzbergen, Germany	a	74.04
GAUDLITZ GmbH	Coburg, Germany	c	100
GAUDLITZ Precision Technology (Wuxi) Co. Ltd.	Wuxi, China	c	100
GAUDLITZ Precision s.r.o.	Dačice, Czech Republic	c	100
GAUDLITZ Grundstücksverwaltungs-Beteiligungsgesellschaft mbH	Coburg, Germany	c	100
GAUDLITZ Management GmbH	Coburg, Germany	c	100
GAUDLITZ Verwaltungs-GmbH	Coburg, Germany	c	100
GAUDLITZ Plastics Technologies GmbH & Co. KG	Coburg, Germany	c	100
H&R Group Finance GmbH	Hamburg, Germany	d	100
SYTHENGRUND Wasagchemie Grundstücksverwertungsges. Haltern mbH	Haltern, Germany	d	100
B.-H. Beteiligungs- und Handelsges. mbH	Salzbergen, Germany	d	100

OTHER INTERESTS

Company name	Company headquarters	Segment	Interest held by H&R GmbH & Co. KGaA in %	Income after tax in € thousand	Equity in € thousand
Joint ventures					
Westfalen Chemie GmbH & Co. KG	Salzbergen, Germany	a	50	348	26
Westfalen Chemie Verwaltungsgesellschaft mbH	Salzbergen, Germany	a	50	2	76
P2X-Europe GmbH & Co. KG	Hamburg, Germany	d	50	-1,393	4,304
P2X-Europe Management GmbH	Hamburg, Germany	d	50	-[2]	-[2]
Other interests					
SRS EcoTherm GmbH	Salzbergen, Germany	a	10	3,491	24,988

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

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

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

Notes to the Consolidated Statement of Financial Position

(6) Cash and Cash Equivalents

IN € THOUSAND	12/31/2023	12/31/2022
Cash in hand	16	29
Bank balances	69,427	55,968
Total	**69,443**	**55,997**

As of December 31, 2023, €1,000 thousand (previous year: €1,797 thousand) was recognized as cash and cash equivalents, which was deposited in pledged accounts as part of a factoring program running until December 31, 2023, and therefore subject to access restrictions.

(7) Trade Receivables

IN € THOUSAND	12/31/2023	12/31/2022
Trade receivables (gross)	107,697	126,383
Impairment	-1,892	-1,956
Total	**105,805**	**124,427**

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

As of December 31, 2023, the carrying amount of the receivables transferred through factoring amounted to €28,621 thousand (previous year: €28,150 thousand). Overall, H&R KGaA had factoring lines of €30,000 thousand at its disposal.

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

CHANGES IN IMPAIRMENTS OF TRADE RECEIVABLES

IN € THOUSAND	2023	2022
As of 1/1	**1,956**	**1,908**
Additions	166	214
Utilization	–	–
Reversals	-199	-160
Currency translation differences	-31	-6
As of 12/31	**1,892**	**1,956**

(8) Inventories

IN € THOUSAND	12/31/2023	12/31/2022
Raw, auxiliary and production materials	77,428	81,589
Work in progress	27,744	33,138
Finished products and products for sale	97,435	114,737
Advance payments on inventories	3,780	5,587
Total	**206,387**	**235,051**

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

The carrying amount of inventories recognized at the lower net realizable value amounted to €10,960 thousand in the reporting year (previous year: €5,022 thousand).

Impairment of net realizable values in the amount of €2,552 thousand (previous year: €896 thousand) was recognized as an expense in the reporting period in accordance with IAS 2.34. This affected the ChemPharm Refining and Plastics segments. For more information on expenditures relating to inventories, please consult Note (29).

(9) Other Financial Assets

IN € THOUSAND	12/31/2023 Total	12/31/2023 of which non-current	12/31/2022 Total	12/31/2022 of which non-current
Bills receivable	6,828	–	8,291	–
Receivables from granted subsidies	4,763	4,763	7,532	6,994
Other interests	1,827	1,827	4,269	4,269
Derivatives	1,535	–	9,671	–
Receivables due from BP	1,396	1,396	1,227	1,227
Other financial assets	2,978	2,059	1,777	87
Total	**19,327**	**10,045**	**32,767**	**12,577**

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

Other interests are the shares in SRS EcoTherm GmbH, Salzbergen. The reduction in the holdings' carrying amount was due to a significant increase in the WACC from 4.25% in the previous year to 6.00% in the current year as well as a more muted forecast regarding future cash flows. Bills receivable refer to receivable claims in China secured by bills of exchange.

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

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

IN € THOUSAND	2023	2022
As of 1/1	**8,014**	**10,659**
Interest income	313	117
Reassessment of compensation claims	688	-2,120
Claims paid	-672	-642
As of 12/31	**8,343**	**8,014**

Liabilities developed as follows:

IN € THOUSAND	2023	2022
As of 1/1	**6,787**	**9,193**
Interest expense	254	98
Reassessment of liabilities	490	-1,943
Claims paid	-584	-561
As of 12/31	**6,947**	**6,787**

The net receivable can be broken down as follows:

IN € THOUSAND	12/31/2023	12/31/2022
Compensation claims	**8,343**	**8,014**
Liability	6,947	6,787
Net receivable	**1,396**	**1,227**

Additional information can be found in Note (20).

Other financial assets primarily include loans and receivables, current securities and assets provided as security for loan agreements and guarantees. Additional information can be found in Note (14).

(10) Other Assets

IN € THOUSAND	12/31/2023 Total	12/31/2023 of which non-current	12/31/2022 Total	12/31/2022 of which non-current
Other tax receivables	6,748	–	11,540	–
Accruals and deferrals	3,469	335	2,419	211
Reinsurance policies	1,317	1,317	1,310	1,310
Other assets	1,825	214	3,404	214
Total	**13,359**	**1,866**	**18,673**	**1,735**

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

(11) Property, Plant and Equipment

CHANGES IN 2023

IN € THOUSAND	Land and buildings	Technical equipment/ machinery	Other facilities/ operating and office equipment	Advance payments and construction in progress	Total
Acquisition and production costs					
As of 12/31/2022	**175,315**	**670,978**	**44,178**	**40,271**	**930,742**
Additions	2,598	21,581	5,695	27,667	57,541
Disposals	-2,060	-8,268	-625	-345	-11,298
Currency translation	-4,114	-3,345	-368	-358	-8,185
Reclassifications	445	14,145	842	-15,686	-254
As of 12/31/2023	**172,184**	**695,091**	**49,722**	**51,549**	**968,546**
Cumulative depreciation					
As of 12/31/2022	**66,144**	**378,465**	**33,604**	**–**	**478,213**
Depreciation	7,176	43,729	4,456	–	55,361
Impairment	–	–	–	3,145	3,145
Disposals	-1,632	-6,551	-594	–	-8,777
Currency translation	-1,349	-2,377	-246	–	-3,972
Reclassifications	–	–	–	–	–
As of 12/31/2023	**70,339**	**413,266**	**37,220**	**3,145**	**523,970**
Carrying amounts					
As of 12/31/2023	**101,845**	**281,825**	**12,502**	**48,404**	**444,576**
As of 12/31/2022	109,171	292,513	10,574	40,271	452,529

CHANGES IN 2022

IN € THOUSAND	Land and buildings	Technical equipment/ machinery	Other facilities/ operating and office equipment	Advance payments and construction in progress	Total
Acquisition and production costs					
As of 12/31/2021	**166,933**	**646,600**	**38,634**	**20,427**	**872,594**
Additions	2,711	30,002	3,045	38,268	74,026
Disposals	-936	-11,496	-1,063	-73	-13,568
Currency translation	-1,049	-812	-113	120	-1,854
Reclassifications	7,656	6,684	3,675	-18,471	-456
As of 12/31/2022	**175,315**	**670,978**	**44,178**	**40,271**	**930,742**
Cumulative depreciation					
As of 12/31/2021	**58,455**	**353,318**	**28,460**	**3**	**440,236**
Depreciation	7,302	39,502	4,153	–	50,957
Impairment	864	–	–	–	864
Disposals	-351	-11,252	-1,038	-3	-12,644
Currency translation	-468	-645	-87	–	-1,200
Reclassifications	342	-2,458	2,116	–	–
As of 12/31/2022	**66,144**	**378,465**	**33,604**	**–**	**478,213**
Carrying amounts					
As of 12/31/2022	**109,171**	**292,513**	**10,574**	**40,271**	**452,529**
As of 12/31/2021	108,478	293,282	10,174	20,424	432,358

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

Macroeconomic developments in South Africa resulted in impairments of €864 thousand in financial year 2022. The impairments related to land and buildings in the Sales segment and are recorded as depreciation, impairments and amortization of intangible assets and property, plant and equipment in the income statement. The recoverable amount of the assets was €2.7 million and corresponded to fair value less costs to sell. The fair value is allocated to level 2 in the fair value hierarchy set out in IFRS 13.

The items advance payments and construction in progress include expenses incurred before the completion of the corresponding property, plant and equipment in the amount of €41,335 thousand (previous year: €35,235 thousand). Borrowing costs amounting to €1,059 thousand were capitalized in financial year 2023 (previous year: €173 thousand); these were calculated using financing cost rates of between 4.0% and 5.8% (previous year: 1.0% to 3.8%). Impairment in the amount of €3,145 thousand is included in the income statement under "Depreciation, impairments and amortization of intangible assets and property, plant and equipment" and relates to a facility being built for the Refining segment, for which individual components will not be able to be used as planned in the future due to procedural changes, these then consequently being impaired in full.

(12) Goodwill and Other Intangible Assets

The table below shows changes in intangible assets during financial year 2023:

CHANGES IN 2023

IN € THOUSAND	Goodwill	Other intangible assets: Distribution and similar rights	Software	Licenses/ product rights	Patents (production) technology	Other rights	Subtotal	Total
Acquisition and production costs								
As of 12/31/2022	**56,442**	**19,902**	**10,868**	**9,719**	**14,168**	**1,701**	**56,358**	**112,800**
Currency translation	-1,622	-1,128	-45	-32	-877	–	-2,082	-3,704
Additions	–	–	307	3,459	–	579	4,345	4,345
Disposals	–	–	–	-1,994	–	-5	-1,999	-1,999
Reclassifications	–	197	1,088	-93	–	-938	254	254
As of 12/31/2023	**54,820**	**18,971**	**12,218**	**11,059**	**13,291**	**1,337**	**56,876**	**111,696**
Cumulative amortization								
As of 12/31/2022	**39,049**	**14,000**	**9,888**	**3,577**	**11,968**	–	39,433	**78,482**
Currency translation	-1,605	-807	-40	-11	-768	–	-1,626	-3,231
Amortization	–	771	698	425	1,208	–	3,102	3,102
Impairment	356	434	–	–	–	–	434	790
Disposals	–	–	–	–	–	–	–	–
Reclassifications	–	218	–	-218	–	–	–	–
As of 12/31/2023	**37,800**	**14,616**	**10,546**	**3,773**	**12,408**	–	**41,343**	**79,143**
Carrying amounts								
As of 12/31/2023	**17,020**	**4,355**	**1,672**	**7,286**	**883**	**1,337**	**15,533**	**32,553**
As of 12/31/2022	17,393	5,902	980	6,142	2,200	1,701	16,925	34,318

CHANGES IN 2022

IN € THOUSAND	Goodwill	Distribution and similar rights	Software	Licenses/ product rights	Patents (production) technology	Other rights	Subtotal	Total
		Other intangible assets						
Acquisition and production costs								
As of 12/31/2021	**55,593**	**20,302**	**13,995**	**5,295**	**14,484**	**1,248**	**55,324**	**110,917**
Currency translation	849	-400	-11	1	-316	–	-726	123
Additions	–	–	111	4,626	–	466	5,203	5,203
Disposals	–	–	-3,696	-203	–	–	-3,899	-3,899
Reclassifications	–	–	469	–	–	-13	456	456
As of 12/31/2022	**56,442**	**19,902**	**10,868**	**9,719**	**14,168**	**1,701**	**56,358**	**112,800**
Cumulative amortization								
As of 12/31/2021	**38,201**	**13,110**	**12,973**	**3,186**	**10,950**	–	**40,219**	**78,420**
Currency translation	848	-292	-9	1	-288	–	-588	260
Amortization	–	871	623	390	1,306	–	3,190	3,190
Impairment	–	311	–	–	–	–	311	311
Disposals	–	–	-3,699	–	–	–	-3,699	-3,699
Reclassifications	–	–	–	–	–	–	–	–
As of 12/31/2022	**39,049**	**14,000**	**9,888**	**3,577**	**11,968**	–	**39,433**	**78,482**
Carrying amounts								
As of 12/31/2022	**17,393**	**5,902**	**980**	**6,142**	**2,200**	**1,701**	**16,925**	**34,318**
As of 12/31/2021	17,392	7,192	1,022	2,109	3,534	1,248	15,105	32,497

Goodwill

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

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

Reporting segment	Cash-generating unit (CGU)	Carrying amounts in € thousand		Discount rate after tax in %		Discount rate before tax in %	
		12/31/2023	12/31/2022	2023	2022	2023	2022
ChemPharm Refining	Salzbergen CGU	16,738	16,738	7.1	6.6	10.2	9.2
ChemPharm Sales	H&R ChemPharm (UK) CGU	282	282	8.0	8.4	10.6	10.1
ChemPharm Sales	Asia CGU	–	373	–	8.7	–	10.7
Total		**17,020**	**17,393**				

The goodwill of the Asia CGU arose during the acquisition of the activities in Malaysia in 2005 and was founded on an acquired customer base which could be capitalized as goodwill at the time and has since been continued as such. As the value of the customer base can be considered exhausted and the Asia CGU will not continue to exist in its current form going forward, the goodwill was impaired in full. The impairment amount of €356 thousand is included in the income statement under "Depreciation, impairments and amortization of intangible assets and property, plant and equipment". Further impairment tests carried out during the reporting period did not result in any goodwill impairments.

In the sensitivity analyses performed on the cash-generating units to which goodwill has been allocated, the effects of reducing future cash flows by 10% and increasing the weighted cost of capital by 10% were analyzed. No impairment risk was identifiable for goodwill on the basis of these analyses performed as of September 30 and again as of December 31 due to the increase in interest rates in the fourth quarter.

Other Intangible Assets

The other intangible assets mainly consist of customer relationships with a residual carrying amount of €4.3 million (previous year: €5.9 million) and (licensed) product rights with a residual carrying amount of €7.3 million (previous year: €6.1 million). The additions in financial year 2023 primarily refer to the acquisition of new software licenses.

Impairment in the amount of €434 thousand reported for financial year 2023 relates to the full write-down of individual customer relationships in the Sales segment. Impairment of €311 thousand in the previous year related to the full write-down of customer relationships in the Other segment. The impairments are included in the income statement under "Depreciation, impairments and amortization of intangible assets and property, plant and equipment".

(13) Shares in Holdings Valued at Equity

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

IN € THOUSAND	12/31/2023	12/31/2022
Assets		
Non-current assets	1,425	1,255
Current assets	5,051	7,086
Liabilities		
Non-current liabilities	–	–
Current liabilities	2,045	2,519
Cumulative equity	**4,430**	**5,822**
Income	4,123	7,885
Expenses	-5,165	-9,387
Earnings after income taxes	**-1,042**	**-1,502**
Other comprehensive income	–	–
Total comprehensive income	**-1,042**	**-1,502**

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

IN € THOUSAND	2023	2022
Carrying amounts as of 1/1	**4,262**	**2,430**
Additions	–	2,500
Proportionate share in income	-423	-668
Distribution	-289	–
Carrying amounts as of 12/31	**3,550**	**4,262**

The additions in financial year 2022 are the result of a capital contribution paid into P2X-Europe GmbH & Co. KG.

(14) Liabilities to Banks

Liabilities to banks include the following items:

IN € THOUSAND	Carrying amount as of 12/1/2023	Residual term up to one year	Residual term 2025 to 2028	as of 2029
Loans under KfW programs	67,277	17,919	38,458	10,900
Syndicated loan	43,899	44,718	-819	–
Other loans	46,386	14,453	31,933	–
Total	**157,562**	**77,090**	**69,572**	**10,900**
of which secured	10,888	203	10,685	–

IN € THOUSAND	Carrying amount as of 12/31/2022	Residual term up to one year	Residual term 2024 to 2027	as of 2028
Loans under KfW programs	81,584	17,866	49,717	14,001
Syndicated loan	56,502	57,360	-858	–
Other loans	53,921	52,999	922	–
Total	**192,007**	**128,225**	**49,781**	**14,001**
of which secured	11,205	283	10,922	–

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

Syndicated Loan. The syndicated loan of December 8, 2022, with an initial maximum volume of €230 million and an option of an additional €40 million secures the Group's financing in the event of, for example, an increase in working capital requirements triggered by rising oil prices. It is utilized by H&R KGaA and by Group companies via branch lines. The term was extended by one year to December 8, 2028, last year with the drawdown of the first of two extension options.
The availability and conditions are linked to certain ratios (financial covenants). In the event of a breach of covenant, the syndicate banks are entitled to terminate the syndicated loan. The syndicated loan is subject to a variable interest rate (EURIBOR + margin). The margin percentage is dependent on net gearing (net debt/EBITDA) and, to a lesser degree, on the ESG rating. Adjustments in the event of changes in net gearing always take place after the filing of the quarterly and/or annual reports or, if the ESG rating has changed, after the filing of the annual ESG rating report.

Other Loans. Other loans mainly include a loan taken up by H&R KGaA in December 2021 and extended in December 2023 with final maturity in December 2026, a loan redeemable through scheduled installments at fixed interest rates, as well as subsidiaries' variable-rate working capital loans, including drawdowns under branch lines of the syndicated loan secured by credit requests and guarantees.

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

Collateral. Collateral assignments have been provided for a redeemable loan in South Africa originally totaling the equivalent of €2 million to guarantee local bank loans as well as for the loans taken up as KfW Entrepreneur Loans (special coronavirus program) in the form of a production facility for a total of €10 million. No collateral has been provided for the other KfW loans and the syndicated loan.

(15) Trade Payables

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

(16) Contract Liabilities

The contract liabilities amounted to €4,004 thousand as of December 31, 2023. The carrying amount on December 31, 2022, was €2,519 thousand. This amount included €2,519 thousand that was recognized as revenue in the reporting period.

(17) Other Provisions

Changes in other provisions in 2023 were as follows:

OTHER PROVISIONS

IN € THOUSAND	HR provisions (17.1)	Emission rights (17.2)	Trade-related commitments (17.3)	Miscellaneous provisions (17.4)	Total
As of 1/1/2023	**16,102**	**1,984**	**1,243**	**2,210**	**21,539**
of which non-current	2,759	–	–	–	2,759
Utilization	-11,411	-1,980	-848	-1,389	-15,628
Reversal	-765	-4	-171	-61	-1,001
Additions	10,483	3,381	1,380	1,337	16,581
Compounding/discounting	64	–	–	–	64
Reclassification to pension provisions	-590	–	–	–	-590
Currency translation differences	-183	–	-21	-41	-245
As of 12/31/2023	**13,700**	**3,381**	**1,583**	**2,056**	**20,720**
of which non-current	2,786				2,786

The following cash outflows are expected in connection with the provisions shown in the statement of financial position as of December 31, 2023:

IN € THOUSAND	HR provisions	Emission rights	Trade-related commitments	Miscellaneous provisions	Total
2024	10,914	3,381	1,583	2,056	17,934
2025	1,087	–	–	–	1,087
2026–2028	600	–	–	–	600
2029–2033	724	–	–	–	724
2034 and later	375	–	–	–	375
Total	**13,700**	**3,381**	**1,585**	**2,056**	**20,720**

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

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

(17.2) Emission Rights
The provision for emission rights relates to the production sites in Hamburg-Neuhof and Salzbergen.

(17.3) Trade-related Commitments
Provisions for trade-related commitments primarily include provisions for volume discounts and warranties.

(17.4) Other Provisions
Miscellaneous provisions primarily include provisions for legal and consulting fees and other obligations.

(18) Other Financial Liabilities

	12/31/2023		12/31/2022	
IN € THOUSAND	Total	of which non-current	Total	of which non-current
Lease liabilities	45,050	33,936	52,234	41,025
Liabilities arising from derivatives	1,340	–	3,253	–
Miscellaneous financial liabilities	414	20	445	66
Total	**46,804**	**33,956**	**55,932**	**41,091**

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

(19) Other Liabilities

	12/31/2023		12/31/2022	
IN € THOUSAND	Total	of which non-current	Total	of which non-current
Accruals and deferrals	20,375	18,920	25,251	22,181
Tax liabilities	14,023	–	19,308	–
Other liabilities	2,620	1,383	1,268	–
Total	**37,018**	**20,303**	**45,827**	**22,181**

Accruals and deferrals mainly include public and private subsidies for investments in H&R KGaA. A substantial amount of these relate to subsidies for the construction of a flood protection wall and investments in various production facilities at the production site in Hamburg. Further subsidies were granted for investments in production facilities at the Salzbergen production site. Tax liabilities primarily concern the current VAT and payroll tax liabilities as well as import VAT still due.

(20) Pension Provisions

The Group has both defined-contribution and defined-benefit company retirement plans.

In the case of the defined-contribution plans, the Group pays contributions to state or private pension schemes on the basis of legal or contractual provisions or on a voluntary basis. Once it has made the contributions, the Group has no further obligations in this area. Defined-contribution pension plans exist mainly in the international companies of the Chemical-Pharmaceutical division.

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

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

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

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

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

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

- Pension agreement for employees of Aral AG on non-union rates dated June 24, 1991
- Pension scheme for employees of Aral AG on union rates dated October 15, 1985
- Aral AG 1999 pension agreement
- Pension charter dated January 1, 1980, pursuant to the central works agreement dated November 30, 1979
- Additional pension for shift work in accordance

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

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

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

H&R Ölwerke Schindler GmbH's obligations to the individual groups as of December 31, 2023, are shown in the following table:

IN € THOUSAND	12/31/2023	12/31/2022
Group 1	30,016	28,010
Group 3	8,343	8,014

Another category (Group 2) comprises employees of BP who were not taken on by H&R Ölwerke Schindler. For the people in Group 2, H&R Ölwerke Schindler has agreed to reimburse BP for the relevant pension obligations which remain with BP, in the amount of €6,947 thousand (previous year: €6,787 thousand). Pursuant to IAS 1.32, these commitments were netted against a receivable from BP arising from a reimbursement claim for pension commitments assumed amounting to €8,343 thousand (previous year: €8,014 thousand), which also arose as part of the takeover of the specialty business [see Note (9)]. The net receivable of €1,396 thousand (previous year: €1,227 thousand) is shown in receivables from BP under other non-current assets. The amount of the obligation may vary due to changes in actuarial assumptions.

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

IN € THOUSAND	2023	2022
As of 1/1	**56,311**	**83,084**
Current service cost	429	716
Interest expense	2,138	888
Reassessments	2,052	-25,137
of which due to changes in financial assumptions	1,007	-20,110
of which due to empirical adjustments	1,044	-1,107
of which due to demographic assumptions	–	-3,921
Payments made	-3,377	-3,240
Reclassification from HR provisions	590	–
As of 12/31	**58,143**	**56,311**

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

IN € THOUSAND	2023	2022
As of 1/1	**1,999**	**1,865**
Interest income	78	21
Reassessments	-19	113
As of 12/31	**2,058**	**1,999**

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

IN € THOUSAND	2023	2022
As of 1/1	**54,312**	**81,219**
Current service cost	429	716
Interest expense	2,060	867
Payments made	-3,377	-3,239
Reassessments	2,071	-25,251
of which return on plan assets	19	-113
of which due to changes in financial assumptions	1,007	-20,110
of which due to empirical adjustments	1,044	-1,107
of which due to demographic assumptions	–	-3,921
Reclassification from HR provisions	590	–
As of 12/31	**56,085**	**54,312**

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

	12/31/2023	12/31/2022
Interest rate	3.7%	3.9%
Salary trend	0.0%–3%	0.6%–3%
Pension trend	2.2%–2.5%	2.2%–2.5%
Retirement age	60–65	60–65

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

There were no plan changes, curtailments or settlements in financial year 2023.

Payments totaling €3,577 thousand are expected for the next financial year (previous year: €3,346 thousand). The average duration of the benefit obligations is 11.2 years.

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

CHANGE IN PENSION OBLIGATIONS

		12/31/2023		12/31/2022	
	Change in parameter by	Change in obligation if increased in € thousand	Change in obligation if decreased in € thousand	Change in obligation if increased in € thousand	Change in obligation if decreased in € thousand
Change in discount rate	0.50%	-3,243	3,444	-3,180	3,522
Change in expected salary trend	0.50%	303	-292	387	-371
Change in expected pension trend	0.50%	645	-575	733	-646
Change in expected mortality	1 year	451	-490	367	-403

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

All domestic pension plans within the H&R Group are closed; no new employees are admitted. There are active employees with a pension claim at the domestic production sites in Hamburg and Salzbergen and within the GAUDLITZ Group in Coburg. Internationally, only the Thailand site has a pension plan with active employees, but overall this is classified as immaterial.

(21) Subscribed Capital

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

Approved Capital

The general partner with full personal liability is authorized – with the Supervisory Board's approval – to increase the company's share capital by May 23, 2027, by a maximum of €47.6 million by issuing new ordinary no-par bearer shares. The issue may be effected in one or more tranches in return for cash and/or contributions in kind (2022 Approved Capital). Within this context, the number of shares must increase in proportion to the share capital. In principle, shareholders must be granted a subscription right; however, the Executive Board may, with the Supervisory Board's approval, exclude the subscription right on one or more occasions under certain conditions.

(22) Capital Reserve

The capital reserve includes the amounts by which the proceeds from the issuance of preferred and ordinary shares exceed their face value. In the financial year, the capital reserve amounted to €46,427 thousand (previous year: €46,427 thousand).

(23) Retained Earnings

On the reporting date, retained earnings totaled €278,819 thousand (previous year: €272,789 thousand). The reassessed net liability under defined-benefit pension plans recorded under other comprehensive income totaled €-11,189 thousand (previous year: €-10,385 thousand). Other retained earnings totaled €2,293 thousand as of the reporting date (previous year: €2,293 thousand).

Dividend

At the Annual Shareholders' Meeting on May 23, 2023, it was decided that a dividend of €0.10 would be distributed for each share for financial year 2022, equating to a total amount of €3,722 thousand, and, in addition, that the distributable profit be carried forward. For financial year 2023, the Executive Board and Supervisory Board will propose to the Annual Shareholders' Meeting on May 28, 2024, that a dividend of €0.10 be distributed per share, equating to a total amount of €3,722 thousand, and, in addition, that the distributable profit of H&R GmbH & Co. KGaA be carried forward. This proposal is subject to approval by the shareholders at the Annual Shareholders' Meeting.

(24) Other Reserves

The other reserves amount to €-7,385 thousand (previous year: €9,269 thousand) and relate to cumulative other comprehensive income. They comprise the currency translation adjustment of €-8,451 thousand (previous year: €1,753 thousand) and the difference resulting from the fair value measurement of equity instruments of €767 thousand (previous year: €3,172 thousand) and the reserve from cash flow hedging (€299 thousand, previous year: €4,344 thousand). In the financial year, a sum of €-75 thousand was reclassified from the currency translation adjustment item to the income statement (previous year: €0 thousand).

(25) Non-controlling Interests

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

IN € THOUSAND	2023	2022
As of 1/1	**47,523**	**45,875**
Currency translation differences	-2,930	-1,006
Proportionate share of net profit or loss	7	2,654
As of 12/31	**44,600**	**47,523**

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

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

IN € THOUSAND	12/31/2023	12/31/2022
Current assets	91,624	97,380
Non-current assets	33,667	41,560
Current liabilities	30,020	39,457
Non-current liabilities	4,195	2,439
Cumulative equity	**91,076**	**97,044**
of which proportionate share of net assets of non-controlling interests	**44,627**	**47,552**

IN € THOUSAND	2023	2022
Income	219,021	237,936
Expenses	-219,011	-232,554
Profit/loss	**10**	**5,382**
of which proportionate share in income of non-controlling interests	5	2,637
Other comprehensive income	**-5,977**	**-2,055**
of which other comprehensive income of non-controlling interests	-2,930	-1,006
Total comprehensive income	**-5,967**	**3,327**
of which non-controlling interests' proportionate share of total comprehensive income	-2,925	1,631
Cash flow from operating activities	**10,696**	**4,929**
of which proportionate share of cash flow from operating activities of non-controlling interests	5,241	2,415
Cash flow from investing activities	**-399**	**-1,531**
of which proportionate share of cash flow from investing activities of non-controlling interests	-196	-750
Cash flow from financing activities	**-4,047**	**1,382**
of which proportionate share of cash flow from financing activities of non-controlling interests	-1,983	677

Notes to the Consolidated Income Statement

(26) Research and Development Costs

In financial year 2023, research and development activities in the Chemical-Pharmaceutical division focused on the continued improvement of product quality in the product areas of formulated oils, paraffins and white oils. Research and development costs were incurred in the Plastics division for testing and experiments on new materials in the plastics area as well as research relating to the possibility of the increased use of plastic parts in various sectors.

In the current financial year, expenses in this area totaled €2,051 thousand (previous year: €2,030 thousand). For further information regarding research and development costs, please consult the pertinent section in the combined management report.

(27) Sales Revenue

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

No contractual costs or contractual performance costs were capitalized.

(28) Other Operating Income

IN € THOUSAND	2023	2022
Income from services	9,444	7,996
Exchange rate gains from foreign currency items	8,842	13,190
Income from cost transfers	4,803	9,024
Income from the reversal of provisions	1,970	2,658
Own work capitalized	985	613
Income from the disposal of intangible assets	247	40
Miscellaneous	3,577	3,615
Total	**29,868**	**37,136**

Income from cost transfers results mainly from the reinvoicing of consumption taxes, project-related costs and current costs to the companies in which there is a participating interest, Westfalen Chemie KG and SRS EcoTherm GmbH. Income from services mainly refers to IT services provided.

(29) Cost of Materials

IN € THOUSAND	2023	2022
Raw materials	752,897	939,015
Auxiliary and production materials	19,209	20,124
Products for sale	200,897	231,687
Cost of raw materials, auxiliary and production materials and merchandise purchased	**973,003**	**1,190,826**
Energy costs	57,369	80,466
Other external services	2,740	2,666
Total expenditures on purchased services	**60,109**	**83,132**
Total	**1,033,112**	**1,273,958**

The cost of materials was lower in financial year 2023 than in the previous year due to lower raw materials and energy prices. Energy costs were influenced positively by reimbursements in relation to the electricity and gas price caps.

(30) Personnel Expenses

IN € THOUSAND	2023	2022
Wages and salaries	86,881	84,105
Social security payments	14,260	13,425
Defined-contribution pension plan expenses	701	661
Defined-benefit pension plan expenses	400	723
Other social security expenses	523	649
Total	**102,765**	**99,563**

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

AVERAGE NUMBER OF EMPLOYEES

	2023	2022
ChemPharm Refining	747	723
ChemPharm Sales	538	511
Plastics	326	316
Other	72	71
Total	**1,683**	**1,621**

(31) Other Operating Expenses

IN € THOUSAND	2023	2022
Freight costs and other distribution costs	33,005	40,163
Third-party goods and services	23,615	26,982
Third-party repairs and maintenance	18,202	18,553
Insurance premiums, fees and contributions	9,954	8,874
Exchange rate loss from foreign currency items	9,792	14,682
IT costs	5,220	4,717
Legal and consulting fees, expenses for annual financial statements and Annual Shareholders' Meeting	4,902	5,330
Cost transfers	4,443	8,152
Other taxes	2,463	2,233
Other personnel expenses	2,262	2,483
Commission	1,800	2,044
Travel expenses	1,751	1,090
Expenses for short-term leases and leases of low-value assets	1,228	2,060
Miscellaneous	17,283	12,791
Total	**135,920**	**150,154**

(32) Financing Income

IN € THOUSAND	2023	2022
Interest income from short-term bank deposits	631	236
Income from loans	47	19
Other interest and similar income	158	–
Total interest income	**836**	**255**
Income from equity investments	357	–
Miscellaneous financing income	50	–
Other financing income	**407**	**–**
Financing income	**1,243**	**255**

(33) Financing Expenses

IN € THOUSAND	2023	2022
Interest expense relating to loan interest	6,291	4,036
Interest expense from the compounding of pension provisions	2,060	867
Interest expense relating to lease liabilities	1,274	1,205
Commitment commission	442	731
Other interest and similar expenses	2,630	945
Financing expenses	**12,697**	**7,784**

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

(34) Income Taxes

Since January 1, 2009, the net income of German companies has been subject to a uniform corporation tax rate of 15% plus a solidarity surcharge of 5.5%. In conjunction with a trade tax burden of 14.1% (previous year: 14.09%), this amounts to a combined income tax rate for the Group in Germany of 29.92% (previous year: 29.91%). As in the previous year, income tax rates for significant companies abroad are between 17% and 30%. Any interest on tax arrears is reported under interest expense. Deferred income tax expense includes changes in deferred tax assets and liabilities.

Income taxes paid or owed in individual countries as well as tax accruals and deferrals are shown as income taxes. These can be broken down as follows:

IN € THOUSAND	2023	2022
Current income tax expenses	-6,813	-13,610
Current income tax refunds	175	203
Total current taxes	**-6,638**	**-13,407**
Deferred taxes from temporary differences	-1,179	138
Deferred taxes from loss carryforwards	-425	-3,396
Total deferred taxes	**-1,604**	**-3,258**
Total	**-8,242**	**-16,665**

Current income tax expenses fell by €259 thousand in the financial year (previous year: €4,914 thousand) due to the utilization of loss carryforwards.

In accordance with IAS 12.34, a deferred tax asset is recognized for a tax loss carryforward available as of the reporting date if it is considered probable that there will be sufficient future taxable profit against which the loss carryforward can be utilized. At H&R KGaA, domestic tax loss carryforwards led to the recognition of €274 thousand (previous year: €81 thousand) in deferred taxes, with €213 thousand (previous year: €1,106 thousand) being recognized for foreign tax loss carryforwards. Overall, in Group companies that reported a loss in the previous year or the current year, a surplus of deferred tax assets totaling €701 thousand was recognized (previous year: €849 thousand). Recognition of the deferred tax assets is justified due to the fact that positive tax income is expected in the future due, among other things, to new corporate strategies, which will exceed the impact on earnings caused by the reversal of the temporary differences.

In addition to the deferred tax assets recognized for loss carryforwards, there are also domestic corporation tax losses in the amount of €7,781 thousand (previous year: €2,475 thousand) and trade tax losses of €3,952 thousand (previous year: €2,648 thousand), the realization of which is not sufficiently guaranteed and for which therefore no deferred tax claims have been recognized. Based on current laws, the loss carryforwards cannot expire. As of the reporting date, foreign loss carryforwards for which no deferred tax assets have been recognized totaled €783 thousand (previous year: €701 thousand) and essentially may be utilized without restriction within two to nine years. No deferred tax claims were recognized for deductible temporary differences totaling €2,898 thousand (previous year: €3,560 thousand).

Deferred tax assets of €1,068 thousand were allocated for the remeasurement of defined-benefit pension plans (previous year: reversal of €7,171 thousand) and were recognized in other comprehensive income. The change in equity instruments measured at fair value through other comprehensive income led to a change in the deferred taxes recognized in other comprehensive income (with no effect on profit or loss) in the amount of €37 thousand (previous year: €40 thousand). Income related to changes in deferred tax assets of €1,711 thousand (previous year: expense totaling €1,862 thousand) was recognized in other comprehensive income in connection with cash flow hedges.

For €9,429 thousand in temporary differences in the retained earnings of subsidiaries (previous year: €9,219 thousand), no deferred tax liabilities were recognized because of existing control in accordance with IAS 12.39.

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

IN € THOUSAND	2023	2022
Earnings before income tax	**18,805**	**62,029**
Theoretical income tax rate: 29.92% (previous year: 29.91%)	**5,627**	**18,554**
Effects from tax rate differences	-991	-1,644
Effects from previous years' taxes	-545	-2,107
Non-deductible expenses	2,232	1,279
Tax-free income	-961	-476
Foreign withholding tax	131	163
Effects from changes in tax rates	478	120
Unrecognized deferred tax assets for loss carryforwards	1,145	303
Write-down of deferred taxes	407	–
Effects from holdings valued at equity	184	200
Other tax effects	535	273
Income tax expense as per consolidated income statement	**8,242**	**16,665**

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

IN € THOUSAND	12/31/2023 Deferred tax assets	12/31/2023 Deferred tax liabilities	12/31/2022 Deferred tax assets	12/31/2022 Deferred tax liabilities
Intangible assets	2	2,695	3	2,775
Property, plant and equipment	957	31,991	1,033	32,458
Financial assets	163	636	57	439
Inventories	2,523	26	2,321	47
Receivables and other assets	243	16	157	154
Pension provisions	4,830	–	3,913	–
Other provisions	572	43	626	12
Liabilities	17,971	1,002	20,708	286
Tax loss carryforwards	762	–	1,187	–
Total	**28,023**	**36,393**	**30,005**	**36,171**
Netting	-24,557	-24,557	-26,903	-32,569
Total	**3,466**	**11,836**	**6,222**	**3,602**

(35) Earnings per Share

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

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

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

	2023	2022
Consolidated income attributable to shareholders in € thousand	10,556	42,710
Average number of shares in circulation	37,221,746	37,221,746
Earnings per ordinary share (undiluted) in €	0.28	1.15
Earnings per ordinary share (diluted) in €	0.28	1.15

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

Additional Notes

(36) Segment Reporting

The business segments subject to reporting requirements under IFRS 8 were identified on the basis of the divisions monitored in the internal reporting system, whose performance data form the basis for management decisions.

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

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

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

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

Other activities are those associated with non-operating companies, as well as segments exempt from mandatory reporting. This includes H&R KGaA which, as the holding company is responsible for the strategic leadership of the Group companies comprising the various segments and for deciding how to efficiently allocate funds within the Group. The Other Activities segment also generates income from IT services.

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

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

	Chemical-Pharmaceutical Raw Materials			
	ChemPharm Refining		ChemPharm Sales	
IN € THOUSAND	2023	2022	2023	2022
External sales	808,233	1,000,408	492,712	526,673
Consolidated sales	19,979	20,197	–	61
Sales revenue by segment	828,212	1,020,605	492,712	526,734
Depreciation and amortization	-45,812	-39,496	-11,701	-11,111
of which impairments	-3,145	–	-790	-864
Interest income	561	93	634	227
Interest expense	-14,572	-5,694	-4,830	-3,193
Earnings before income tax	-1,734	47,561	15,568	19,342
EBIT	12,276	53,161	19,764	22,308
EBITDA	58,088	92,657	31,465	33,419
Capital expenditure	48,066	62,061	5,502	9,278
Income from holdings valued at equity	273	328	–	–
Shares in holdings valued at equity	1,386	1,402	–	–

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

The column "Consolidation/reconciliation" contains eliminations of all intragroup transactions as well as intradivisional receivables and payables.

The valuation principles for H&R KGaA's segment reporting are based on the IFRS guidelines applied in the consolidated financial statements. The geographical distribution of external sales is calculated according to the locations of the respective customers. The assets and investments are assigned to the regions on the basis of the company's domicile.

Plastics		Other activities		Consolidation/ reconciliation		Total	
2023	2022	2023	2022	2023	2022	2023	2022
51,310	48,962	–	–	–	–	1,352,255	1,576,043
–	–	–	–	-19,979	-20,258	–	–
51,310	48,962	–	–	-19,979	-20,258	1,352,255	1,576,043
-2,848	-2,378	-2,038	-2,337	–	–	-62,399	-55,322
–	–	–	-312	–	–	-3,935	-1,176
177	10	15,108	5,273	-15,644	-5,348	836	255
-1,006	-355	-7,957	-3,902	15,668	5,360	-12,697	-7,784
1,066	2,311	2,806	-6,138	1,099	-1,047	18,805	62,029
1,846	2,656	-4,702	-7,508	1,075	-1,059	30,259	69,558
4,694	5,034	-2,664	-5,171	1,075	-1,059	92,658	124,880
7,455	5,721	864	2,170	-	–	61,887	79,230
–	–	-696	-996	–	–	-423	-668
–	–	2,164	2,860	–	–	3,550	4,262

H&R KGaA generated €615.3 million in sales (previous year: €782.2 million), or more than 10% of consolidated sales, with one customer in the ChemPharm Refining segment. The following table shows how external sales revenue is broken down by region, products and services:

IN € THOUSAND	ChemPharm Refining		ChemPharm Sales		Plastics		Other		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Germany	682,819	848,412	15,039	15,988	9,294	11,446	–	–	707,152	875,846
Rest of Europe	120,252	140,454	50,568	58,127	21,874	18,271	–	–	192,694	216,852
Rest of world	5,162	11,542	427,105	452,558	20,142	19,245	–	–	452,409	483,345
Total	**808,233**	**1,000,408**	**492,712**	**526,673**	**51,310**	**48,962**	**–**	**–**	**1,352,255**	**1,576,043**
Chemical-pharmaceutical products – core products	443,271	499,835	491,593	526,118	–	–	–	–	934,864	1,025,953
Chemical-pharmaceutical products – by-products	250,782	393,950	1,119	555	–	–	–	–	251,901	394,505
Precision plastics	–	–	–	–	51,304	48,912	–	–	51,304	48,912
Provision of services	114,180	106,623	–	–	6	50	–	–	114,186	106,673
Total	**808,233**	**1,000,408**	**492,712**	**526,673**	**51,310**	**48,962**	**–**	**–**	**1,352,255**	**1,576,043**

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

NON-CURRENT ASSETS

IN € THOUSAND	2023	2022
Germany	396,616	399,433
Rest of Europe	17,744	14,095
Rest of world	62,768	73,319
of which China	35,467	43,059
Group	**477,128**	**486,847**

RECONCILIATION OF OPERATING INCOME TO CONSOLIDATED INCOME

IN € THOUSAND	2023	2022
Operating income (EBITDA) of H&R KGaA	**92,658**	**124,880**
Depreciation, impairments and amortization of intangible assets and property, plant and equipment	-62,399	-55,322
Financing income	1,243	255
Financing expenses	-12,697	-7,784
Income taxes	-8,242	-16,665
Consolidated income	**10,563**	**45,364**

(37) Notes to the Consolidated Cash Flow Statement

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

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

Cash and cash equivalents include the bank balances, cash in hand, and checks identified in the statement of financial position. As of December 31, 2023, €1,000 thousand (previous year: €1,797 thousand) was recognized as cash and cash equivalents, which was deposited in pledged accounts as collateral and therefore subject to access restrictions.

Non-cash operating expenses and earnings and gains from disposals of property, plant and equipment are eliminated from cash flow from operating activities. Interest received, interest paid and income taxes paid and received are allocated to this area. Cash flow from operating activities is calculated using the indirect method.

Cash flow from investing activities includes cash investments in intangible assets, property, plant and equipment and financial investments.

Cash flow from financing activities includes new borrowings, repayments of financial liabilities and advance payments received from customers, as well as dividend payments.

For additions to fixed assets in the amount of €5,342 thousand (previous year: €6,752 thousand) no cash outflow took place; trade payables in the same amount therefore exist.

CHANGE IN LIABILITIES FROM FINANCING ACTIVITIES

IN € THOUSAND	Liabilities to banks	Advance payments received	Lease liabilities	Total
1/1/2022	**141,775**	**3,679**	**54,504**	**199,958**
Changes affecting cash flow				
Repayments	-206,359	–	-11,713	-218,072
Borrowings	257,067	2,519	–	259,586
Non-cash changes				
Leasing costs	–	–	9,502	9,502
Changes due to fluctuations in exchange rates	-535	-2	-59	-596
Change in accrued/deferred interest	59	–	–	59
Netting against trade receivables	–	-3,677	–	-3,677
12/31/2022	**192,007**	**2,519**	**52,234**	**246,760**
Changes affecting cash flow				
Repayments	-159,482	–	-13,356	-172,838
Borrowings	125,614	4,004	–	129,618
Non-cash changes				
Leasing costs	–	–	6,402	6,402
Changes due to fluctuations in exchange rates	-1,374	-119	-230	-1,723
Change in accrued/deferred interest	797	–	–	797
Netting against trade receivables	–	-2,400	–	-2,400
12/31/2023	**157,562**	**4,004**	**45,050**	**206,616**

The general form in which the statement of cash flows is presented and the reporting options are exercised has not changed since the previous period.

(38) Financial Instruments

(38.1) General Information

The fair values of financial assets are derived from stock market prices or are calculated on the basis of recognized valuation methods. In the case of other financial assets, it is assumed that the fair value is equal to the carrying amount. The carrying amount of the financial assets corresponds to the maximum default risk. If default risks of financial assets can be identified, such risks are recognized in the form of impairment losses.

On the liabilities side, financial instruments mainly include liabilities measured at amortized cost.

As an international company, H&R KGaA is exposed to risks relating to prices of commodities and raw materials, currency fluctuations, and changes in interest rates in the course of its ordinary business activities. Details concerning the risk management system used to deal with these risks can be found in Note (47), Risk Management Policy, Capital Management and Hedging Measures.

(38.2) Information Concerning Derivatives

Derivative financial instruments are employed to hedge currency fluctuations and raw materials price risks from the operating business. The types of instruments employed are primarily currency forward contracts and raw materials price hedging contracts (swaps). The latter are designated as cash flow hedges. Within the scope of raw materials price hedging, only those risk components are included that relate to the Brent or Platts Fuel Oil listing. The starting point for the analysis of the raw materials price risk are the planned purchases of raw materials, as well as planned sales of products, the sale prices of which also depend on raw materials market prices. The average prices secured under raw materials price hedges over the financial year were US$88.79 per barrel of Brent Crude (previous year: US$63.69 per barrel) and US$501.91 per metric ton in relation to Platts fuel oil assessments (previous year: US$340.02 per metric ton).

Other comprehensive income from cash flow hedges declined by €5,756 thousand (previous year: increase of €6,225 thousand) due to changes to the fair market values of the derivatives, the amounts transferred in the income statement and the basis adjustments. In financial year 2023, the income from financial instruments measured at fair value through profit or loss totaled €152 thousand (previous year: €15 thousand).

The following table shows the development of the reserve for cash flow hedges from raw materials price hedging contracts:

DEVELOPMENT OF THE RESERVE FOR CASH FLOW HEDGES

IN € THOUSAND	2023	2022
As of 1/1	**6,197**	**-27**
Changes in fair value	-5,873	15,172
Amount transferred to the income statement	-2,985	15,775
Amount transferred to inventories	3,103	-24,723
As of 12/31	**442**	**6,197**

The following tables show the reported fair values of the derivative financial instruments as of December 31, 2023, and December 31, 2022.

NOMINAL AND FAIR VALUES OF DERIVATIVES IN 2023

IN € THOUSAND	Nominal value	Maturity	Fair values positive	Fair values negative
Raw materials price hedging contracts	76,149	until 2024	1,303	-1,274
Currency forward contracts	17,335	until 2024	232	-66

NOMINAL AND FAIR VALUES OF DERIVATIVES IN 2022

IN € THOUSAND	Nominal value	Maturity	Fair values positive	Fair values negative
Raw materials price hedging contracts	89,977	until 2023	9,516	-3,113
Currency forward contracts	20,130	until 2023	155	-140

The nominal value shows the gross volume. Positive fair values are recognized under other financial assets and negative fair values under other financial liabilities.

(38.3) Maturity Analysis

H&R KGaA's liquidity risk consists of contractually agreed obligations to make future interest and redemption payments on financial liabilities and derivative financial instruments.

The maturities of these undiscounted payment streams are shown in the table below:

2023

IN € THOUSAND	Carrying amount	2024	2025	2026–2028	2029–2033	2034 and later
Liabilities to banks	157,562	81,340	19,795	55,463	11,560	–
Lease liabilities	45,050	11,564	8,721	10,980	10,461	9,662
Liabilities arising from derivatives with hedge accounting items	1,274	1,274	–	–	–	–
Liabilities arising from derivatives without hedge accounting items	66	66	–	–	–	–
Other financial liabilities	414	394	20	–	–	–

2022

IN € THOUSAND	Carrying amount	2023	2024	2025–2027	2028–2032	2033 and later
Liabilities to banks	192,007	132,011	15,945	38,366	14,660	–
Lease liabilities	52,234	11,624	9,833	14,496	11,083	11,319
Liabilities arising from derivatives with hedge accounting items	3,113	3,113	–	–	–	–
Liabilities arising from derivatives without hedge accounting items	140	140	–	–	–	–
Other financial liabilities	445	379	66	–	–	–

(38.4) Information on Categories of Financial Instruments

According to IFRS 7, financial assets and liabilities have to be grouped in such a way that a distinction can be made between financial instruments stated at fair value and those valued at amortized cost.

The table below shows the carrying amounts of the separate financial assets and liabilities for each category of financial instrument.

IN € THOUSAND	Valuation category according to IFRS 9	12/31/2023 Carrying amount	12/31/2023 Fair value (for information)	12/31/2022 Carrying amount	12/31/2022 Fair value (for information)
Financial assets					
Cash and cash equivalents	Measured at amortized cost	69,443	69,443	55,997	55,997
Trade receivables	Measured at amortized cost	105,805	105,805	120,934	120,934
Trade receivables	Measured at fair value through profit or loss	–	–	3,493	3,493
Other financial assets					
Financial investment in equity instruments	Measured at fair value through other comprehensive income	1,827	1,827	4,269	4,269
Derivatives with hedge accounting item	Measured at fair value through other comprehensive income	1,303	1,303	9,516	9,516
Derivatives without hedge accounting item	Measured at fair value through profit or loss	232	232	155	155
Other current securities	Measured at fair value through profit or loss	31	31	31	31
Other financial assets	Measured at amortized cost	15,934	15,934	18,796	18,796
Financial liabilities					
Trade payables	Measured at amortized cost	103,065	103,065	99,392	99,392
Liabilities to banks	Measured at amortized cost	157,562	156,333	192,007	189,412
Other financial liabilities					
Lease liabilities	Measured at amortized cost	45,050	45,050	52,234	52,234
Derivatives with hedge accounting item	Measured at fair value through other comprehensive income	1,274	1,274	3,113	3,113
Derivatives without hedge accounting item	Measured at fair value through profit or loss	66	66	140	140
Miscellaneous financial liabilities	Measured at amortized cost	414	414	445	445

Since trade receivables, trade payables, other financial assets, other financial liabilities and cash and cash equivalents generally have short-term maturities, their carrying amounts do not deviate significantly from their fair values on the reporting date. The fair values of other long-term receivables and payables with remaining maturities of more than one year are equal to the present value of the payments associated with the assets and are subject to the relevant current discount rates.

Net Results by Valuation Category.
The expenses, income, gains and losses from financial instruments can be broken down into the following categories:

2023

IN € THOUSAND	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Financial instruments measured at fair value through other comprehensive income	Financial instruments measured at fair value through profit or loss	Total
Interest income	806	–	–	–	806
Interest expense	–	-7,607	–	-1,349	-8,956
Impairment/ reversals of impairments	-134	–	–	–	-134
Fees recorded as expenses	–	-1,220	–	–	-1,220
Other financial expenses/income	50	–	-7,840	152	-7,638
Net income/loss	**722**	**-8,827**	**-7,840**	**-1,197**	**-17,142**

2022

IN € THOUSAND	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Financial instruments measured at fair value through other comprehensive income	Financial instruments measured at fair value through profit or loss	Total
Interest income	250	–	–	–	250
Interest expense	–	-5,079	–	-474	-5,553
Impairment/ reversals of impairments	-54	–	–	–	-54
Fees recorded as expenses	–	-1,303	–	–	-1,303
Other financial expenses/income	–	–	3,728	19	3,747
Net income/loss	**196**	**-6,382**	**3,728**	**-455**	**-2,913**

Interest expenses of financial liabilities measured at amortized cost exclusively include effects from using the effective-interest method. €2,458 thousand of income and expenses from financial instruments measured at fair value through other comprehensive income relate to liabilities arising from derivatives with hedge accounting items (previous year: €4,334 thousand). €-8,213 thousand to assets arising from derivatives with hedge accounting items (previous year: €2,096 thousand), and €-2,442 thousand to valuation effects arising from an equity instrument (previous year: €-2,702 thousand). A further €357 thousand result from income from investments relating to the equity instrument (previous year: €0 thousand). The expenses for financial instruments measured at fair value through profit or loss concern assets relating to the factoring program which expired on December 31, 2023.

(38.5) Additional Disclosures on Financial Instruments

At the first level, fair value measurement is based on quoted prices in active markets for identical assets or liabilities. If this is not possible, second-level measurement is based on observable market transactions for comparable assets or liabilities. At the third level, fair values are measured by models that use parameters that are based on non-observable market data to value assets and liabilities.

The financial instruments of H&R KGaA measured at fair value are allocated to the levels described above by category as follows:

12/31/2023

IN € THOUSAND	Level 1	Level 2	Level 3
ASSETS			
Financial assets measured at fair value through other comprehensive income	–	–	1,827
Financial assets measured at fair value through profit or loss	621	–	–
Derivatives with hedge accounting item	–	1,303	–
Derivatives without hedge accounting item	–	232	–
Total	**621**	**1,535**	**1,827**
LIABILITIES AND SHAREHOLDERS' EQUITY	**Level 1**	**Level 2**	**Level 3**
Derivatives with hedge accounting item	–	1,274	–
Derivatives without hedge accounting item	–	80	–
Total	**–**	**1,354**	**–**

12/31/2022

IN € THOUSAND	Level 1	Level 2	Level 3
ASSETS			
Financial assets measured at fair value through other comprehensive income	–	–	4,269
Financial assets measured at fair value through profit or loss	3,524	–	–
Derivatives with hedge accounting item	–	9,516	–
Derivatives without hedge accounting item	–	155	–
Total	**3,524**	**9,671**	**4,269**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Derivatives with hedge accounting item	–	3,113	–
Derivatives without hedge accounting item	–	140	–
Total	**–**	**3,253**	**–**

Derivatives with hedge accounting item include financial instruments for hedging raw materials price risks. The fair value of these Level 2 commodity derivatives is determined as the present value of the expected cash flows from these contracts. The calculation of the expected cash flows of the commodity derivatives takes place on the basis of the forward price curves for liquid oil futures/forwards, which are adjusted by markups for deviating delivery locations/qualities. The discounting takes place using market-driven interest rates. The Level 2 derivatives without hedge accounting item relate to currency forward contracts, which are recognized at fair value. The fair values are determined using observable market interest rate curves. Further information about derivatives can be found in Note (38.2).

The Level 3 financial asset relates to an equity instrument measured at fair value through other comprehensive income. The measurement is completed using the discounted cash flow method on the basis of the best information available on the reporting date, with a weighted average cost of capital of 6.00% (previous year: 4.25%) used as a basis. A 10% decrease in expected future cash flows would result in a reduction in the fair value of €196 thousand (previous year: €452 thousand), while a 10% increase in the cost of capital would result in a reduction in the fair value of €168 thousand (previous year: €404 thousand). In the financial year, H&R KGaA received a dividend of €357 thousand from this equity instrument (previous year: €0 thousand).

The following table shows the allocation of the financial instruments' fair values, which are reported in the statement of financial position at their carrying amounts, to the different levels:

ALLOCATION OF FAIR VALUES OF FINANCIAL INSTRUMENTS

IN € THOUSAND	12/31/2023			12/31/2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Liabilities and shareholders' equity						
Liabilities to banks	–	156,333	–	–	189,412	–

The fair values are determined using observable market interest rate curves. The expected cash flows were discounted accordingly.

Financial assets and financial liabilities are not offset, apart from the compensation claim against BP (see Notes [9] and [20]), since no such offset agreements exist. There were no reclassifications among the individual levels in financial year 2023.

In the operating business, the outstanding balances are continuously monitored at the divisional level, i.e. locally. Insofar as the Hansen & Rosenthal Group handles sales and distribution, details are also integrated into its monitoring systems. Default risks are addressed through accounting for risk prevention. Non-recoverable receivables are derecognized and the impairment is reversed. When a doubtful receivable is collected, the previous impairment is reversed. The maximum default risk is reflected in the carrying amounts of the financial assets reported in the statement of financial position, including free-standing derivatives with a positive market value. As of the reporting date, there were no material agreements in place that reduce the maximum default risk.

(39) Leases

The right-of-use assets recognized in the balance sheet relate, in particular, to longer-term leases for land and buildings, as well as for the rental of tank capacities and tank wagons. The lease agreements are negotiated individually and contain various different conditions.

Property, plant and equipment includes right-of-use assets under leases as follows:

RIGHT-OF-USE ASSETS UNDER LEASES

IN € THOUSAND	12/31/2023	12/31/2022
Land/buildings	25,443	28,390
Technical equipment/machinery	18,433	24,582
Other facilities/operating and office equipment	4,204	3,000
Total	**48,080**	**55,972**

Additions to right-of-use assets amounted to €5,645 thousand in financial year 2023 (previous year: €8,452).

Depreciation and amortization on right-of-use assets is comprised as follows:

DEPRECIATION AND AMORTIZATION ON RIGHT-OF-USE ASSETS UNDER LEASES

IN € THOUSAND	2023	2022
Land/buildings	2,853	2,907
Technical equipment/machinery	7,662	6,678
Other facilities/operating and office equipment	2,040	1,809
Total	**12,555**	**11,394**

The amortization of right-of-use assets is included in the depreciation, impairments and amortization of intangible assets and property, plant and equipment in the income statement.

The following table shows liabilities from leases:

LIABILITIES FROM LEASES

IN € THOUSAND	12/31/2023	12/31/2022
Current lease liabilities	11,114	11,209
Non-current lease liabilities	33,936	41,025
Total	**45,050**	**52,234**

The following table shows the contractually agreed undiscounted cash outflows:

MATURITIES OF LEASE PAYMENTS

IN € THOUSAND	12/31/2023	12/31/2022
Up to one year	11,564	11,624
One to five years	19,701	24,328
> five years	20,123	22,402
Total	**51,388**	**58,354**

Lease liabilities amounting to €13,356 thousand were repaid in financial year 2023 (previous year: €11,713 thousand).

The following amounts in relation to leases were recognized in the income statement, in addition to amortization on right-of-use assets under leases:

P&L EFFECT FROM LEASES

IN € THOUSAND	2023	2022
Interest expense	1,274	1,205
Expenses for short-term leases	822	1,671
Expenses for low-value leases	405	390
Total	**2,501**	**3,266**

Prospective future cash outflows in the amount of €94 thousand exist from leases already received as of the reporting date which begin after December 31, 2023, and are not short-term leases (previous year: €1,637 thousand).

(40) Other Financial Liabilities

Other financial liabilities comprise order commitments for investments in the amount of €10,683 thousand (previous year: €18,408 thousand) and other financial liabilities in the amount of €6,801 thousand (previous year: €8,115 thousand).

(41) Contingent Liabilities and Receivables

On the reporting date, H&R KGaA had joint liability for pension commitments totaling €22 thousand (previous year: €24 thousand).

A portion of the production sites is rented. Obligations to clean up and restore the property to its original condition will apply when the rental agreement expires. In the very unlikely event that a lessor gives notice of extraordinary termination or does not renew the long-term rental agreement, this would give rise to claims against the lessor for compensation; in this case no cash outflow would be anticipated and therefore no provision has been set up to cover the obligations to restore the property to its original condition. This situation is regularly monitored by the management.

(42) Governance Bodies of H&R GmbH & Co. KGaA

EXECUTIVE BOARD OF H&R KOMPLEMENTÄR GMBH

	Membership of Supervisory and Advisory Boards
Niels H. Hansen Sole Member of the Executive Board Hamburg	–

SUPERVISORY BOARD OF H&R GMBH & CO. KGAA

	Membership of Supervisory and Advisory Boards
Dr. Joachim Girg Chairman of the Supervisory Board Managing Director of H&R Beteiligung GmbH, Hamburg	–
Roland Chmiel Deputy Chairman – CPA/Chartered Accountant, Rosenheim	–
Sven Hansen Managing Partner of the H&R Group, Hamburg, Managing Director of Tudapetrol Mineralölerzeugnisse Nils Hansen KG	–
Dr. Rolf Schwedhelm Tax lawyer and partner at Streck Mack Schwedhelm, Cologne	Chairman of the Supervisory Board of Deutsche Anwalt Akademie Gesellschaft für Aus- und Fortbildung sowie Serviceleistungen mbH, Berlin
Sabine U. Dietrich Chartered engineer, Mülheim an der Ruhr	Member of the Supervisory Board of Commerzbank Aktiengesellschaft, Frankfurt am Main Member of the Supervisory Board of MVV Energie AG, Mannheim
Dr. Hartmut Schütter Chartered process engineer, freelance consultant, Schwedt/Oder	–

SUPERVISORY BOARD OF H&R GMBH & CO. KGAA (EMPLOYEE REPRESENTATIVES)

	Membership of Supervisory and Advisory Boards
Patrick Ewels Works Council Chairman of H&R ChemPharm GmbH, Salzbergen	–
Dominik Franz Works Council Chairman of GAUDLITZ GmbH and GAUDLITZ Plastic Technologies GmbH & Co. KG, Coburg	–
Thomas Merting Employee of H&R ChemPharm GmbH, Salzbergen	–

(43) Disclosures of Relationships With Related Parties

Related party transactions were carried out at arm's length. There were no transactions of material significance with unconsolidated subsidiaries.

Related party transactions involve the companies of the Hansen family (hereinafter referred to as Hansen & Rosenthal) and joint ventures.

There is a mutual business relationship with Hansen & Rosenthal. The supply of goods for chemical-pharmaceutical products from the Salzbergen site takes place under a long-term distribution and supply contract, by which the relevant Hansen & Rosenthal company purchases the products and then resells them to its end customers in its own name and for its own account. Furthermore, deliveries are made on the basis of a long-term commission contract for the marketing of certain products from the Hamburg site, for which Hansen & Rosenthal receives a commission. Moreover, H&R KGaA subsidiaries provide production, IT and staffing services to the Hansen & Rosenthal Group and vice versa.

Sales revenue from goods and services to Hansen & Rosenthal totaled €623,622 thousand in financial year 2023 (previous year: €789,652 thousand). Most of this amount was for supplies of chemical-pharmaceutical products (2023: €512,447 thousand; previous year: €667,687 thousand) and for contract manufacturing services (2023: €102,874 thousand; previous year: €114,532 thousand). Goods and services purchased from Hansen & Rosenthal in financial year 2023 amounted to €124,414 thousand (previous year: €151,902 thousand). The bulk of this amount was for purchases of chemical-pharmaceutical products (€115,643 thousand; previous year: €141,330 thousand).

As of December 31, 2023, receivables due from Hansen & Rosenthal amounted to €25,466 thousand (previous year: €37,918 thousand); liabilities owed to Hansen & Rosenthal came to €12,251 thousand (previous year: €14,092 thousand). Receivables are handled in line with normal commercial conditions and customary retention of title.

Goods and services provided to joint ventures generated €228 thousand in sales revenue in financial year 2023 (previous year: €501 thousand). Goods and services purchased from joint ventures in financial year 2023 amounted to €3,094 thousand (previous year: €6,183 thousand). These relate primarily to the purchase of energy.
As of December 31, 2023, receivables due from joint ventures amounted to €47 thousand (previous year: €15 thousand); as in the previous year, there were no liabilities owed to joint ventures.

Supervisory Board and Executive Board
Key management positions are limited to the Supervisory Board and Executive Board of H&R KGaA. Management of the company is provided by the Executive Board of H&R Komplementär GmbH. For performing their tasks, members of the Executive Board received total remuneration of €1,179 thousand in the financial year, due in the short term (previous year: €901 thousand). Members of the Executive Board receive no share-based remuneration and no pension commitments. There were no expenses associated with terminating the employment agreements of managing directors. As of the reporting date, there was a liability of €42 thousand owed to H&R Komplementär GmbH (previous year: €152 thousand).

Former members of the Executive Board and their survivors received post-employment benefits totaling €305 thousand during the financial year (previous year: €278 thousand). For former members of the Executive Board and their survivors, pension commitments amounted to €2,249 thousand (previous year: €2,379 thousand).

Remuneration for members of the Supervisory Board included basic remuneration plus additional compensation for committee work and fees for attending meetings and totaled €515 thousand (previous year: €515 thousand). This remuneration is due in the short term.

In addition to their Supervisory Board remuneration, the employee representatives on the Supervisory Board receive fees not related to their work for the Supervisory Board, due in the short term. These fees resulted from the respective employment contracts and totaled €198 thousand in financial year 2023 (previous year: €192 thousand).

As in the previous year, no members of the Executive Board or members of the Supervisory Board had received loans from the company as of December 31, 2023.

Data on the remuneration of members of the Executive Board and the Supervisory Board are provided in the remuneration report, which is published at www.hur.com.

H&R KGaA has an Advisory Board that provides advice to the Executive Board. Expenses of €153 thousand were incurred for the activities of the Advisory Board in financial year 2023 (previous year: €119 thousand). In financial year 2023, fees paid to members of the governance bodies of H&R KGaA within the scope of consultancy contracts amounted to €75 thousand (previous year: €75 thousand). As of December 31, 2023, liabilities owed to Board members totaled €515 thousand (previous year: €515 thousand). These amounts are due in the short term.

(44) Statement of Compliance Pursuant to Section 161 of the German Stock Corporation Act (AktG)

The Statement of Compliance with the German Corporate Governance Code required by Section 161 of the German Stock Corporation Act (AktG) was submitted in December 2023. It is published online at www.hur.com.

(45) Group Audit Fees

The following fees for the services provided by Grant Thornton AG Wirtschaftsprüfungsgesellschaft were recognized for the financial year:

IN € THOUSAND	12/31/2023	12/31/2022
Audits	477	480
of which relating to the previous year	24	38
Other certification or valuation services	67	68
Tax counseling	–	–
Other services	–	–
Total	**544**	**548**

The 2023 fee for auditing services charged by the auditors covers, in particular, the statutory audit of the annual financial statements and the consolidated financial statements of H&R KGaA, and the statutory and voluntary audits of the annual financial statements. The other certification services primarily refer to the audit of the non-financial Group report and audits under the German Renewable Energy Sources Act for subsidiaries of H&R KGaA.

(46) Exemption From Disclosure Under Section 264, Paragraph 3 HGB

For the following fully consolidated subsidiaries, the company has elected to make use of the option to be exempted from the disclosure requirement in accordance with Section 264, paragraph 3 and Section 264b, in conjunction with Section 325 of the German Commercial Code (HGB), and partly made use of concessions regarding the preparation of financial statements:

- H&R OWS Chemie GmbH & Co. KG
- H&R Lube Blending GmbH
- H&R ChemPharm GmbH
- H&R Lube Trading GmbH
- H&R International GmbH
- H&R InfoTech GmbH
- H&R South Africa GmbH
- H&R Group Finance GmbH
- Gaudlitz Plastics Technology GmbH & Co. KG

(47) Risk Management Policy, Capital Management and Hedging Measures

The operating business and the financing of H&R KGaA are exposed to various financial and market price risks, in particular liquidity and refinancing risks, counterparty default risk as well as risks associated with fluctuations in raw material prices, currency exchange rates, and interest rates. A systematic risk management system is in place to limit these risks. Hedging transactions, among other things, are used to counter them.

H&R KGaA has implemented a Group-wide risk management system which identifies, analyzes and measures these risks so that informed decisions can then be made about actions to take to prevent or limit such risks. The key components of the risk management system are the planning and controlling process, internal Group rules and regulations, and the reporting function. The Group companies are subject to strict risk management. Dealing authorizations, responsibilities and supervision procedures are established on a binding basis in internal guidelines.

The company holds regular conferences on business performance at which the results of operations and potential risks and opportunities are highlighted and targets and control measures are agreed. Derivative financial instruments are also utilized in this context. In this respect, derivative financial instruments may not, as a matter of principle, be implemented for speculative purposes, but instead serve to hedge against risks in connection with the operating business.

The Executive Board defines the Group's equity ratio as the basic parameter for capital management, which in turn is aimed at ensuring that the Group will continue to be able to cover its financing needs for capital expenditures and debt service obligations in the future. At the same time, H&R KGaA strives to maintain a capital structure that optimizes the costs of capital provided by our investors and our lenders, while retaining strategic flexibility. Other key control parameters include net debt and net gearing, i.e. the ratio of net debt to operating income (EBITDA).

A syndicated loan and the bilateral loans require the company to meet financial covenants that also relate to its capital base and net gearing. The financial covenants were fully met both at the reporting date and also during the course of the year.

CAPITAL STRUCTURE

	2023	2022	2021	2020	2019
Net debt/EBITDA	1.46	1.52	1.13	2.25	2.42
Equity ratio (in %)	50.6	49.0	46.7	46.5	43.3
Net gearing	29.1	42.9	39.9	35.3	37.4

Risks Related to the Impacts of Armed Conflicts

Armed conflicts can bundle various risks together in a cluster. The material impacts can be that the raw materials needed are no longer available or are available only on the basis of significantly less favorable conditions. In spite of the ongoing war in Ukraine and the serious flare-up of the Gaza conflict, we once again succeeded in guaranteeing raw materials procurement in 2023. As things stand, we are not expecting the raw materials procurement situation to change in the foreseeable future. We should therefore still be able to secure supplies, albeit on the basis of conditions which will remain less favorable.

Armed conflicts could also have impacts on global trade routes and flows of goods. In particular the situation in the Persian Gulf and therefore access to the Suez Canal could be exacerbated due to political and military tensions and lead to disruptions in trade between Europe and Asia. Suppliers, customers and other business partners could be hard hit as a result, which may lead to defaults or disruptions to services. H&R KGaA will continue to track events carefully, monitor their effects and prepare countermeasures.

Climate-related Risks. As a global enterprise, H&R KGaA is exposed to climate-related risks. These risks include both transitory risks, in other words additional costs incurred due to the transition to a low-carbon economy, and physical climate change risks such as damage to assets as a result of fires or flooding.

As an operator of industrial plants, we run a business that is governed by laws and regulations, meaning environmental, chemical and energy law requirements have to be met. In addition, regulatory, tax and legal changes may be made regarding climate change, with there being a focus in particular on climate and energy policy in the European Union. The potential tightening of these regulations, in particular in Germany or the European Union, brings with it the risk of financial burdens caused by higher operating costs and capital expenditure as well as potential competitive disadvantages vis-à-vis international and non-European market participants.

H&R KGaA runs energy-intensive facilities, which last year presented it with the challenge of dwindling gas availability. Thanks to the use of alternative energy sources, it was possible to reduce the gas needs of the two German production sites by around a quarter. Consequently, the risk of a gas shortage situation in the subsequent year like that seen in winter 2022/23 is not currently discernible.

More information on this can be found in the Report on the Internal Control and Risk Management System and on the Main Opportunities and Risks in the management report.

Liquidity Risks. H&R KGaA ensures that it has sufficient liquidity by monitoring its liquidity status daily, by maintaining financing facilities that have not been utilized in full and by refinancing expiring loan agreements in a timely manner. Compliance with financial covenants is a crucial part of the financing agreements. If these covenants were to be breached and could not be renegotiated or if alternative sources of financing could not be found on short notice, this would jeopardize the continued existence of the Group. H&R KGaA counters this risk by maintaining a financing structure that includes sufficient equity as well as through measures designed to ensure the sustainability and stability of earnings, such as switching the Salzbergen site to a contract-processing model.

Default Risks. Our risks from delays in payment and/or defaults on the part of our customers are limited by our broadly diversified customer base and the low level of dependence on individual debtors. Strict receivables management by our sales/distribution partner, Hansen & Rosenthal, reduces these risks even more. Based on the information currently available, existing del credere risks are covered through impairments.

We counter the default risk of banks with which we have arranged credit lines, entered into hedging transactions or invested funds by only entering into larger, long-term financial transactions with banks that have good credit ratings and by spreading larger transactions among several banks.

Raw Materials Price Risks. H&R KGaA is exposed to price fluctuation risks in, among other things, purchases of raw materials, particularly purchases of atmospheric residue and vacuum gas oil. Most supply agreements concluded with customers for specialty products manufactured by the Chemical-Pharmaceutical Raw Materials division's specialty production sites specify fixed prices for a period of three months at most. Moreover, the production process at a specialty production site can require up to eight weeks from the date on which raw materials arrive to the date when the finished product has been manufactured. This means that rapid increases in raw materials costs cannot be passed on to the markets immediately, but only with a delay. The relevant price trends are constantly monitored and analyzed. Changes in prices of raw materials can result in the recognition of windfall losses and windfall profits, which generally balance out over a longer period of time. The raw materials price risk mainly affects sales revenues and cost of materials in the ChemPharm Refining and ChemPharm Sales segments (see Note [36]). To counteract the raw materials price risk, H&R KGaA concludes raw materials forward transactions, which are designated as cash flow hedges.

Currency Risks. The international orientation of H&R KGaA means that its operating activities give rise, among other things, to currency risks resulting from fluctuations between the company's functional currency and other currencies. In particular, these are encountered in the area of procurement as a result of US dollar transactions. In the trading business, these risks are partially hedged through forward transactions. Hedging is not performed in the production process, as the length of time entailed in the production process means that the intended hedge may be reversed by the time the currency forward contracts are concluded.

For the presentation of market risks, IFRS 7 requires sensitivity analyses showing the impact of hypothetical changes in relevant risk variables on earnings and equity. It is assumed that the portfolio as of the reporting date is representative of holdings for the entire year.

The following table shows the net exposure in the most significant foreign currency as of the reporting date:

NET EXPOSURE

IN € THOUSAND	US$
12/31/2023	14,982
12/31/2022	2,112

The net exposure consists of statement of financial position items in the respective currency, which is not the functional currency, less derivatives used to hedge the foreign currency effects of the respective item in the statement of financial position. An increase in the US dollar rate by 10% would burden the income and equity with €1,362 thousand (previous year: €192 thousand), while a decline in the US dollar rate by 10% would cause the income and equity to rise by €1,665 thousand (previous year: €235 thousand).

Interest Rate Risks. H&R KGaA employs variable interest rate facilities, among other things, as part of its financing activities. Interest rate swaps are used as interest hedging instruments to limit risks arising from changes in market interest rates.

A sensitivity analysis for interest rate risk is performed on financial liabilities with variable interest rates, including interest income on cash in hand. As of the December 31, 2023, reporting date, a hypothetical 50 basis points or 0.5% increase in the interest rate would have lowered interest income to €-167 thousand (previous year: €-284 thousand) and would have reduced the amount of equity shown accordingly.

(48) Events After the Reporting Date

Between December 31, 2023, and the time of approval of the consolidated financial statements, there were no events with a concrete material impact on the net assets, financial position and results of operations. However, it is possible that the developments in the war in Ukraine, the Gaza conflict and the tensions in the Persian Gulf may have significant consequences during the further course of the year. Due to the volatile situation, however, it is not currently possible to quantify these with any degree of certainty. Further information on these topics can be found in the Risk and Forecast Report in the management report.

(49) Approval of the Financial Statements

The financial statements were approved and released for publication by the management of the general partner with full personal liability on March 22, 2024.

Salzbergen, March 22, 2024

The Executive Board

Niels H. Hansen
Sole Managing Director

Independent Auditor's Report

To the H&R GmbH & Co. KGaA, Salzbergen

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of H&R GmbH & Co. KGaA, Salzbergen, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January 2023 to 31 December 2023, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report combined with the management report (hereinafter: group management report) of H&R GmbH & Co. KGaA, Salzbergen, for the financial year from 1 January 2023 to 31 December 2023. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to section 289f HGB [Handelsgesetzbuch: German Commercial Code] and section 315d HGB referred to in the group management report and the subsection "Internal Control and risk management system and statement on the appropriateness and effectiveness of these systems in the group management report. Similarly, in accordance with German legal requirements, we will not audit the content of the separate non-financial group audit report, which is referred to in the group management report and which is intended to be published on the company's website.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315e paragraph 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2023 and of its financial performance for the financial year from 1 January 2023 to 31 December 2023, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the parts of the group management report and the separate non-financial group report referred to above that are not audited.

Pursuant to section 322 paragraph 3 sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2023 to 31 December 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

In the following, we present what we consider to be the key audit matter. We have structured our presentation of this key audit matter as follows:

① Risk to the financial statements
② Auditor's Response
③ Reference to related disclosures

Impairment of Goodwill for CGU Salzbergen

① Risk to the financial statements
In the consolidated financial statements of H&R GmbH & Co. KGaA recognise goodwill with a carrying amount of EUR 17.0 million. Of this amount, EUR 16.7 million is attributable to the goodwill of the Salzbergen cash-generating unit. Goodwill is subjected to an impairment test once a year or as required. The value in use is compared with the carrying amount of the cash-generating unit. The discounted cash flow method is used to determine the value in use of the cash-generating unit. The future cash flows to be discounted are derived from the H&R Group's current planning. The discount rate is determined using the weighted average cost of capital of the cash-generating unit.

As an estimated value, the value in use is essentially influenced by the estimate of future cash flows and the discount rate used and is subject to considerable estimation uncertainty. Against this background, we considered this matter to be of particular significance in the context of our audit.

② Auditor's Response
As part of our audit, we first obtained an understanding of the process implemented to determine the recoverable amounts of cash-generating units and the related controls. In performing our audit, we evaluated the Company's methodology for performing the impairment test and assessed the calculation of the weighted average cost of capital.

We also evaluated the derivation of the projected cash flows from the operating budget planning (2024) approved by the Supervisory Board and the medium-term planning (2025-2028) of the Group approved by the excecutive directors. We assessed the planning assumptions with regard to their consistency and reasonableness against the background of current and expected conditions in the relevant markets and our understanding of the economic environment of the cash-generating unit. In addition, we inquired management about the above mentioned facts. Furthermore, as part of the goodwill impairment test, we analysed the accuracy of the previous planning by comparing the previous year's planning with the actual results of the financial year and by comparing the current planning with the previous year's planning. Due to the sensitivity of the calculated value in use to changes in the discount rate used, we analysed the parameters used with the assistance of our internal valuation specialists and verified the calculation methods used to derive the discount rate. In addition, we have reviewed and analysed the sensitivity analyses prepared by management for the cash-generating unit.

Our audit procedures did not lead to any reservations relating the recoverability of the goodwill of the Salzbergen cash-generating unit.

③ Reference to related disclosures
The disclosures of H&R GmbH & Co. KGaA on the goodwill of the Salzbergen cash-generating unit and its recoverability are contained in sections 3, 4 and 12 of the notes to the consolidated financial statements.

Other Information

The executive director or the supervisory board are responsible for the other information. The other information comprises:

- the statement on corporate governance pursuant to Section 289f HGB and Section 315d HGB, to which reference is made in the Group management report,
- the subsection "Internal control and risk management system" in the section "Key features of the internal control and risk management system and statement on the appropriateness and effectiveness of these systems" in the Group management report,
- the responsibility statement of the executive director pursuant to Section 297 (2) sentence 4 HGB and Section 315 (1) sentence 5 HGB on the consolidated financial statements and the group management report,
- the other parts of the annual report expected to be made available to us after the date of this auditor's report, and
- the separate non-financial group report pursuant to Section 315b HGB, which is expected to be made available to us after the date of this auditor's report and to which reference is made in the group management report,
- but not the consolidated financial statements, the audited disclosures in the group management report and our auditor's report thereon.

The executive director and the Supervisory Board are responsible for the declaration on the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG), which forms part of the declaration on corporate governance. The Supervisory Board is responsible for the report of the Supervisory Board. Otherwise, the executive director is responsible for the other information.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated

If, based on the work we have performed prior to the date of the audit opinion, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e paragraph 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e paragraph 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the actions taken or safeguards applied to eliminate independence threats related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on the Assurance of Electronic Rendering, of the Consolidated Financial Statements and the Group Management Report, Prepared for Publication Purposes in Accordance with Section 317 Paragraph 3a HGB

Assurance Opinion

We have performed assurance work in accordance with section 317 paragraph 3a HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in in the electronic file 529900NCRGGS5E0MGL93-2023-12-31-de.zip, with the Hash-Value 817ca2cb9c90c451763223d1fc102a9d83eb706532f42a77d79ec8819ed0f978, calculated by means of SHA256 and prepared for publication purposes complies in all material respects with the requirements of section 328 paragraph 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of section 328 paragraph 1 HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January 2023 to 31 December 2023 contained in the "Report on the Audit of the Consolidated Financial Statements and of the Group Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

Basis for the Assurance Opinion

We conducted our assurance work on the rendering, of the consolidated financial statements and the group management report, contained in the file identified above in accordance with section 317 paragraph 3a HGB and the IDW Assurance Standard "Assurance on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with Section 317 Paragraph 3a HGB" (IDW AsS 410) (06.2022). Our responsibility in accordance therewith is further described in the "Auditor's Responsibilities for the Assurance Work on the ESEF Documents" section. Our audit firm applies the IDW Standard on Quality Management 1 "Requirements for Quality Management in the Audit Firm" (IDW QMS 1 (09.2022)).

Responsibilities of the Executive Director and the Supervisory Board for the ESEF Documents

The executive directors of the company are responsible for the preparation of the ESEF documents with the electronic renderings of the consolidated financial statements and the group management report in accordance with section

328 paragraph 1 sentence 4 no. 1 HGB and for the tagging of the consolidated financial statements in accordance with section 328 paragraph 1 sentence 4 no. 2 HGB.

In addition, the executive directors of the company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of section 328 paragraph 1 HGB for the electronic reporting format.

The supervisory board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

Auditor's Responsibilities for the Assurance Work on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of section 328 paragraph 1 HGB. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of section 328 paragraph 1 HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circum-stances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enables a XHTML rendering with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL), in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 23 May 2023. We were engaged by the supervisory board on 17 November 2023. We have been the group auditor of the H&R GmbH & Co. KGaA, Salzbergen, without interruption since the financial year 2015.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

Other Matter – Use of the Auditor's Report

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Eric Pritsch.

Hamburg, 22 March 2024

Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Senger	Pritsch
Wirtschaftsprüfer [German Public Auditor]	Wirtschaftsprüfer [German Public Auditor]

Attestation by the Legal Representatives

We hereby affirm that, to the best of our knowledge and according to the applicable accounting standards, the consolidated financial statements convey a true picture of the net assets, financial position and results of operations of the Group and that the combined management report presents the course of business, including the Group's business income and situation, in a way that presents a true and fair view while describing the material opportunities for and risks to the Group's expected development.

Salzbergen, March 22, 2024

The Executive Board

Niels H. Hansen
Sole Managing Director

Other Information

Six-year Overview H&R Group Key Figures (IFRS)

		2023	2022	2021	2020	2019	2018
Sales volume (core products)[1]	KT	799	811	869	805	815	836
Sales revenue	€ MILLION	1,352.3	1,576.00	1,188.40	873	1,075.30	1,114.20
Operating income (EBITDA)	€ MILLION	92.7	124.9	132.5	55.8	52.9	74.7
EBIT	€ MILLION	30.3	69.6	81.6	-0.3	7.4	40.6
Earnings before income tax	€ MILLION	18.8	62	73.4	-10.4	-1.2	33.7
Consolidated net income	€ MILLION	10.6	45.4	52.5	-7.8	0.1	22.3
Consolidated income attributable to shareholders	€ MILLION	10.6	42.7	50.2	-9	-1.4	21.6
Consolidated income per share (undiluted)	€	0.28	1.15	1.35	-0.24	-0.04	0.59
Dividend per share	€	0.10 [2]	0.10	-	-	-	-
Market capitalization on December 31	€ MILLION	174.2	224.1	261.3	203.6	194.3	226.7
Balance sheet total	€ MILLION	903.2	962.1	874.4	745.7	838.6	730.4
Net working capital	€ MILLION	209.1	260.1	208.1	106.9	105.9	174.5
Equity	€ MILLION	457.6	471.2	408.5	346.9	363.4	357.4
Equity ratio	%	50.7	49	46.7	46.5	43.3	48.9
Net debt	€ MILLION	88.1	136	92.9	75.4	86.8	103
Net gearing	%	29.1	42.9	39.9	35.3	37.4	28.9
Cash flow from operating activities	€ MILLION	119.1	38	37.4	60.1	95.9	23.3
Free cash flow	€ MILLION	62.8	-34.5	-11.1	22	20.8	-46.4

[1] Chemical-Pharmaceutical Raw Materials division.
[2] Proposal to the Annual Shareholders' Meeting on May 28, 2024.

Financial Calendar

Our financial calendar is updated on an ongoing basis. Please visit our website www.hur.com in the Investor Relations section for the latest events.

March 28, 2024	Publication of Annual Report 2023
May 15, 2024	Publication of Q1 2024
May 28, 2024	Annual Shareholders' Meeting in Hamburg
August 14, 2024	Publication of Q2 2024
November 14, 2024	Publication of Q3 2024

Contact

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

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Legal Notices, Addresses

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Peter von Felbert (portrait of Dr. Joachim Girg)

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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 GmbH & Co. KGaA' 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, the actual results may be materially different from those expressed or implied by such statements.

H&R GmbH & Co. KGaA does not intend or assume any obligation to update any forward-looking statements to reflect events or circumstances after the date of this report.

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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